

E - 23

The Embassy of Japan presents its compliments to the Department of State and, with reference to the discussions held between the representatives of the two Governments concerning Japanese participation in Phase Zero of the multiphase project of the United States Department of Energy (hereinafter referred to as "DOE") for the production of liquid solvent refined coal products (hereinafter referred to as "the SRC-II Project") the details of which are set forth in Annex A attached hereto, has the honor to inform the latter as follows:

1. The Government of Japan requests the Government of the United States of America to allow not more than two representatives of the Ministry of International Trade and Industry of Japan (hereinafter referred to as "MITI") to participate as members in the Steering Committee established under the Memorandum of Understanding between DOE and the Federal Ministry for Research and Technology of the Federal Republic of Germany on Cooperation in Coal Liquefaction which entered into force on October 25, 1978.
2. MITI understands that:
 - (a) the aforesaid Steering Committee will guide and

direct the Project Management Team which it will designate;

(b) the Project Management Team will be composed of four persons;

(c) the Project Management Team will monitor the ongoing activities of the Prime Contractor to the SRC-II Project (hereinafter referred to as "the Prime Contractor") and apprise the Steering Committee, by means of monthly written reports, on the activities of the SRC-II Project and of any problems or issues needing the attention of the Steering Committee;

(d) such monthly reports will not be further disseminated without a program and patent review and will be appropriately marked to protect any confidential information of the Prime Contractor in accordance with the terms and conditions of the SRC-II Project Prime Contract or any superseding contract (hereinafter referred to as "the Prime Contract").

3. The Government of Japan requests the Government of the United States of America to allow the participation of a mutually agreed upon number of personnel selected and assigned by MITI, at no cost to DOE or the Prime Contractor, in Phase Zero of the SRC-II Project for the purpose of directly contributing work to the SRC-II Project and obtaining first-hand information and experience from Phase Zero of the SRC-II Project. Each such assignment will be pursuant to an assignment agreement. Such participation will not affect the responsibilities of the Prime Contractor.

The Government of Japan also requests the Government of the United States of America to permit such personnel to make written reports to MITI, with a copy being provided to DOE, for the sole purpose of evaluating the SRC-II Project.

The Government of Japan is prepared to make arrangements with the Government of the United States of America for the purpose of ensuring that such reports will be limited to use for evaluation purposes only within MITI or its contractors until a patent review by DOE is conducted.

4. The Government of Japan wishes for MITI to receive for any and all uses copies of the various technical and management reports which are generated by the Prime Contractor and delivered to DOE under the Prime Contractor.

The reports will have appropriate restrictions as to further dissemination until necessary program and patent reviews by DOE and the Prime Contractor have been completed.

5. The Government of Japan is prepared to make arrangements with the Government of the United States of America for MITI to receive and protect all confidential information of the Prime Contractor in accordance with the terms and conditions of the Prime Contractor,

6. The Government of Japan understands:

(a) that DOE will undertake the complete financing

of Phase Zero of the SRC-II Project in accordance with the Prime Contractor,

(b) that primary control of Phase Zero of the SRC-II Project will be exercised by DOE in accordance with the Prime Contract, and

(c) that activities of each Government in Phase Zero of the SRC-II Project will be in accordance with the laws, regulations and license requirements of each country.

7. The Government of Japan takes note of the Guiding Principles for Phases I, II, and III of the SRC-II Project as set-forth in Annex B.

8. The Government of Japan requests that the Government of the United States of America will agree that this cooperation will continue throughout the period of Phase Zero of the SRC-II Project.

9. The Government of Japan understands that this cooperation will be undertaken consistent with the Agreement on Cooperation in Research and Development in Energy and Related Fields between the two Governments signed on May 2, 1979.



Annex A

1. Description of the Project

(1) The SRC-II Project is a multiphase project for the design, construction and operation of a 6,000 ton/day demonstration plant for the production of liquid solvent refined coal products, using the SRC-II Process proven successful as a pilot plant in the United States Government owned "Tacoma Pilot Plant";

(2) The SRC-II Project will be executed in four phases:

PHASE ZERO:

Preliminary demonstration plant design and cost estimates, long lead procurement planning, market analysis, program management, plan and cost estimate for Project Phases I, II and III, cost sharing plan and environmental analysis.

PHASE I:

Detail/Final design

PHASE II:

Procurement and construction

PHASE III:

Operation and evaluation of the plant

2. SRC-II Prime Contract

(1) The SRC-II Project will be executed in accordance with the contract (hereinafter referred to as "the Prime Contract") entered into by DOE with the Pittsburgh and Midway Coal Mining Co. (hereinafter referred to as the "Prime Contractor").

(2) Under the terms of the Prime Contract, the Prime Contractor is required to submit to DOE during Phase Zero a cost-sharing plan subject to acceptance by DOE which will be the basis for subsequent phases of work, including a plan for private industry participation in the SRC-II Project.

(3) The patents outside of the United States of America, based on inventions made in the course of the SRC-II Project have been accorded to Gulf Oil Corporation in accordance with the terms of DOE Contract ET-78-C-01-3055 and prior contracts between the U.S. Government and the Gulf Oil Corporation.

Annex B

Guiding Principles for Phases I, II and III
of the SRC-II Project:

A. Primary control for the SRC-II Project shall be exercised by DOE in accordance with its Prime Contract or any superseding contract. There shall be established in an agreement a Steering Committee composed of representatives designated by the Japanese side and DOE through which the participation and management of the SRC-II Project shall be undertaken.

(1) Prior to the commencement of Phase I, the Steering Committee shall adopt by unanimity the "Reference Baseline Project Control Document" which shall set forth the technical basis, total estimated costs and overall schedule of the SRC-II Project for Phases I, II and III.

(2) After adoption of the "Reference Baseline Project Control Document" the Steering Committee shall adopt any significant changes in the aforementioned document relating to technical, financial and schedule considerations. Such changes shall be adopted by unanimity.

(Definition of the term "significant" shall be set forth in the above-mentioned agreement.)

(3) The Steering Committee shall review the progress of the work undertaken whenever either party to the Steering Committee so desires. Either party

to the Steering Committee may make, at any time, recommendations regarding technical options for the SRC-II Project which would result in a change to the above referenced document.

B. The Project Management Team and Ad Hoc Groups may be established in the above-mentioned agreement along the lines of Article 2, Paragraphs 3 and 4 of the Memorandum of Understanding between DOE and the Federal Ministry for Research and Technology of the Federal Republic of Germany on Cooperation in Coal Liquefaction which entered into force on October 25, 1978.

C. The day-to-day activities of the SRC-II Project shall be carried out by a DOE Prime Contractor (which may include a joint venture or other cooperative arrangements of U.S. and Japanese firms) designated by DOE and responsible for the SRC-II Project.

D. The Japanese side shall have the right to assign, with respect to its financial contribution to the SRC-II Project, staff to the SRC-II Project subject to the terms of employment.

E. Solicitations for the provision of major components shall be issued by the Prime Contractor to suppliers in the countries of all the parties, and responses to solicitations by firms of non-United States parties shall be judged on an equal

basis with United States firms in accordance with the normal subcontracting procedures for DOE-funded projects.

F. An option ~~60%~~ percentage share of the product from the operation of the SRC-II Project shall be made available to the Japanese side. Conditions of the transfer of the Project shall be negotiated between DOE and the Japanese side. The percentage share of the product during that period shall not exceed the percentage of the financial contribution made by the Japanese side to the SRC-II Project.

G. The above-mentioned agreement will be subject to appropriate authorization in accordance with the laws of the respective countries and to the availability of appropriated funds.

The Department acknowledges the receipt of the Note Verbale No. *E-23* dated May 2, 1979, from the Embassy of Japan concerning the SRC-II Project, certain details of which are set forth in Annex A to the Embassy's note. The Department further informs the Embassy as follows:

1. The Government of the United States of America, after consultation with the Government of the Federal Republic of Germany, is prepared to allow not more than two representatives of the Ministry of International Trade and Industry of Japan (hereinafter referred to as "MITI") to participate as members in the Steering Committee established under the Memorandum of Understanding between the Department of Energy of the United States of America (hereinafter referred to as "DOE") and the Federal Ministry for Research and Technology of the Federal Republic of Germany on Cooperation in Coal Liquefaction which entered into force on October 25, 1978.

2. DOE confirms that:

- (a) the aforesaid Steering Committee will guide and direct the Project Management Team which it will designate;
- (b) the Project Management Team will be composed of four persons;
- (c) the Project Management Team will monitor the ongoing activities of the Prime Contractor of the SRC-II Project

(hereinafter referred to as the "Prime Contractor") and apprise the Steering Committee, by means of monthly written reports, on the activities of the SRC-II Project and of any problems or issues needing the attention of the Steering Committee; and

- (d) such monthly reports will not be further disseminated without a program and patent review and will be appropriately marked to protect any confidential information of the Prime Contractor in accordance with the terms and conditions of the SRC-II Project Prime Contract or any superseding contract (hereinafter referred to as "the Prime Contract").

3. The Government of the United States of America is prepared to comply with the request of the Government of Japan to allow the participation of a mutually agreed upon number of personnel selected and assigned by MITI, at no cost to DOE or the Prime Contractor, in Phase Zero of the SRC-II Project for the purpose of directly contributing work to the SRC-II Project and obtaining first-hand information and experience from Phase Zero of the SRC-II Project. Each such assignment will be pursuant to an assignment agreement. Such participation will not affect the responsibilities of the Prime Contractor.

The Government of the United States of America is prepared to comply with the request of the Government

of Japan to permit such personnel to make written reports to MITI, with a copy being provided to DOE, for the sole purpose of evaluating the SRC-II Project.

The Government of the United States of America is prepared to make arrangements with the Government of Japan for the purpose of insuring that such reports will be limited to use for evaluation purposes only within MITI or its contractors until a patent review by DOE is conducted.

4. The Government of the United States of America is prepared to provide MITI for any and all uses copies of the various technical and management reports which are generated by the Prime Contractor and delivered to DOE under the Prime Contract.

The reports will have appropriate restrictions as to further dissemination until necessary program and patent reviews by DOE and the Prime Contractor have been completed.

5. The Government of the United States of America is prepared to make arrangements with the Government of Japan for MITI to receive and protect all confidential information of the Prime Contractor in accordance with the terms and conditions of the Prime Contract.

6. The Government of the United States of America confirms:

- (a) that DOE will undertake the complete financing of Phase Zero of the SRC-II Project in accordance with the Prime Contract;
- (b) that primary control of Phase Zero of the SRC-II Project will be exercised by DOE in accordance with the Prime Contract; and

(c) that activities of each Government in Phase Zero of the SRC-II Project will be in accordance with the laws, regulations and license requirements of each country.

7. The Government of the United States of America understands that the Government of Japan takes note of the Guiding Principles for Phases I, II, and III of the SRC-II Project as set forth in Annex B to the Embassy's Note.

8. The Government of the United States of America confirms that this cooperation will continue throughout the period of Phase Zero of the SRC-II Project.

9. The Government of the United States of America agrees that this cooperation will be undertaken consistent with the Agreement on Cooperation in Research and Development in Energy and Related Fields between the two Governments signed on May 2, 1979.

Department of State,

Washington, MAY 2, 1979.

A.R.

Drafted:EA/J:MMeyers:eh
5/2/79 ext. 23152

Clearances:S/S:EDenham
L/T:LMabry
EA/J:ARomberg
L/OES:JARbogast
BES/NET/EST:JMcGuinness
EB/ORF/FSE:ALarson (info)