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TYPE OF MATERIAL Letter

CREATOR'S NAME William E. Simon

CREATOR'S TITLE Secretary

RECEIVER'S NAME Dixy Lee Ray

RECEIVER'S TITLE Chairman

CREATION DATE 11/25/1974

VOLUME 1 page

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BOX NUMBER 31

FOLDER TITLE NSSM 209 - Future Uranium Enrichment in
the U.S. (1)

DATE WITHDRAWN 11/09/2004

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SECTION A — GENERAL

TO: Ms J Jeanne W. Davis National Security Council Room 374 Old Executive Office Building Washington, D.C. 20506	FROM: Secretary William E. Simon U.S. Department of Treasury Washington, D. C. 20220
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SUBJECT: Simon ltr to Ray of AEC naming Treasury Staff
Res for NSSM-209 - Peter Tosini

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MEMORANDUM

NATIONAL SECURITY COUNCIL

INFORMATION
May 25, 1976

~~CONFIDENTIAL~~

MEMORANDUM FOR: BRENT SCOWCROFT

FROM: DAVID ELLIOTT *D.E.*

SUBJECT: Uranium Enrichment Add-on at ERDA's Portsmouth, Ohio, Plant

You asked this morning about the decision memorandum pending before the President regarding the uranium enrichment add-on at the ERDA facility at Portsmouth, Ohio.

In order to obtain the Joint Committee's support of the Nuclear Fuel Assurance Act (NFAA), the President must agree to construct add-on capacity at one of the existing ERDA enrichment facilities. The purpose of this add-on would be to:

- Provide for backup of UEA in case that plant fails to come into existence.
- Give ERDA some additional capacity so that they can operate all their plants at a lower tails assay while meeting the existing orders. Lower assay will mean greater efficiency and less demand for uranium ore.
- Accumulate a larger U.S. stockpile of enriched uranium.
- Maintain employment levels at the Ohio plant and at Oak Ridge (which will construct the barriers to be used in the add-on).

The size of the add-on has not been firmly established but may be in the neighborhood of 5 million SWU, or about half the size of the UEA plant. The output of the add-on would not be available for purchase as new orders by either domestic or international customers, but would be used for the internal ERDA purposes indicated above. If the add-on

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plant's output were to be offered for sale it would attract UEA's future customers and kill UEA's prospects. The add-on plant would, however, be a backup to UEA so that any of its customers could be served if the UEA plant failed to function for any reason.

Although it gives heartburn to some people in the White House to see the add-on plant constructed at all, they have accepted it as a necessary quid pro quo to obtain Pastore's support of the NFAA. Without the NFAA the government would not be able to provide the guarantees required by UEA.

Even with this concession, we are not out of the woods. There is a risk that the NFAA will be so amended in floor action as to become almost unacceptable. The President would then be faced with the dilemma of trying to work within the constraints of a very poor NFAA, or waiting months for the next session of Congress in the hope of getting a more satisfactory bill, or simply proceeding with the add-on.

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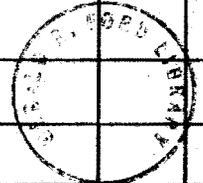
SUBJECT: Addition of uranium enrichment capability to ERDA plant at Portsmouth Ohio

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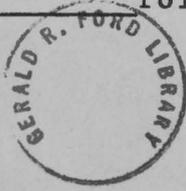
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THE JOINT CHIEFS OF STAFF
WASHINGTON, D.C. 20301

THE JOINT STAFF

DJSM-1326-74
12 September 1974

MEMORANDUM FOR THE OFFICE OF THE ASSISTANT TO THE
PRESIDENT FOR NATIONAL SECURITY AFFAIRS

~~THRU: THE ASSISTANT SECRETARY OF DEFENSE~~ *RS*
~~(INTERNATIONAL SECURITY AFFAIRS)~~

SUBJECT: NSSM 209

Following are the Organization of the Joint Chiefs of Staff (OJCS) appointments for carrying out staff responsibilities with respect to the study directed by the subject National Security Study Memorandum:

a. OJCS Representative: William L. Nicholson III, Brigadier General, USAF, Assistant Deputy Director for Force Development and Strategic Plans, Plans and Policy Directorate, telephone OX7-8510.

b. OJCS Action Officer Point of Contact: F. N. Hannegan, Captain, USN, Member, General Policy Branch, General and Organizational Policy Division, Plans and Policy Directorate, telephone OX7-2729.

Robert N. Ginsburgh

ROBERT N. GINSBURGH
Major General, USAF
Deputy Director
Joint Staff



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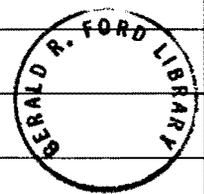
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THE DEPUTY SECRETARY OF STATE
WASHINGTON

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June 17, 1975

Dear Bob:

The President's approval of a program for the expansion of U.S. uranium enrichment capacity will serve important foreign policy objectives by enabling us to regain the initiative in the supply of uranium enrichment and thus restore credibility in the U.S. as the most reliable source of supply. The effective accomplishment of this objective, even with substantial new capacity once again at U.S. disposal, will depend heavily on the overall nature of the distribution policies which we adopt in connection with both the new and existing capacity, and on the manner and timing of their announcement. In view of the important foreign policy interests involved, the Department of State looks forward to working closely with ERDA in reviewing the proposed policies and related announcements from the standpoint of their impact abroad.

In his letter to you of May 8, Tom Enders noted the significance the Department attaches to establishing equitable contracting terms as between foreign and domestic customers and ensuring opportunities for foreign investment in US enrichment plants. There

The Honorable
Robert C. Seamans, Jr.,
Administrator,
Energy Research and Development
Administration.



are two additional aspects of our distribution policies, presently under active consideration, which I believe have substantial foreign policy implications: pricing for enrichment services; and a new "open season" option for US utilities holding fixed contracts.

I understand that implementing actions are now being considered to give effect to the proposed legislation which would enable ERDA to make a charge for uranium enrichment services associated with existing government plants more nearly in line with that anticipated for commercial services -- increasing charges from \$47/kg SWU to about \$75/kg SWU. I am aware that nuclear power costs are relatively insensitive to uranium enrichment charges, and that the contemplated increase to \$75/kg may increase generation costs by only a few percent. Nevertheless, the absolute magnitude of the increased charges is substantial, as is the almost 60 percent increase in separative work costs which this new charge would represent. In combination with earlier increases in the relatively recent past, a \$75/kg separative work charge would be nearly three times the level of the charge (\$26/kg) which was in effect as recently as February of 1971.

I fully accept and support the principle that U.S. Government charges for uranium enrichment services should be brought into line with expected commercial charges. Further, I am aware that many foreign consumers are far more interested in reliability and comparability, and recognize that U.S. prices will, in due course, rise to commercial levels. Nevertheless, I am concerned that the announcement of such a large one-step increase in our charges will further seriously prejudice our image abroad as a reliable, responsible supplier of uranium enrichment services.

For these reasons, it would appear to me that we should not, without further study, in which the Department of State would wish to participate from the standpoint of considering the foreign policy implications, announce the large proposed increase in enrichment charges. An alternative which might be considered is a gradual step-wise increase in our



uranium enrichment charges which would bring them to an essentially commercial level at the time that new capacity is in being. Such an approach would do much to reassure our customers of our determination to act responsibly and with restraint, while concurrently giving both customers and prospective enrichers the necessary notice of our future pricing policies. At a minimum, to provide proper context and reduce foreign anxieties, I would suggest that we review pricing decisions in the context of implementing and announcing the President's decision to build new capacity.

Another matter related to our distribution policies on uranium enrichment over which I have some concern is the proposal, which I understand is under consideration, for another "open season" which would allow U.S. utilities whose reactor projects have been deferred or delayed to cancel or otherwise modify their fixed-commitment enrichment contracts. The domestic aspects of this proposed open-season are, of course, outside the competence of the Department of State. It is our understanding, however, that an important part of the rationale for this proposal is the desire to increase the U.S. enriched uranium stockpile, and that, accordingly, there may be a disposition not to make use of any enrichment service capability regained through contract cancellations to convert foreign conditional contracts to firm contracts.

I recognize that this issue will be of less concern if, as expected, the announcement of an "open-season" is combined with an announcement of the President's decision to expand uranium enrichment capacity. Nevertheless, since the President's decision will not enable us immediately to begin to contract for new capacity, I believe we must remain ready, as we have stated we would be, to convert existing conditional contracts to firm contracts in as many cases as possible by the transfer of canceled domestic contractual commitments to overseas customers. Our unwillingness to take this step would give rise to further unnecessary doubts on the part of other nations to our intentions and our reliability as a supplier, and would be particularly difficult for them to understand in the



context of a Presidential decision which would seem to alleviate the need for the U.S. to husband its supplies to meet domestic needs. This will be especially disturbing to foreign customers given the President's decision to support UEA, because UEA plans to require investment by its foreign clients (until the amount needed to finance the plant is accumulated) in return for the right to contract for SWUs -- and many holders of conditional contracts would prefer simply to convert to firm contracts with no investment pre-condition.

I believe that U.S. decisions on "open season" and pricing -- as well as decisions on domestic and foreign contract terms and acceptance of foreign investment -- are significant international policy questions which should be considered together in the context of implementing the Presidential decision on a program for new enrichment capacity. I would very much appreciate your review of the various issues the Department has raised on enrichment policy, as well as the opportunity for the Department to work closely with ERDA in developing the announcement and other arrangements incident to the President's decision toward this end. I have asked Mr. Myron Kratzer, Deputy Assistant Secretary for Nuclear Energy and Energy Technology Affairs, to be in contact with ERDA in order to represent the views of the Department of State in these important matters.

Very best regards.

Sincerely,



Robert S. Ingersoll



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SUBJECT: *Info Cys to Report Seaman of ERDA on Expansion of U.S. Uranium Enrichment Capacity*

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NATIONAL SECURITY COUNCIL

~~CONFIDENTIAL~~

May 2, 1975

MEMORANDUM FOR: GENERAL SCOWCROFT

FROM: DAVID ELLIOTT *D.E.*

SUBJECT: NSSM 209 -- Future Uranium
Enrichment in the U.S.

As you recall, following last summer's debacle wherein the U.S. had to abort some and discontinue other foreign contracts for enriched uranium to fuel nuclear reactors, the President approved a NSSM to look at the fundamental question of how the U.S. will carry out President Nixon's commitment to be a reliable supplier of nuclear fuel to the free world.

The basic pending decision is whether the U.S. Government will undertake to build additional enrichment facilities or will we continue to wait for a private company to take on this responsibility. There is one company (UEA) which has evinced interest in getting into this business, but, thus far in the year of negotiations, it has not been able to line up customers to make the venture look viable. UEA is now asking for a variety of government supports to make its private entry feasible.

In the meantime, our international position as a supplier of nuclear fuel is badly eroding. Some examples are: The Brazilians are just concluding a multibillion dollar nuclear deal with the Germans because they no longer view us as a reliable nuclear partner. The British have canceled enrichment contracts with us and placed them with the Russians. France has made a major entry into the international enrichment market by starting construction of a large enrichment plant and may be on the verge of a commitment to a second plant.

We have tried over several months to move the decision to the President as to whether or not the U.S. can afford to persevere in its attempt to establish private uranium enrichment in the U.S. if the transition cost is going to be so great in foreign policy and foreign trade. But we have been held up because OMB or ERDA have, at one time or another, urged delay while the UEA deal is further examined.

~~CONFIDENTIAL/GDS~~

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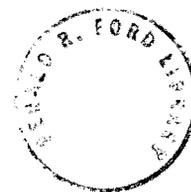
ERDA has now concluded that the UEA deal is not worthy of support and proposes that the government commit to build a new plant. We would, at the same time, start taking enrichment contracts (domestic and foreign) again.

I understand that Lynn has asked you to agree to continue the delay in putting the fundamental question to the President, so that negotiation can be undertaken with UEA to ascertain UEA's bedrock demands. Though cloaking his proposal in the desirable mantel of obtaining complete information for the President, the effect will undoubtedly be further deterioration abroad. And, although OMB speaks of three weeks, ERDA indicates such negotiations with UEA could take months. (The truth of the matter is that the UEA deal would, in any event, have to be so propped up with government support and money that we have already lost the concept of private entry.)

Lynn makes no mention in his memorandum to the President (Tab A) of the foreign policy effect of further delay. Further, he does not mention that Bob Seamans thinks no good purpose can be served by trying to negotiate with UEA because the basic issues are understood. Because of Seamans reluctance, OMB wants to turn the UEA negotiation over to Frank Zarb. Moreover, OMB has not even coordinated this idea with Seamans, who is the responsible agency head for carrying out whatever enrichment policy is reached.

Tom Enders would like to suggest to Kissinger that, at the ministerial meeting of IEA on 27 May, it would be very valuable if the U.S. could clarify its policy regarding our position as a world supplier of enrichment services. Enders' idea and Lynn's request for more delay are incompatible.

Your options are to press for presentation of this issue to the President now, or to delay further (possibly some months) to see if the UEA proposal can be made more attractive and possibly elicit Administration and Congressional support. Do you want to call Lynn, or give me guidance on our position of the Lynn paper which presumably we will receive from Rumsfeld for comment before it goes to the President.



Signature

MEMORANDUM FOR THE PRESIDENT

FROM: JIM LYNN

SUBJECT: Further development of an alternative for provision of additional uranium enrichment capacity

The Administration must decide soon how additional national capacity for enriching uranium to fuel foreign and domestic nuclear power plants will be provided, in order to meet domestic needs and to retain our foreign markets.

In 1971, the Executive Branch established a policy of having private industry, rather than the Federal Government, provide additional uranium enrichment capacity when needed. Last September, the Secretary of State became concerned that this policy might not provide capacity in time to serve both domestic and foreign policy interests. You approved a study of the issue which will be completed within the next few weeks. *wmg. F. the NSC*

This memo is to (a) report on the status of the three alternatives being explored, and (b) request your decision as to whether further work should now be undertaken which is essential to determine the viability of one of these alternatives.

The need for additional capacity

Three Energy Research and Development Administration-owned uranium enrichment plants have provided the basis for the United States' virtual free world monopoly on uranium enrichment services. ERDA's plant capacity is now fully committed. Western European interests are now moving to build two large plants, but this need not prevent the U.S. from capturing a substantial share of the foreign market, provided we can move ahead this fall with the detailed planning necessary to have additional capacity on line in the mid-eighties.



Meeting future demand, both foreign and domestic, is expected to require about ten U.S. plants equivalent in capacity to any one of the three existing plants. These new plants would cost about \$3 billion each in 1975 dollars.

Alternatives being evaluated

Studies - under ERDA and NSC auspices - have largely been directed toward the evaluation of three alternatives:

1. To enable private industry to move immediately to build additional capacity, and subsequent plants as necessary.
2. To have ERDA build the next increment of additional capacity at a cost of about \$3 billion (in 1975 dollars), while continuing to pursue the private entry objective for subsequent plants, beginning about 1979, using new technology now under development by ERDA.
3. To abandon the private entry objective forthwith and have ERDA build additional plants as necessary.

Status of 1971 policy and the response to it

Under the first alternative, a consortium (UEA) composed of Bechtel and Goodyear has already developed plans, with foreign financial participation, to build a \$3 billion plant. But UEA is finding it necessary to seek some degree of Government backing or recoverable assistance to secure private financing and to accommodate its domestic utility customers. Private financiers want rigorous conditions of sale to justify a high percentage of debt financing, but such rigorous conditions are difficult for the electric utilities because of their current financial condition.

Dr. Seamans' evaluation of the UEA proposal is that the UEA plan can be made to work if it has adequate Government support; but ERDA is concerned about how much Government assistance would be reasonable, how acceptable that assistance would be to the Congress, and how long it would take to consummate arrangements. (However, detailed negotiations with UEA have not yet begun.) ...Dr. Seamans would prefer Alternative 2, but in a version (yet to be fully developed) which would split the next increment of capacity between (a) Government construction and (b) later, private construction using a new enrichment technology still under development by ERDA.

Having met personally with the top people at Bechtel and Goodyear, I am impressed with their aggressiveness and tenacity, despite



formidable obstacles. However, UEA has already invested nearly \$9 million, and its willingness to persevere is beginning to wear thin. Moreover, it is inherently important for the Nation that the issue be resolved soon one way or another, so that the U.S. can meet its own needs and also convince other countries that we will continue to be a reliable supplier of enrichment services. Absent some signal from the Administration and some degree of progress on the legislative front, I believe that the UEA consortium may expire by mid-summer.

I recognize that congressional approval of an assistance package will not be easy to achieve, even though the alternative is early appropriation of several billion dollars for another Government plant. Nevertheless, private entry has strong attractions, as follows:

- . uranium enrichment is the kind of activity which need not remain in the public sector;
- . UEA is ready and willing to move, given strong encouragement and some limited assistance;
- . success of the UEA venture would, I believe, serve to "break trail" for subsequent private ventures, three of which are already in the planning stages; and
- . additional Government construction now might discourage future private involvement.

The immediate problems

Full evaluation of the UEA venture (in effect, Alternative 1) depends upon finding out through expedited, serious negotiations, what UEA's minimum requirement for Federal assistance would actually be. Unless this is done, time will run out without Alternative 1 being in shape for decision.

A related problem is that of who will conduct such UEA negotiations. ERDA is the logical agency to do this, but Dr. Seamans appears not comfortable about having the responsibility for the major effort that would be required to bring about private industry's construction of the next plant, because of his doubts about the UEA venture. A decision to proceed with negotiations should be accompanied by a directive to establish a negotiating team that is fully committed to a major effort to elevate the UEA venture to a real option.



Since I believe that there is no substitute for EPDA's mainline involvement, I believe the best solution would be to give co-responsibility to Dr. Seamans and Frank Zarb, who was extensively involved in the private entry objective when he was in OMB.

In my judgment, such negotiations will not proceed in the expedited, serious way required unless you signal that it has an important priority. Accordingly, I recommend you sign the attached memorandum to Dr. Seamans and Frank Zarb.

Attachments

- Distribution:
- DO Records
- Director
- Deputy Director
- Mr. Loweth
- Mr. Taft
- Mr. Schuldt

SSET Division:HFLoweth:bc:4/30/75



THE WHITE HOUSE
Washington

MEMORANDUM FOR ROBERT STAMANS

FROM: THE PRESIDENT

SUBJECT: Negotiations with Private Consortium for Uranium
Enrichment Venture

I am advised that one of the three policy alternatives being explored to provide the needed additional national capacity for enriching uranium is that of immediate private entry. I also understand that one consortium, Uranium Enrichment Associates (UEA), is now prepared to proceed with a private venture, provided that reasonable Government assistance is offered. In order that this alternative may be properly developed for my consideration, as against other alternatives, I believe that negotiations should now be initiated with UEA directed toward determining the minimum level of Government assistance needed to realize the venture--if that alternative were to be chosen. since time is of the essence in moving forward with this problem, such negotiations should proceed immediately and effectively.

Because Frank Zarb has already had extensive prior experience in dealing with UEA on the subject of private uranium enrichment and in view of FEA's responsibilities for developing national energy resources, it is appropriate that you work with him in completing the necessary negotiations. I would expect ERDA to continue to provide the necessary staff assistance to ensure expeditious handling of these negotiations.

cc: Frank Zarb



THE DEPUTY SECRETARY OF STATE
WASHINGTON

May 7, 1975

~~CONFIDENTIAL~~

PERSONAL FOR GENERAL SCOWCROFT

Brent:

I understand that you expressed interest in receiving views from the Department on the foreign policy aspects of our uranium enrichment policy which could be drawn upon in preparing a memorandum for the President on this subject. Our official views, as you know, were transmitted by me on January 8, 1975 in a memorandum for the Assistant to the President for National Security Affairs.

The Department stands by its official position, but the recently-developed "ERDA plan" introduced an option which did not appear in the NSSM 209 study. My understanding of the ERDA plan, however, suggests that it would be completely responsive to State's concerns and consistent with our January position. The attached paper, which you may draw upon, reiterates our views in the context of Bob Seamans' proposed approach -- which I endorse.

Of prime importance, as you know, is the need to resolve rapidly and credibly the uncertainties associated with our present enrichment policy. Considering our international energy, non-proliferation, and balance of payments objectives, I am certain that Secretary Kissinger shares my interest in obtaining a prompt Presidential determination on this matter, considering the views of all agencies.

Bob

Robert S. Ingersoll



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EO 12812-2
CONFIDENTIAL

KR

10/6/04

~~CONFIDENTIAL~~

STATE DEPARTMENT VIEWS ON
US URANIUM ENRICHMENT POLICY

US enrichment uranium supply policy is an important factor in our overall political relations with major countries and specifically affects our non-proliferation and energy cooperation efforts as well as our balance of payments position. These interests have suffered during the past year due to the uncertainty over whether, when, and how new enrichment capacity would be built in the United States. Particularly acute damage has been caused by the "contracting gap" which began last summer when the then AEC was unable to satisfy foreign demand for enrichment contracts, having reached the capacity of the existing US plants. The inability of the US to satisfy this demand has continued and it is exacerbating our foreign policy problems.

Under the existing policy of private entry, our foreign policy interests have suffered a series of setbacks due to the inability of the Uranium Enrichment Associates (UEA) organization to develop a credible proposal for private sector construction of a fourth gaseous diffusion plant. As the enrichment contracting gap has widened, foreign customers have become disillusioned with our inability to establish a firm timetable for the construction of new enrichment capacity adequate to meet the fuel needs of foreign and domestic customers as we have done in the past. This situation has caused major prospective foreign customers (including Japan, Brazil, a number of Western European countries, and Iran) to turn to other fuel suppliers, the French and the Soviet Union in particular. In addition to harming overall relations with these and other nations, our current enrichment approach has:

-- inhibited our ability to take important initiatives in the field of international nuclear energy cooperation among consumers;

-- reduced our ability to impose US non-proliferation safeguards standards using the leverage of fuel supply contracts, and

-- diminished significantly future US economic benefits flowing from sales of US-type reactors as well

~~CONFIDENTIAL~~

DECLASSIFIED

E.O. 12958, SEC. 8.5

STATE DEPT. GUIDELINES

BY HR, NARA, DATE 10/6/04



as associated fuel and to attract foreign investments in US enrichment facilities.

As we see it, the UEA project is in serious trouble. We understand that ERDA estimates that it could take one year to negotiate a final agreement with UEA, and that there is no guarantee that such negotiations could be successfully concluded, given the wide scope and complexity of the government assistance package requested, the financial arrangements to be consummated, and the need for legislation. Furthermore, not only are domestic utilities reluctant to fully support the UEA effort, but it does not appear that foreign participation at the 60% level UEA projects as necessary to the success of its venture, could be achieved. While Iran remains favorably disposed to invest in UEA, Japan has adopted an increasingly cool attitude toward this project and few, if any, other foreign investors have been identified.

The ERDA plan, on the other hand, would meet our foreign policy concerns by setting in motion promptly a credible program to establish additional enrichment capacity in the United States which would serve foreign and domestic customers on an equitable basis. The proposed government construction of an increment of gaseous diffusion capacity and strong support of the construction of private centrifuge plants combines existing and new technology into a powerful joint venture between the public and private sectors. We believe this blended approach will be extremely well received abroad. We also believe that prospects for attracting foreign investment for this program can prove to be considerably better than for the UEA scheme. We believe that the Japanese as well as the Iranians will probably be willing to participate through equity and/or debt financing.

Of crucial importance to Secretary Kissinger and others is the need to resolve urgently our uncertain enrichment policy. The forthcoming ministerial meeting on May 27th of the International Energy Agency offers a unique opportunity for the Secretary to set out clearly the general thrust of our enrichment program. Such an announcement would be of major value not only to our cooperation with other consuming nations in the IEA but also in our non-proliferation efforts. I would urge that a Presidential determination be sought to the extent practicable on this issue to permit such a decision to be made before the end of this month.



NSC CORRESPONDENCE PROFILE

DOC		RECD		LOG NBR		INITIAL ACTION O
MO	DA	MO	DA	HR		<i>Elliott</i>
5	7	5	8	18	7503140	

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SOURCE/CLASS/DESCRIPTION

TO: PRES _____ FROM: *Ingersoll, R* KISSINGER, J _____
 KISSINGER _____ COLBY, W _____
 SCOWCROFT *X* _____ SCHLESINGER, J _____
 DAVIS _____ ST EX SEC _____

REFERENCE: 7509323
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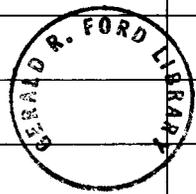
SUBJECT: *State Dept views on US Vietnam Equipment policy re NSSM-209 & ERDA rpt*

DISTRIBUTION/INITIAL ACTION ASGMT

INTERNAL ROUTING AND DISTRIBUTION		ACTION	INFO	REC CY FOR	ACTION REQUIRED
ADVANCE CYS TO HAK/SCOWCROFT			<i>X</i>		MEMO FOR HAK <i>script</i>
STAFF SECRETARY					MEMO FOR PRES
FAR EAST					REPLY FOR
SUB-SAHARAN AFRICA					APPROPRIATE ACTION
MID EAST / NO. AFRICA / SO. ASIA					MEMO TO
EUROPE / CANADA					RECOMMENDATIONS
LATIN AMERICA					JOINT MEMO
UNITED NATIONS					REFER TO FOR
ECONOMIC					ANY ACTION NECESSARY?
SCIENTIFIC		<i>X</i>			CONCURRENCE
PROGRAM ANALYSIS					DUE DATE: <i>5/18</i>
NSC PLANNING					COMMENTS: (INCLUDING SPECIAL INSTRUCTIONS)
CONGRESSIONAL					<i>OBE per DI. DAVID ELLIOTT</i>
OCEANS POLICY					<i>8-1-75</i>
INTELLIGENCE					

SUBSEQUENT ROUTING/ACTIONS

DATE	FROM	TO	S	SUBSEQUENT ACTION REQUIRED (OR TAKEN):	CY TO
<i>8/1</i>				<i>C OBE per Elliott</i>	



NSC/S DISP INSTR

DISPATCH _____
 CY RQMTS: SEE ABOVE PLUS: _____
 NOTIFY _____ & DATE _____ BY _____
 SPECIAL DISPOSITION: _____

CROSS REF W/ *7502923*
 SUSPENSE CY ATTACHED: _____ FOLDER: *NSSM 209*

MICROFILM & FILE RQMTS:
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MEMORANDUM

THE WHITE HOUSE

3133

WASHINGTON

SECRET ATTACHMENT

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY A. KISSINGER *HK*

SUBJECT: Uranium Enrichment

Last fall you requested an interagency study (NSSM 209) of the steps the U. S. might take to meet future domestic and foreign demand for uranium enrichment services (the fuel for nuclear reactors). One of the main questions was whether or not there are private companies who would take over this business and relieve the Government of the responsibility. The study is completed and could be forwarded for your decision within two weeks. However, OMB is asking that instead of reaching a decision now, you direct ERDA to pursue negotiations with one company (UEA) for the purpose of trying to reduce the list of Government supports the company requires to get into business. (These Government supports involve a guarantee loan -- up to \$3 billion -- if UEA bonds cannot be sold; a guarantee that the plant will work technically; the assumption of cost overruns; a buy out of UEA if the plant cannot operate because of licensing, regulation, or judicial action; taking over the contracts of defaulting customers; buying up to 15% of the plant's output for the first three years; terminating enough of the ERDA contracts with current customers so that UEA can acquire them and be assured of having its produce sold out; and allowing UEA to burrow enriched uranium from the U. S. stockpile.)

Bob Seamans (in a letter to you at Tab A) opposes negotiation because he feels that he has adequately assessed the UEA proposal (Tab C). Such negotiations would take a number of months (time we do not have, for reasons outlined below), would highlight the chosen instrument character of UEA and undercut already dubious Congressional support, and are unlikely to produce the major changes in the assistance package necessary to make the company's demands acceptable. Further, it is quite conceivable that even with Government supports UEA will fail a year from now to commit to plant construction. There is little support among U. S. electric utilities for UEA (hence the need for UEA to try to sell 60% of its output to foreign customers) and the company is thinly financed (the organizers are putting up only 6% equity investment).

SECRET ATTACHMENT



NSSM 209

Seamans believes that it is possible to establish a competitive private enrichment industry using a new technology (centrifuge). This strategy would require that an add-on be built to one of the Government gaseous diffusion facilities to handle orders for enrichment services over the next year or two, while the centrifuge companies are firming up. In Seamans' view, this course would be more preferable than committing to UEA (which would use current technology) and thereby creating a virtually risk-free monopoly propped up with Government supports, which would effectively delay the evolution of a competitive enterprise. (The cost of the Government add-on would be \$1.5 billion over eight years, but could be largely offset by revenues from our present plants.)

The State Department (Tab B) is particularly concerned that whatever decision is reached, that the commitment be immediate. The U.S. has been the free world's supplier of nuclear fuel and the dominant leader in nuclear affairs. A year ago, when we stopped accepting fuel orders, our credibility as a reliable supplier sank precipitously. Since then several of our allies have turned to the USSR for this fuel, major investments have been made abroad in enrichment facilities that will compete with the future U.S. enrichment industry, and reactor sales, which are tied to fuel contracts, have gone to foreign companies. (Because of our fuel contract hiatus, Brazil just signed up with Germany for \$4 billion in reactors and equipment that would have been expected to go to GE or Westinghouse--see Tab D.)

In addition to trade and other energy policy considerations, we want to maintain foreign reliance on the U.S. nuclear supply because through this leverage we exercise special controls to inhibit the proliferation of nuclear weapon development. Because of this dual character of nuclear technology, we cannot deal with it simply on a commercial level.

It would be very useful in reestablishing our nuclear position if we could announce at the May 27 Ministerial Meeting of the International Energy Agency that a U.S. commitment has been made to build additional enrichment capacity and that we will be accepting fuel contracts as soon as general Congressional approval is obtained. This would necessitate a basic decision on your part before that time.

RECOMMENDATION:

That ERDA not be directed to negotiate further with UEA and that the decision paper on the next U.S. uranium enrichment facility based on the interagency review of the issue be forwarded to you within two weeks.

Approve _____

Disapprove _____



THE WHITE HOUSE
WASHINGTON

23 May 1975

copy handcarried to Cpt. Howe (with
change page 2).

attached sgd undated HAK to Pres memo
was sgd for record and memo that was
forwarded to Pres is exact page 1 with
S'croft signing for HAK, page 2 differs
from carbon retyped one.....

to make sure that Pres ofc has 1st memo
that S'croft sgd, I have given Dianiane
in Pres ofc a copy to check.....

tom
in place of Kathy



CONTAINS
CONFIDENTIAL
ATTACHMENT

THE WHITE HOUSE
WASHINGTON

7c
DECISION

May 23, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON 
SUBJECT: Expansion of the Production of Enriched Uranium

The importance of enriched uranium to future energy production can be summarized in this way: From the early 1980's to the year 2000, enriched uranium is likely to be as significant to energy production as oil is today.

The U.S. need to expand its capability to enrich uranium presents two issues:

The immediate issue is how Secretary Kissinger can, at the May 27 Ministerial Meeting of the International Energy Agency, demonstrate that the U.S. is committed to maintaining United States leadership as the free world's supplier of enriched uranium and U.S. dominance in nuclear affairs.

The long-term issue is whether enriched uranium, the fuel for the atomic energy utility plants that are expected to be built by the hundreds from now until 2000, will be produced by the United States government, by private enterprise or by a combination of the two.

BACKGROUND

The United States is now enriching uranium in three ERDA-owned plants - at Paducah, Kentucky, Oak Ridge, Tennessee, and Portsmouth, Ohio. These plants, now being expanded, can supply the initial fuel and replacement fuel for 270 nuclear electric plants.

Each of the three enriching plants uses the World War II diffusion process, which is proved in technique, but very costly in electric consumption.

The capacity of all three plants is fully committed - about 2/3 for domestic utilities, 1/3 for foreign. In fact, for almost a year, the United States has not been able to take any more orders for enriching uranium.



The world-wide demand for enriched uranium in the foreseeable future would require, according to best estimates, 20 additional plants of about the size of each of the ERDA plants. To meet U.S. demand and about half of foreign free world demand (the informal U.S. target) will require the construction in the U.S. over the next twenty years of about ten plants, each the size of an existing ERDA plant.

Clearly, we need additional production capacity, both for domestic needs and to compete for foreign markets.

The policy of the previous Administration was to encourage private financing and construction of additional uranium enrichment plants.

Last Fall you approved a study to reevaluate that policy.

The alternatives have now come down to these:

1. Assist private industry, through technical assistance and some Federal guarantees, in building the next diffusion plant, at a cost of about \$3 billion of private capital.
2. Have ERDA expand its Ohio diffusion plant (at a cost of about \$1.2 billion) while encouraging private industry to build additional plants using a new centrifuge technique. The centrifuge process of enrichment is an experimental success and uses less than one-fifth the electricity of diffusion. But it has not yet been proved commercially. (EXXON, Garrett Corp., and ENI-Atlantic Richfield are among those which have indicated a strong interest in building centrifuge plants.)
3. Have ERDA build all the additional uranium enriching plants the United States needs for domestic and foreign markets.

Current Situation

The eight-month evaluation has not brought about a consensus. Your principal advisers with responsibilities in this field are in disagreement.

1. Secretary Kissinger and Dr. Seamans (Tab I) state that:

(a) Immediate domestic and international needs for additional



uranium enriching plants require immediate expansion of ERDA's capacity as soon as Congress approves.

- (b) The President should decide that, if at all possible, the next enrichment plants built in the U.S. would be private, either centrifuge or gaseous diffusion.
- (c) Thus we need not make a judgment now whether or not the one private consortium attempting to build a diffusion plant, Uranium Enrichment Associates, can get the financing, or the Congressional support for Federal guarantees against losses, necessary to build a plant that will cost \$3 billion or more. (UEA includes Bechtel, Goodyear, and is expected to include 3-5 other U.S. firms, with capital participation by Iran, Jordan, and other nations.)
- (d) We cannot continue to delay expanding production, for we are already losing orders to Russia, (which we believe has one plant and a stockpile of fuel), France, and Germany. We are also losing dominance over the provision of enriching services, which we would like to retain for national security reasons.

2. Jim Lynn and Frank Zarb (Tab II) take this position:

- (a) As a matter of principle and policy, we should encourage private industry to enter uranium production as soon as possible.
- (b) The substantive decisions as to how we obtain further production -- public or private ownership, diffusion versus centrifuge -- should be made on the basis of an options paper being developed through interagency efforts during the past few months, which can be ready in early July.
- (c) In order to properly assess the pros and cons of the UEA option, its proposal needs further definition, including the extent of assistance UEA believes it would need from the Federal Government. This should be worked out by negotiation. Lynn recommends that you direct Frank Zarb and



Dr. Seamans to find out and report to you within thirty days what UEA's minimum requirements for Federal assistance would be. Without such work, the UEA option will not be definitive enough to be an option.

- (d) By no later than mid-July, you would be in a position to make the decisions based on the interagency option paper, including the UEA option.
- (e) An Administration commitment now to expand ERDA production would discourage UEA from going ahead with its diffusion plant and probably cause its members to dissolve the consortium. If UEA withdraws, then other private firms would be reluctant to try later.

OBJECTIVES

From our discussions with your advisers and study of the attached memoranda, it appears that these are desirable objectives:

1. To provide Secretary Kissinger with specifics that make credible what the United States is doing to expand production, and enable him to make commitments as to future deliveries of enriched uranium.
2. To provide the opportunity for private enterprise to engage in uranium production as soon as possible.
3. To be ready to expand ERDA's production if that is necessary.

OPTIONS

1. Authorize announcement simultaneously here and by Dr. Kissinger in Europe on May 27 that U.S. Government will build the next addition to U.S. uranium enrichment capacity. (Supported by Secretary Kissinger and Dr. Seamans)

_____ Agree

_____ Disagree



2. Authorize Dr. Kissinger to announce on May 27 that
- (a) U.S. Government will cause to be built, preferably through private ownership, but by the Federal Government if necessary, additional enrichment capacity (along the lines of the speech outline at Tab III.)
 - (b) direct that negotiations with UEA be conducted promptly, and
 - (c) direct the final options paper on the substantive issues --government versus private, diffusion versus centrifuge, etc. -- to be delivered to you no later than July 5.

(Supported by Jim Lynn, Frank Zarb, Phil Buchen, Jack Marsh Bob Hartmann, and Alan Greenspan.)

_____ Agree

_____ Disagree





7d
UNITED STATES
ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION
WASHINGTON, D.C. 20545

May 8, 1975

The President
The White House

Dear Mr. President:

Jim Lynn has advised me that he is recommending that you direct ERDA to pursue negotiations with the Uranium Enrichment Associates in an effort to determine what would be the minimum federal assistance necessary to bring this private enrichment venture into being. He feels this added information is required to enable you to make a decision between the several alternatives for obtaining uranium enrichment capacity.

ERDA has already conducted an extensive review of the UEA proposal and has reviewed its findings in detail with the OMB and other members of your staff. It is my view that we have sufficient information today to decide on a viable course of action -- a course which I believe best serves our objective of introducing private industry into this sector of the nuclear power business and meets the critical consideration of timing. An immediate decision is essential to our own economy and to our balance of trade. Our inability for the past year to take orders has added uncertainty to our domestic utility industry and to our foreign position on the sale of uranium fuel and nuclear power reactors.

In light of these considerations, I have in recent weeks presented my views to Jim Lynn, recommending:

- Rejection of the UEA proposal;
- Commitment to add enrichment capacity to an existing government facility in order to take immediate orders, both domestic and foreign;
- Initiation of private enriching capacity on a competitive basis using centrifuge rather than gaseous diffusion separation methods. This advanced technology has much greater energy efficiency, and is more flexible in terms of meeting shifting demand.



The UEA approach is not the best alternative available to the government.

- As it now stands, the UEA proposal represents both a sole source procurement and such a high federal liability and low private risk that it would set an undesirable precedent for future commercial ventures. For this reason, Congressional support will be most difficult to achieve and, even if such authorization is achieved, 9-12 months will have passed without an assured program for meeting demand for enriched uranium.
- Negotiations with UEA would require a number of months and -- even if their position proved more acceptable -- would still not of itself speed the re-opening of the "order book" nor establish private enrichment on a competitive basis.

In our plan, we would immediately seek Congressional authorization for added government capacity and for industrial cooperation for privately financed centrifuge facilities. We would then initiate the design and procure the long lead items for the expansion of government facilities. We would tailor the size of the add-on government plant to the minimum needed to give private industry time to get established. I believe that this approach constitutes better policy and is a more defensible proposal because it:

- Applies government guarantees more appropriately in support of the establishment of a competitive enrichment industry rather than a single, sole-source supplier, such as UEA, and buys a better result. Attractive proposals utilizing centrifuge techniques have already been presented to ERDA by EXXON, Garrett Corporation and ENI-Atlantic Richfield.
- Reopens the "order book" sooner as a result of building the add-on plant.

On the basis of current estimates, our proposed add-on plant is expected to have a net budget impact of not more than \$100 million total before the higher enrichment charges already planned will off-set new plant costs beginning in 1980.



The President

- 3 -

ERDA has the responsibility to produce and sell enriched uranium, to develop new and improved enrichment processes, and to utilize industrial capability to the maximum extent consistent with other national interests. We recognize, in this regard, that our objectives cannot be isolated from broader considerations of energy policy and, therefore, will continue to consult with the Energy Resources Council and its individual members as we discharge our responsibilities.

We have attempted to consider all important issues in arriving at our recommendations. However, you may have further questions and we will be most happy to discuss such matters with you or anyone you may designate.

Respectfully yours,



Robert C. Seamans, Jr.
Administrator



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SUMMARY REPORT

UEA REQUEST FOR GOVERNMENT ASSISTANCE

I. Introduction

Uranium Enrichment Associates (UEA) for nearly two years has actively sought to establish a project for a large gaseous diffusion uranium enrichment plant. It has made substantial progress in establishing the technical basis for the project and has conducted extensive marketing activities with prospective domestic and foreign customers. A project financing structure (Figure 1) has been developed conceptually and employed as a basis for the UEA marketing efforts. It has been determined by UEA and its financial advisors (Salomon Brothers) that, due to the unique nature of the project (secret process, no commercial history, very large capital requirements), it cannot be financed and operated commercially without certain forms of Government assistance and assurance.

The Project Board - Private Uranium Enrichment, through extensive discussions with UEA and others, has evaluated the types of assistance requested and the likely (and maximum theoretical) obligation that could result to the Government. It is accepted by UEA that costs incurred by the Government in providing the requested assistance would be repaid by UEA, except in one case in which the Government might acquire a salable asset. This brief summary provides highlights of the Board's evaluation of each requested area of assistance. UEA has stated that there may be alternative ways in which the objective of commercial project financing can be achieved and that its positions, as expressed to the Board, are open to further discussion. The Board, however, has been obliged to evaluate UEA's expressed positions as to the Government assistance required to insure project viability.

In addition to evaluation of the assistance requested from the Government, the Board considered other key aspects of the project including: prospects for domestic equity partners, anti-trust review considerations, other regulatory considerations, market prospects both domestic and foreign, project financial structure and the conceptual financing plan which is based upon the assumed type of Government assistance, alternative ways of resolving some of the problems which are raised, project power supply, project completion schedule and time schedule for obtaining the necessary legislative authority. Board review and discussion of these items is contained in its final draft report.



FIGURE 1

CONCEPTUAL FINANCIAL STRUCTURE
(ASSUMES \$5 BILLION PROJECT COST)

DOMESTIC 40 PERCENT

- TOTAL SHARE - \$2 BILLION
- 15 PERCENT EQUITY - \$0.3 BILLION
- 4-8 U.S. COMPANIES
- SWU PRICE STIPULATES MINIMUM 15 PERCENT NET RETURN
- 85 PERCENT DEBT - \$1.7 BILLION
- DEBT SECURITY
 - LONG-TERM CONTRACTS
 - GOVERNMENT ASSISTANCE PACKAGE
- SWU PRICE REFLECTS COST OF DEBT, EQUITY AND GOVERNMENT ASSISTANCE

FOREIGN 60 PERCENT

- TOTAL SHARE - \$3 BILLION
- 85 PERCENT DEBT, 15 PERCENT EQUITY
- THREE OR MORE FOREIGN PARTICIPANTS
- INDIVIDUAL CAPITAL PROVIDED:
 - FROM FOREIGN SOURCES
 - PROPORTIONAL TO OFFTAKE
 - THROUGH IRREVOCABLE "LETTER OF CREDIT" HELD IN U.S.
- SWU PRICE REFLECTS INDIVIDUAL SERVICING OF CAPITAL
- TOTAL FOREIGN VOTING RIGHTS
 - LIMITED TO 45 PERCENT
 - BALANCE OF EQUITY - "PREFERRED STOCK"



II. Requested Government Assistance

A. Performance Assurance

UEA seeks an adequate supply of specialized materials and components (e.g., barrier) now manufactured by ERDA plus Government technical expertise and assistance to assure that the technical basis of the project is sound and that obstacles can be overcome most effectively in order that the project will perform technically. Recognizing that this approach would, in effect, make the Government a technical partner in the undertaking, UEA is willing to accept whatever Government overview, including "veto power", is necessary to protect the Government's interest during design, construction and startup. The Board's best judgment of the cost of needed Government functions is \$150-\$200 million; this includes costs of a 100-man Government review team. It is assumed that Government costs would be reimbursed on a current basis during construction.

Problems of risks involve potential early authorization of additional Government barrier production capacity, ERDA scarce manpower allocations between CIP/CUP and the UEA project, Government liabilities under warranties for its products and the practical problems which could be created by dual project controls (increases in cost, schedule delays).

B. Completion Guarantee

1. Contingent Government Loan Guarantee

UEA seeks an arrangement which will assure its ability to borrow funds for the project. According to its concept, the chief condition to invoking the contingent loan guarantee would be an inability of UEA to market securities at an interest rate equivalent to an "A" bond rating or above. At that point the Government would back subsequent UEA securities through a loan guarantee during the construction period to assure their marketability. This would apply only to the domestic debt portion (85% of 40%) up to a project cost limit. This limit would be based upon a joint UEA/ERDA estimate of ultimate project cost, escalated in an agreed manner and with application of a contingency factor appropriate to the quality of the estimate, plus an additional overrun allowance. The loan guarantee would not apply to purely commercial debt already secured and all debts would be of equal stature. According to UEA, this feature is necessary to the financability of the project since it will assure UEA's ability to obtain sufficient funds to complete the plant (and thereby assure customers, PUC's and leaders of an operable plant). In concept it would also minimize the amount or duration of Government involvement in project financing. While there would be no direct cost to the Government (except in the event of default),



the loan guarantee feature may increase Government debt and might possibly impact the Federal debt ceiling.

Problems or risks involve the following:

- The plan is preliminary and has not been reviewed by Salomon Brothers marketing staff or tested in the marketplace.
- The contingent loan guarantee may adversely influence (Treasury initial reaction) or improve (Salomon Brothers view) the availability of purely commercial debt. If the former, the Government runs the risk of guaranteeing most, if not all, domestic debt.
- Domestic utility rejection of UEA contracts, especially "hell or high water" provision, would erode basis for securing and servicing long-term debt. This could lead to Government guarantee of all domestic debt for the full 25 year term, if the project proceeded at all. (There is evidence that some may accept, others may reject, this provision.)
- The uncertainty of foreign participation up to the 60 percent target, and the potential inability of UEA to compensate with increased domestic capital, raises the potential Government liability, if the project proceeds.

2. Overrun Funding

UEA requests assurance of funding overruns, in the event the project cost limit is exceeded, by further Government guaranteed loans, or direct loans to be repaid by UEA, possibly after payment of private debt. UEA would undertake to match such funding with 15 percent equity funds on a "best efforts" basis. According to UEA, the overrun feature would assure its ability to obtain the large amounts of debt and equity capital required for the project which otherwise would be impossible since it will be necessary to employ a project cost estimate based only upon conceptual design. The costs of such assurance are probably zero if, as is likely, Government guaranteed loans would be involved, since in the absence of a condition of "economic frustration" (see below), one can safely assume that successful completion of the project is technically feasible. However, there is a potential budgetary impact of up to \$2 billion which represents a 40 percent overrun.

With respect to problems or risks, there is great doubt that open ended assumption of funding overruns by the Government probably would be approved by Congress. Even if overrun funding were tied to a limit, it would tend to reduce credibility of project estimate



limit to the Congress and endanger approval. UEA's lack of firm commitment to provide additional equity in the event of overruns to maintain 85 percent debt/15 percent equity ratio may be unacceptable to Congress and it eliminates a risk incentive to UEA for efficient management and control of costs. There is some verbal evidence that UEA may be willing to make a stronger commitment in this area than it has so far made to the Board.

3. Economic Frustration

UEA requests Government assurance against risk of "economic frustration" of the project, i.e., unacceptable postponement of return on, or recovery of, equity due to (1) completion of plant delayed beyond some agreed relatively late date, (2) prohibition or indefinite suspension of construction or operation by judicial or administrative action or (3) other causes which effectively prevent economic realization of the project, such as inability to obtain power. In such event, the Government would assume U.S. debt and provide "fair compensation" to U.S. equity investors and would assume control of the project in order to bring it to a successful conclusion. According to UEA, they might not be able to obtain necessary debt equity capital in the face of such risk without this assurance. The costs to the Government could range up to all domestic capital, i.e., 40 percent of the project costs.

With respect to problems or risks, in the event of "economic frustration" due only to unacceptable delay in completion of the project, U.S. could then become an equity partner with other foreign equity partners, thereby possibly presenting political problems in the administration of the project. There exists a potential Government liability for all domestic capital with a risk of not having an operable plant, although with Government's participation in key phases of the project such risk appears remote. The concept may present difficulty in negotiation of mutually acceptable criteria for "economic frustration" and "fair compensation". Non-assumption by equity capital of the risk of economic frustration would imperil Congressional approval, remove a risk incentive to UEA for efficient management and create a significant precedent regarding Government assistance.

C. Stockpile Backup and Load Leveling

UEA requests access to the Government SWU stockpile, on a lease or purchase basis, for up to two million SWU's over the first four years after startup, and nine million SWU's at the outset and decreasing to zero five years after the plant achieves "successful" operation.



Additionally, ERDA is requested to agree to purchase up to a total of six million SWU's (UEA estimates four million most likely) during the first five-year operational phase of the plant. The amount would be agreed five years in advance of the proposed first delivery. Prior to firm-up, UEA would attempt to sell the excess to others. These features will permit UEA customer contract needs to be met in the event of startup delays or interruptions and will levelize the commitments on the plant due to irregular early customer demand prior to achieving a steady-state operation. If the ERDA purchase obligation were four million SWU's, and on a time schedule presently viewed as most likely, cost to the Government could be \$300-\$500 million. In a time frame that would require Government feed purchases, this could rise to \$600-\$1400 million. This asset should, however, be resalable.

Problems and risks in this area concern the expected adequacy of the Government SWU stockpile in relation to all anticipated needs and the probable need, in the late 1970's, to seek appropriations for purchase of SWU's and any needed feed. On the other hand, use of surplus Government feed in the UEA plant, if possible timewise, represents an opportunity to nearly double the amount of enriched uranium produced.

D. Termination of ERDA Contracts

UEA requests that ERDA terminate a sufficient number of its long-term enrichment services contracts with utilities to assure that the UEA plant would be effectively sold out - on the assumption that terminated customers would then sign with UEA. The Government has already agreed that it would honor voluntary requests for termination. Involuntary termination requires that certain criteria be met. However, on the assumption that the criteria to allow the necessary terminations would be met, there would be no cost to the Government since operating conditions in Government plants would be adjusted to compensate.

Problems and risks relate to domestic requests for voluntary termination being tied to the imposition of an ERDA commercial SWU price, to doubts as to whether involuntarily terminated customers would sign with UEA, and to possible need to make a formal "reasonableness" finding concerning UEA contract terms and conditions. Further, termination of ERDA contracts beyond a certain point would result in uneconomic costs to remaining ERDA customers.

E. Defaulting Utility Protection

UEA requests that, in the event of a default by a domestic utility and inability of UEA to sell the services to others, the Government assume the obligations of the defaulting utility up to a limit of 50 percent of the domestic utility share of plant output. ERDA's



obligation would terminate when a substitute customer is found or their long-term debt retired, whichever is earlier. Any amounts recovered from defaulted utilities would accrue to ERDA. UEA's objective is to protect the debt and equity investors by assuring revenues to cover operating costs, debt requirements, and a 15 percent net return on equity. Assumption of obligations by ERDA overcomes the utilities' refusal, because of legal and financial reasons, to accept increases in costs caused by a utility defaulting its obligations (cross-guarantee of another utility). The potential cost to ERDA (assuming \$100/SWU plus feed) for each large reactor of a defaulting utility could be in the order of \$20 million a year or \$500 million over the maximum 25-year period. Maximum exposure for 50 percent of the domestic utility share of the project would be about \$360 million a year or \$ 9 billion over the 25-year period. Also, ERDA would be required to maintain a contingency stockpile of feed material as insurance even if no utilities default.

With respect to problems and risks, it is not apparent that a "cross-guarantee" by ERDA is necessary because the potential risk, although large, is not likely to materialize as (1) the utility industry is not apt. to crumble, (2) the reactor would likely still need fuel (even if the utility were bankrupt), and (3) there is a growing demand for power which would suggest that enriching services could be marketed elsewhere. It would appear that assumption of the obligations of defaulting utilities places risks on ERDA which could and should be assumed by the UEA equity investors and/or UEA customers, especially in view of the low probability of there being a problem in this area.

III. Government Assistance Budget Impact

The summary shown in Figure 2 is the Board's collective judgment regarding the likely impact of those elements of Government assistance which UEA feels are necessary to insure project viability.

FIGURE 2

	<u>GOVERNMENT ASSISTANCE BUDGET IMPACT</u> (\$ Millions).		
	<u>Most Likely</u>	<u>Potential Maximum</u>	
A. Performance Assurance	150-200	150-400	Reimbursable, generally current basis
B. Completion Guarantee	0	0-2000	Probably recoverable, economic frustration remote
C. Stockpile Backup - Load Leveling	300-500 (no feed)	600-1400	Purchased SWU's represent a resalable asset
D. Termination of ERDA Contracts	0	0	Operating conditions adjusted
E. Defaulting Utility Protection	0-40 (1 contract for 2 years)	0-9000	Potential maximum obligation if 1/2 of all domestic customer default for full 25-year period



MARKET ASSESSMENT

DOMESTIC

- Demand is consistent with the 40 percent of plant output target assumed by UEA.
- Four "Letters of Intent to contract" have been received from domestic utilities; three-four more expected shortly, with all "intent" letters expected to total about 1.2 million SWU's/year.
- Remaining utility commitments probably dependant upon utility views of UEA contract (presently not positive).
- However, if Government support to the project is given, domestic customers are likely to follow.

FOREIGN

- Iran - Commitment likely for up to 30 percent of plant output or such less percent as U.S. Government policy may allow.
- Japan - Commitment of 22 percent of plant output probable if there is strong U.S. utility or Government support to the project.
- France - Commitment of 11 percent spoken of, but may well be contingent upon technology sharing and reciprocal ownership arrangement with EURODIF, thus highly questionable.
- West Germany - Commitment of 10 percent spoken of, but no solid information to assess probability.
- Others - Taiwan, Spain, Brazil, Australia possible; capital financing or other problems may be impediment.
- Conclusion - Given uncertainty of U.S. policy on allowable foreign participation, other foreign conditions, the timely firm achievement of the 60 percent target is doubtful thus jeopardizing timely achievement of "Go" decision (requires commitment to 75 percent of plant output).



7f

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
Presidential Libraries Withdrawal Sheet

WITHDRAWAL ID 019148

REASON FOR WITHDRAWAL National security restriction

TYPE OF MATERIAL Report

DESCRIPTION Research Study on Brazil/West Germany
Agreement on Nuclear Energy

CREATION DATE 04/24/1975

VOLUME 2 pages

COLLECTION/SERIES/FOLDER ID . 039800388

COLLECTION TITLE U.S. NATIONAL SECURITY COUNCIL
INSTITUTIONAL RECORDS

BOX NUMBER 31

FOLDER TITLE NSSM 209 - Future Uranium Enrichment in
the U.S. (1)

DATE WITHDRAWN 11/09/2004

WITHDRAWING ARCHIVIST HJR

7g

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
Presidential Libraries Withdrawal Sheet

WITHDRAWAL ID 019149

REASON FOR WITHDRAWAL National security restriction
TYPE OF MATERIAL Memorandum of Conversation
DESCRIPTION Memorandum of telephone conversation re
purchase of uranium enrichment services
CREATION DATE 01/17/1974
VOLUME 1 page
COLLECTION/SERIES/FOLDER ID . 039800388
COLLECTION TITLE U.S. NATIONAL SECURITY COUNCIL
INSTITUTIONAL RECORDS
BOX NUMBER 31
FOLDER TITLE NSSM 209 - Future Uranium Enrichment in
the U.S. (1)
DATE WITHDRAWN 11/09/2004
WITHDRAWING ARCHIVIST HJR

MEMORANDUM

ACTION - 3133

NATIONAL SECURITY COUNCIL

74
for 2 - Tab I
Ritupred

SECRET ATTACHMENT

May 8, 1975

MEMORANDUM FOR: GENERAL SCOWCROFT
FROM: DAVID ELLIOTT *D.E.*
SUBJECT: Lynn's Memorandum to the President
on Uranium Enrichment (Tab I)

For the reasons outlined in the memorandum to the President (Tab II), I believe the OMB proposal to force negotiations with UEA is wrong. We need a Presidential decision now and should not allow our nuclear position to erode further.

RECOMMENDATION:

That you initial the memorandum to the President at Tab II and forward it to Judy Johnston to be included with Lynn's memorandum to the President.

*Tab I forwarded to Jerry Jones
5-10-75 (KM)*

SECRET ATTACHMENT



ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: May 6

Time: 8:00pm

FOR ACTION: Mike Duval
Max Friedersdorf
Ken Lazarus
Paul Theis
NSC/S

cc (for information):

Jim Cavanaugh
Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: May 7

Time: 500pm

SUBJECT:

Memorandum to Frank Zarb and Robert Seamans re
Negotiations with Private Consortium for Uranium
Enrichment Venture

ACTION REQUESTED:

For Necessary Action,

For Your Recommendations

Prepare Agenda and Brief

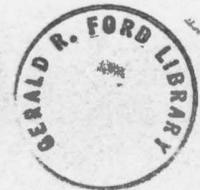
Draft Reply

For Your Comments

Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAY 6 1975

Signature

MEMORANDUM FOR THE PRESIDENT

FROM:

JIM LYNN

SUBJECT:

Further development of an alternative for
provision of additional uranium enrichment
capacity

The Administration must decide soon how additional national capacity for enriching uranium to fuel foreign and domestic nuclear power plants will be provided, in order to meet domestic needs and to retain our foreign markets.

In 1971, the Executive Branch established a policy of having private industry, rather than the Federal Government, provide additional uranium enrichment capacity when needed. Last September, the Secretary of State became concerned that this policy might not provide capacity in time to serve both domestic and foreign policy interests. You approved a study of the issue which will be completed within the next few weeks.

This memo is to (a) report on the status of the three alternatives being explored, and (b) request your decision as to whether further work should now be undertaken which is essential to determine the viability of one of these alternatives.

The need for additional capacity

Three Energy Research and Development Administration-owned uranium enrichment plants have provided the basis for the United States' virtual free world monopoly on uranium enrichment services. ERDA's plant capacity is now fully committed. Western European interests are now moving to build two large plants, but this need not prevent the U.S. from capturing a substantial share of the foreign market, provided we can move ahead this fall with the detailed planning necessary to have additional capacity on line in the mid-eighties.



Meeting future demand, both foreign and domestic, is expected to require about ten U.S. plants equivalent in capacity to any one of the three existing plants. These new plants would cost about \$3 billion each in 1975 dollars.

Alternatives being evaluated

Studies - under ERDA and NSC auspices - have largely been directed toward the evaluation of three alternatives:

1. To enable private industry to move immediately to build additional capacity, and subsequent plants as necessary.
2. To have ERDA build the next increment of additional capacity at a cost of about \$3 billion (in 1975 dollars), while continuing to pursue the private entry objective for subsequent plants, beginning about 1979, using new technology now under development by ERDA.
3. To abandon the private entry objective forthwith and have ERDA build additional plants as necessary.

Status of 1971 policy and the response to it

Under the first alternative, a consortium (UEA) composed of Bechtel and Goodyear has already developed plans, with foreign financial participation, to build a \$3 billion plant. But UEA is finding it necessary to seek some degree of Government backing or recoverable assistance to secure private financing and to accommodate its domestic utility customers. Private financiers want rigorous conditions of sale to justify a high percentage of debt financing, but such rigorous conditions are difficult for the electric utilities because of their current financial condition.

Dr. Seamans' evaluation of the UEA proposal is that the UEA plan can be made to work if it has adequate Government support; but ERDA is concerned about how much Government assistance would be reasonable, how acceptable that assistance would be to the Congress, and how long it would take to consummate arrangements. (However, detailed negotiations with UEA have not yet begun.) ...Dr. Seamans would prefer Alternative 2, but in a version (yet to be fully developed) which would split the next increment of capacity between (a) Government construction and (b) later, private construction using a new enrichment technology still under development by ERDA.

Having met personally with the top people at Bechtel and Goodyear, I am impressed with their aggressiveness and tenacity, despite



formidable obstacles. However, UEA has already invested nearly \$9 million, and its willingness to persevere is beginning to wear thin. Moreover, it is inherently important for the Nation that the issue be resolved soon one way or another, so that the U.S. can meet its own needs and also convince other countries that we will continue to be a reliable supplier of enrichment services. Absent some signal from the Administration and some degree of progress on the legislative front, I believe that the UEA consortium may expire by mid-summer.

I recognize that congressional approval of an assistance package will not be easy to achieve, even though the alternative is early appropriation of several billion dollars for another Government plant. Nevertheless, private entry has strong attractions, as follows:

- . uranium enrichment is the kind of activity which need not remain in the public sector;
- . UEA is ready and willing to move, given strong encouragement and some limited assistance;
- . success of the UEA venture would, I believe, serve to "break trail" for subsequent private ventures, three of which are already in the planning stages, and
- . additional Government construction now might discourage future private involvement.

The immediate problems

Full evaluation of the UEA venture (in effect, Alternative 1) depends upon finding out through expedited, serious negotiations, what UEA's minimum requirement for Federal assistance would actually be. Unless this is done, time will run out without Alternative 1 being in shape for decision.

A related problem is that of who will conduct such UEA negotiations. ERDA is the logical agency to do this, but Dr. Seamans appears not comfortable about having the responsibility for the major effort that would be required to bring about private industry's construction of the next plant, because of his doubts about the UEA venture. A decision to proceed with negotiations should be accompanied by a directive to establish a negotiating team that is fully committed to a major effort to elevate the UEA venture to a real option.



Since I believe that there is no substitute for ERDA's mainline involvement, I believe the best solution would be to give co-responsibility to Dr. Seamans and Frank Zarb, who was extensively involved in the private entry objective when he was in OMB.

In my judgment, such negotiations will not proceed in the expedited, serious way required unless you signal that it has an important priority. Accordingly, I recommend you sign the attached memorandum to Dr. Seamans and Frank Zarb.

Attachments



THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR FRANK ZARB

FROM: THE PRESIDENT

SUBJECT: Negotiations with Private Consortium for Uranium
Enrichment Venture

I am advised that one of the three policy alternatives being explored to provide the needed additional national capacity for enriching uranium is that of immediate private entry. I also understand that one consortium, Uranium Enrichment Associates (UEA), is now prepared to proceed with a private venture, provided that reasonable Government assistance is offered. In order that this alternative may be properly developed for my consideration, as against other alternatives, I believe that negotiations should now be initiated with UEA directed toward determining the minimum level of Government assistance needed to realize the venture--if that alternative were to be chosen. Since time is of the essence in moving forward with this problem, such negotiations should proceed immediately and effectively.

Because you have already had extensive prior experience in dealing with UEA on the subject of private uranium enrichment and in view of FEA's responsibilities for developing national energy resources, it is appropriate that you work with Dr. Seamans in completing the necessary negotiations. I would expect ERDA to continue to provide the necessary staff assistance to ensure expeditious handling of these negotiations.

cc: Robert Seamans



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THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR ROBERT SEAMANS

FROM: THE PRESIDENT

SUBJECT: Negotiations with Private Consortium for Uranium
Enrichment Venture

I am advised that one of the three policy alternatives being explored to provide the needed additional national capacity for enriching uranium is that of immediate private entry. I also understand that one consortium, Uranium Enrichment Associates (UEA), is now prepared to proceed with a private venture, provided that reasonable Government assistance is offered. In order that this alternative may be properly developed for my consideration, as against other alternatives, I believe that negotiations should now be initiated with UEA directed toward determining the minimum level of Government assistance needed to realize the venture--if that alternative were to be chosen. Since time is of the essence in moving forward with this problem, such negotiations should proceed immediately and effectively.

Because Frank Zarb has already had extensive prior experience in dealing with UEA on the subject of private uranium enrichment and in view of FEA's responsibilities for developing national energy resources, it is appropriate that you work with him in completing the necessary negotiations. I would expect ERDA to continue to provide the necessary staff assistance to ensure expeditious handling of these negotiations.

cc: Frank Zarb



Uranium Enrichment

1. The U.S. recognizes the important role nuclear power plays in reducing the world's reliance on oil and other fossil fuels and the growing demand for nuclear power in many nations. With respect to the provision of uranium enrichment services for nuclear power plants, I wish to emphasize that the United States will continue to be the major and most reliable supplier of such services.
2. Our existing capacity, including expansion already underway, is now fully committed to foreign and U.S. domestic customers. This condition has clearly been anticipated, and ever since 1971 activity has been underway to plan for the very large expansion of U.S. capacity which must occur over the next two decades.
3. Several private ventures are active in the U.S., using either gaseous diffusion or gas centrifuge technology. And, as a matter of public policy, we want to provide for uranium enrichment by private industry as soon as possible. Concurrently, the U.S. Government is pursuing the development of advanced uranium enrichment processes. (covered below)
4. The increased use of nuclear power is a central element in my country's plan for meeting its energy needs. For this reason alone, a major expansion of our uranium enrichment capacity will be necessary.
5. We know that nuclear power is equally central to the energy strategies of numerous other nations, and we believe that we can be very useful in helping those nations to meet their needs for uranium enrichment services. The U.S. recognizes its responsibility to continue the provision of such services under long-term orders. Moreover, the sale of uranium enrichment services is for us an important export business. For these reasons, I can assure you that the U.S. as a nation is firmly committed to a substantial, timely and continuing expansion of its enrichment capacity.
6. The President presently has under consideration several alternative specific means of accomplishing expansion of U.S. uranium enrichment services. As soon as a choice is made, he will make appropriate recommendations to the Congress, and we expect that by mid-July a clear path will have been defined. In any event, the United States Government will take steps to assure that the U.S. will remain in the role of the major, reliable supplier of world-wide needs for enrichment services. We expect that negotiations on firm contracts between



producer and consumer will be initiated well before the end of this year.

7. The President would welcome the cooperation of foreign entities in these developmental ventures in accord with principles agreed on by the International Energy Agency.



~~CONFIDENTIAL~~

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STATE DEPARTMENT VIEWS ON
US URANIUM ENRICHMENT POLICY

US enrichment uranium supply policy is an important factor in our overall political relations with major countries and specifically affects our non-proliferation and energy cooperation efforts as well as our balance of payments position. These interests have suffered during the past year due to the uncertainty over whether, when, and how new enrichment capacity would be built in the United States. Particularly acute damage has been caused by the "contracting gap" which began last summer when the then AEC was unable to satisfy foreign demand for enrichment contracts, having reached the capacity of the existing US plants. The inability of the US to satisfy this demand has continued and it is exacerbating our foreign policy problems.

Under the existing policy of private entry, our foreign policy interests have suffered a series of setbacks due to the inability of the Uranium Enrichment Associates (UEA) organization to develop a credible proposal for private sector construction of a fourth gaseous diffusion plant. As the enrichment contracting gap has widened, foreign customers have become disillusioned with our inability to establish a firm timetable for the construction of new enrichment capacity adequate to meet the fuel needs of foreign and domestic customers as we have done in the past. This situation has caused major prospective foreign customers (including Japan, Brazil, a number of Western European countries, and Iran) to turn to other fuel suppliers, the French and the Soviet Union in particular. In addition to harming overall relations with these and other nations, our current enrichment approach has:

-- inhibited our ability to take important initiatives in the field of international nuclear energy cooperation among consumers;

-- reduced our ability to impose US non-proliferation safeguards standards using the leverage of fuel supply contracts, and

-- diminished significantly future US economic benefits flowing from sales of US-type reactors as well

~~CONFIDENTIAL~~

DECLASSIFIED
E.O. 12958, SEC. 3.5
STATE DEPT. GUIDELINES
BY Hrc NARA, DATE 10/16/04



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as associated fuel and to attract foreign investments in US enrichment facilities.

As we see it, the UEA project is in serious trouble. We understand that ERDA estimates that it could take one year to negotiate a final agreement with UEA, and that there is no guarantee that such negotiations could be successfully concluded, given the wide scope and complexity of the government assistance package requested, the financial arrangements to be consummated, and the need for legislation. Furthermore, not only are domestic utilities reluctant to fully support the UEA effort, but it does not appear that foreign participation at the 60% level UEA projects as necessary to the success of its venture, could be achieved. While Iran remains favorably disposed to invest in UEA, Japan has adopted an increasingly cool attitude toward this project and few, if any, other foreign investors have been identified.

The ERDA plan, on the other hand, would meet our foreign policy concerns by setting in motion promptly a credible program to establish additional enrichment capacity in the United States which would serve foreign and domestic customers on an equitable basis. The proposed government construction of an increment of gaseous diffusion capacity and strong support of the construction of private centrifuge plants combines existing and new technology into a powerful joint venture between the public and private sectors. We believe this blended approach will be extremely well received abroad. We also believe that prospects for attracting foreign investment for this program can prove to be considerably better than for the UEA scheme. We believe that the Japanese as well as the Iranians will probably be willing to participate through equity and/or debt financing.

Of crucial importance to Secretary Kissinger and others is the need to resolve urgently our uncertain enrichment policy. The forthcoming ministerial meeting on May 27th of the International Energy Agency offers a unique opportunity for the Secretary to set out clearly the general thrust of our enrichment program. Such an announcement would be of major value not only to our cooperation with other consuming nations in the IEA but also in our non-proliferation efforts. I would urge that a Presidential determination be sought to the extent practicable on this issue to permit such a decision to be made before the end of this month.



NSC CORRESPONDENCE PROFILE

DOC		RECD		LOG NBR		INITIAL ACTION O	
MO	DA	MO	DA	HR			
5	8	5	8	19	7503133		

SOURCE/CLASS/...

TO: PRES _____ FROM: Elliott ~~KISSINGER, H~~ _____ S/S _____ REFERENCE: _____ CIRCLE AS APPROPRIATE

KISSINGER _____ COLBY, W _____ OTHER _____ UNCLAS LOG IN/OUT

SCOWCROFT X _____ SCHLESINGER, J _____ C _____ NO FORN NODIS

DAVIS _____ ST EX SEC _____ S _____ EYES ONLY EXDIS

TS _____ SENSITIVE

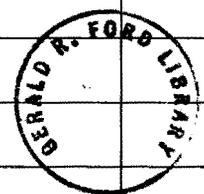
SUBJECT: DWB Director Lyne memo to Pres re
Maximum Commitment re NSM 209

DISTRIBUTION/INITIAL ACTION ASGMT

INTERNAL ROUTING AND DISTRIBUTION			REC CY FOR	ACTION REQUIRED
	ACTION	INFO		
ADVANCE CYS TO HAK/SCOWCROFT				MEMO FOR HAK
STAFF SECRETARY				MEMO FOR PRES
FAR EAST				REPLY FOR
SUB-SAHARAN AFRICA				APPROPRIATE ACTION
MID EAST / NO. AFRICA / SO. ASIA				MEMO _____ TO
EUROPE / CANADA				RECOMMENDATIONS
LATIN AMERICA				JOINT MEMO
UNITED NATIONS				REFER TO _____ FOR:
ECONOMIC				ANY ACTION NECESSARY?
SCIENTIFIC				CONCURRENCE
PROGRAM ANALYSIS				DUE DATE:
NSC PLANNING				COMMENTS: (INCLUDING SPECIAL INSTRUCTIONS)
CONGRESSIONAL				
OCEANS POLICY				
INTELLIGENCE				

SUBSEQUENT ROUTING/ACTIONS

DATE	FROM	TO	S	SUBSEQUENT ACTION REQUIRED (OR TAKEN):	CY TO
5/8	—	Scott	X	Pres for decision / opn memo (5/16)	
5/10	—	PRES	"P"	DECISION	
8/20				C OBT per [unclear]	
8/20				C OBT per [unclear]	



NSC/S DISP INSTR

DISPATCH _____

CY RQMTS: SEE ABOVE PLUS: _____

NOTIFY _____ & DATE _____ BY _____

SPECIAL DISPOSITION: _____

CROSS REF W/ _____

SUSPENSE CY ATTACHED: X FOLDER: NSM 209

AUG 29 1975 BY ROC

MICROFILM & FILE RQMTS:

CRT ID:	SA	SF
OPEN <u>MLL</u>	HP	NS
CLOSE <u>ROC</u>	WH	EP
	PA	DY