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REPORT OF THE NSSM 219 WORKING GROUP  
NUCLEAR COOPERATION AGREEMENT WITH IRAN

PROBLEM

NSSM 219 dated March 14, 1975 requested a study of the issues involved in reaching an acceptable Agreement for Cooperation with Iran concerning nuclear cooperation. While negotiations are proceeding a number of key issues remain unresolved. Accordingly, this paper reviews the current situation and possible options for the U.S. to consider.

In brief, we are facing a serious dilemma since we are proposing to Iran more rigorous controls over plutonium than we have heretofore included in our other agreements including those with states that are not party to the NPT. While these special safeguards might be satisfactory to Congress they are proving unacceptable to Iran since the GOI views them as discriminatory, in light of her status as an NPT party. Our problem, therefore, is devise a formulation that will prove acceptable to both Iran as well as prospective Congressional critics while preserving our non-proliferation objectives.

BACKGROUND

Iran is embarking on a major 20,000 MW nuclear power program and is interested in acquiring half of this capacity (or about 6 to 8 major nuclear power plants) from the United States. The estimated revenues to the U.S. from this arrangement is \$6.4 billion, taking into account reactor components, fuel supply and related services. The GOI also is prepared to contribute to 20% of the cost of the proposed UEA private enrichment plant. This would represent a flow of roughly an additional \$1 billion to the U.S. should the UEA plant actually materialize.

Iran has decided now to introduce nuclear power to prepare against the time - about 15 years in the future - when Iranian oil production is expected to begin to decline sharply. The introduction of nuclear power will both provide for the growing needs of Iran's economy and free remaining oil reserves for export or conversion to petrochemicals.

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Our ability to reach a mutually satisfactory agreement with Iran on the proposed nuclear accord is expected to have very considerable political as well as economic importance to U.S.-Iranian relationships, in view of the Shah's interest in seeing Iran move into high-technology fields with U.S. cooperation. Conversely, failure on our part to resolve the remaining issues could have serious short, as well as long-term, adverse effects in our relations, given the Shah's sensitivity towards U.S. attitudes and Iran's strong desires to be treated in a non-discriminatory manner and as a nation that often has supported U.S. interests.

Should we not be able to resolve our differences the Shah is likely to view our unwillingness to treat Iran as we have other NPT parties as a reflection on Iran's stability and the integrity of its commitments as well as an indication that the U.S. cannot be relied upon because of the uncertainties of our political process. We do not discount the possibility that a continued impasse on the accord could result not only in a decision on Iran's part to transfer its nuclear business elsewhere, but also in a more serious deterioration in U.S.-Iranian relationships. Failure to reach agreement with Iran because of insistence on restrictions which may prove unacceptable to them, could injure rather than promote our non-proliferation objectives, by forcing Iran to rely on less cautious suppliers.

At the same time, however, it must be stressed that the USG is now involved in a reassessment of appropriate conditions for nuclear supply, and is discussing such conditions with other nuclear suppliers. The U.S. position in the negotiations with Iran, accordingly, must take these factors fully into account.

There also is urgency to our reviewing and determining the definitive U.S. position on the proposed Agreement if we have any hope or interest in bringing this matter to a satisfactory resolution by mid-May when the Shah arrives. If any issues are still unresolved we can expect the Shah to personally raise them at that time. The GOI has expressed a receptivity to receiving a U.S. team in Tehran during April 20-30 to resume the negotiations and one of the purposes of this study is to facilitate our ability to give the negotiators suitable guidance.

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### U.S. and Iranian Positions

While Iran has given us comments on several secondary issues, the following key issues are known to remain.

As an element of our growing concerns over nuclear proliferation, we have given Iran a draft agreement that would be more rigorous in controlling plutonium than our past agreements with other countries, but less sweeping than the constraints we proposed to Israel and Egypt. Also, although we have never gone into specifics we have informed key Congressional representatives that the Iranian agreement would be tougher than past U.S. nuclear agreements but not as tough as the Israeli-Egyptian formulations, out of deference to the fact that Iran is a party to the NPT and strong supporter of IAEA safeguards. We can anticipate very critical Congressional scrutiny of any agreement that we might negotiate with Iran based on Congressional concerns over nuclear exports as well as hostility towards the Shah's oil pricing policies.

The key provision at issue between ourselves and Iran is one that would give the U.S. the right to determine where any plutonium produced through the use of U.S. materials and equipment can be reprocessed, fabricated or stored. This is more liberal than the Israeli-Egyptian formulation, which precluded local reprocessing in those troubled countries, but harsher than the agreements we have concluded to date with other nations including those that are not parties to the NPT. To date our agreements have normally provided that the recipient state can reprocess the material it receives subject only to a determination by both parties that the facility would permit adequate safeguards to apply.

In the case of our proposed agreement with Iran we also have sought to temper our request for a veto on reprocessing with a proposed note that would inform the GOI that we would look sympathetically on Iran's request to perform such reprocessing services. We have indicated that one factor favoring U.S. approval would be a decision on the part of Iran to establish any reprocessing plant on a multinational basis with the active involvement of the country helping to establish the facility.

Some believe that a U.S. right to specify where U.S. fuels can be reprocessed should be included in all of our future agreements, since it would provide the U.S.

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with added and prudent flexibility to deal with the evolving proliferation problem. We also have created an impression that the product of our Iranian agreement might become our future model - especially for our dealings with NPT parties. The proposition of encouraging foreign reprocessing ventures to evolve on a multi-national basis is consistent with the line we are currently pursuing with other major equipment suppliers.

Iran, however, has expressed reservations that we should have any such veto rights and desires to be treated no less advantageously than other U.S. partners. More basically she, like others, aspires to acquire her own complete fuel cycle capabilities (including an enrichment capability) and believes that as a party to the NPT she should not be deprived of this opportunity.

When the NPT was negotiated we stressed that the states participating in the Treaty would be treated more advantageously than non-parties. Moreover, we indicated that all legitimate peaceful efforts, including reprocessing, could be pursued so long as they were adequately safeguarded. Thus, our subjecting an NPT party, like Iran, to more rigorous controls could be viewed as undermining the NPT as well as confidence in IAEA safeguards. Also to place our postulated constraints in perspective, it must be stressed that the technology of chemical reprocessing has been unclassified since 1958 and is within reach, at least on a pilot scale, of any determined country with a moderate capability.

Balancing these considerations is a growing recognition that the NPT should be reinforced by the adoption of additive supplier restraints and more selective treatment of countries with whom we cooperate. Other key countries of concern, such as Pakistan, are pressing to acquire some reprocessing capability and some feel that an overly receptive U.S. reaction to Iran's desires, including abandonment of our veto proposal, could detract from any U.S. efforts to discourage such developments. Also, as noted, the reactions our proposals will receive in the Congress could be crucial to the entire exercise.

Despite Iran's present benign attitude towards the NPT and non-proliferation some are concerned over her possible longer-term nuclear weapon ambitions should others proliferate.

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Canada has a nuclear agreement with Iran which gives it a right to approve where Canadian supplied fuels can be reprocessed. Iran, reportedly is not satisfied with this arrangement.

The constraints we have proposed for Iran are consistent with those we are now exploring with other suppliers for application to potentially unstable countries and non-parties to the NPT. We regard our proposed consultations with other suppliers to be a serious endeavor. Accordingly, although it is recognized that other suppliers are not as conservative as we are and that some may not be prepared to accept all of our proposals, we do not wish our position with Iran to undercut these broader consultations even though Iran has joined the NPT. In the course of our consultations with other suppliers we have strongly endorsed the concept, that foreign reprocessing plants should be established on a multinational basis wherever practicable. We have not, however, been explicitly pressing the idea that suppliers have veto rights over the location of foreign plants processing their materials. However, we have cited the Israeli-Egyptian cases as examples of our growing concern with reprocessing.

In contrast to the issue over the veto, Iran appears to give less importance to our proposal that any reprocessing plant should be established on a multilateral basis. Conceivably the Shah might see benefits in hosting a multinational reprocessing plant, perhaps with Pakistan involvement and with some assurance of U.S. technical assistance. Such an approach could establish Iran early as a major reprocessing center, thus deterring national plants in the region and providing economic, political and security benefits to Iran. Some believe, however, that the proposition of urging others to establish their safeguarded plants on a multilateral basis is only marginally useful, bearing in mind that IAEA safeguards already are multinational in character.

Regardless of what course of action we choose, our negotiations with Iran are likely to collapse, with serious adverse effects, unless she can be persuaded that she is not being subjected to discriminatory treatment.

If more rigorous controls were applied to all NPT countries as part of an overall program, Iran might not object if she perceives that her non-proliferation

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interests, like ours, are being fostered. This, however, will be directly related to how reasonable she construes our proposals to be. Therefore, should we continue to press for more rigorous controls our objective should be to convince Iran that the measures we are proposing will further our common non-proliferation objectives. We should also indicate that rather than discriminating against Iran, we are seeking Iran's assistance to formulating a model which will be the basis for future agreements with other NPT states.

### Fuel Supply

We also are facing some important but hopefully, more soluble issues with Iran concerning other aspects of the proposed fuel supply. Iran desires to receive U.S. material for its own reactor use as well as for fabrication in Iran for use in third countries with whom we have agreements. Since we have readily accommodated such demands in the case of several other agreements we are prepared to meet this latter request.

A more complicated issue relates to the overall quantities of fuel that we should be prepared to furnish to Iran. Basically, three options have been considered. Under the first, we would stand firm on the current 8000 MW ceiling in the draft agreement. Under the second, we would be prepared to raise the ceiling, slightly, to cover only the anticipated needs associated with estimated total U.S. reactor sales. Under the third, we would be prepared to permit sufficient flexibility in the agreement to enable, but not oblige us, to fuel non-U.S. reactors as well. Two significant sub-options have been identified in this latter regard. We could raise the ceiling in the U.S.-Iranian Agreement to as high as 20,000 MW should the GOI press the point. This would cover all of Iran's currently estimated reactor needs. Alternatively the agreement might include a 8000 MW to 10,000 MW ceiling plus a proviso that Iran could receive such additional quantities for use in defined domestic Iranian reactors as represent Iran's contracted share of the product of any U.S. facility in which it invests. Iran's proportionate share (20%) of the UEA facility, which is equivalent to 27,000 MW, would be more than sufficient to enable it to meet all of its own needs.

To place this issue in perspective it should be stressed that the ceilings in our agreements are permissive, and not obligatory, and simply set the outer

limits of what can be transferred. Generally, we have felt that it would enhance U.S. attractiveness as a fuel supplier to be amenable to meeting the needs of foreign reactors regardless of their origin, and thus support our non-proliferation objectives.

If the Iranians press to have the ceiling raised it would appear counter-productive to rigidly adhere to the 8000 MW ceiling since this figure would not even cover the fuel requirements of the 10,000 MW in U.S. type reactors that we hope to sell to that country out of the total 20,000 MW program. This would suggest that as a minimum we should be readily prepared to raise the ceiling to 10,000 MW on the assumption that we would be fueling our own reactors and that Iran's investment in EURODIF would enable it to meet the needs of its German and French reactors. Some believe that this should be our preferred approach, in contrast to raising our ceiling higher, since by raising our ceiling we could "free" Iran's share of EURODIF fuel for other purposes (such as stockpiling or disposition) which might conceivably run counter to our international energy objectives aimed at oil consumer self-sufficiency.

On the other hand, confining our ceiling to a 8000 MW or 10,000 MW figure would automatically bar the U.S. from competing to fuel a larger share of the Iranian program, and ignores the fact that the ceilings in our agreements are permissive and not obligatory. It would also appear to be inequitable to welcome Iranian investment in the U.S. UEA venture, which may be a crucial factor in allowing the establishment of a primate enrichment industry in the U.S., and not enable Iran to employ her pro-rata share of the UEA capacity for indigenous reactor use. Moreover, any concerns about "stockpiling" could be met by our adopting a policy that would provide that any UEA materials in excess of Iran's indigenous needs, but which she owns, would flow directly from the UEA plant to the actual consumer pursuant to an appropriate agreement between the U.S. and the government involved. We might wish to encourage the EURODIF group to adopt a comparable policy.

Based on the foregoing it is recommended that we should be prepared to raise the ceiling in the U.S.-Iranian Agreement beyond 8000 MW should the GOI press the point. Specifically, we should be prepared to modify the agreement to include an 8000 or 10,000 MW ceiling

plus a proviso that, within a ceiling sufficient for 20,000 MW, and within Iran's contracted share of the product of any U.S. enrichment facility, Iran could receive such additional quantities, for use as needed in defined Iranian reactors.

### OPTIONS

The following major options appear available to the U.S. concerning the plutonium control rights that might be included in the proposed Agreement. They assume that the U.S. will adopt a forthcoming attitude on the other fuel supply issues summarized above. It should be noted that several of these represent combinations of several independent variables and that other combinations close to these alternatives can be conceptualized. Accordingly, only general guidance for the U.S. negotiators is being sought at this time.

(1) We could maintain our present position (calling for U.S. approval of whether Iran can reprocess, fabricate or store relevant materials transferred pursuant to the agreement or plutonium produced therefrom), while indicating that the establishment of multinational facilities would be an important factor favoring such approval. We would seek to persuade the Shah that an Iranian initiative along these lines, with possible Pakistan and U.S. involvement, could have many benefits for his country.

### PROS

- Would tend to further minimize proliferation risks in Iran and other cooperating countries. Gives support to concept proposed by U.S. to other suppliers of encouraging multinational plants as mean of reducing proliferation risks.

- Would maximize the chance of favorable Congressional response.

\*NOTE: There are, of course, even more restrictive options available to the U.S.. We could, for example, now seek to impose on Iran the more restrictive conditions that we applied to Israel and Egypt. Alternatively, we might seek to preserve our veto but avoid giving Iran an assurance that we would be prepared to give its request "sympathetic consideration." While these options might appeal to some Congressional elements known to favor more rigorous controls, they are viewed as non-negotiable and hence are not treated in detail.



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- Helps preserve the several U.S. positions now being explored with the other suppliers.

- Might have a chance of being negotiated if we favorably respond to Iran's other requests concerning fuel supply and if the other suppliers adopt comparable constraints.

- Could be presented as a non-discriminatory action on our part designed to reflect growing anxieties about proliferation.

#### CONS

- Probably would be rejected by Iran in its current form with potentially serious adverse political and economic effects for the U.S., and would work against U.S. non-proliferation objectives by encouraging Iran to turn to other more permissive suppliers.

- Adds only some marginal non-proliferation inhibitions to those already associated with Iran's NPT and IAEA safeguard obligations.

- Tends to penalize an NPT party, by leaving its declared indigenous fuel cycle ambitions in an uncertain state. Also tends to undermine confidence in IAEA safeguards.

- Might place the U.S. at a commercial disadvantage with reference to other suppliers since it is still highly dubious whether some of our postulated constraints will be accepted as a basis for supplier agreement.

- Overlooks the fact that, with time, Iran probably would be capable of acquiring a modest-pilot scale reprocessing capability on its own regardless of our attitudes.

- Tends to overlook the fact that with the ultimate advent of plutonium recycle and the breeder reactor it will be unrealistic for the U.S. to attempt to control and veto where all U.S. derived foreign plutonium can be used, processed or stored.

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(2) We could inform the GOI that we shall be prepared to provide our approval if Iran decides to construct a multinational plant that the parties judge to be safe-guardable. We also could express a willingness to explore cooperating with Iran (through technology) in establishing such a facility at an appropriate time should Iran so desire.

PROS

- Has the virtue of enhancing our ability to preserve veto rights in agreements with other countries where we might be less inclined to favor reprocessing.

- Would be far more attractive to Iran by categorically assuring the GOI that U.S. approval would be forthcoming if certain tests are met.

- Tends to promote the concept of multinational facilities now being promoted by the U.S. and other suppliers. Also tends to demonstrate to other suppliers that the U.S. is serious about developing additional devices to help control "sensitive" foreign facilities.

- Allows us to draw distinctions between NPT and non-NPT parties in the implementation of our rights. We could justify our proposed approval of a multilateral plant in Iran largely on the basis that Iran has joined the NPT.

- Still stands a good chance of Congressional support if Congress is more concerned about the proposed new precedent of our having veto rights, than the particular issue of possible reprocessing in Iran.

- By involving possible U.S. cooperation could be more attractive to Iran by giving credibility to our interest in accommodating Iran's interest in acquiring an indigenous fuel cycle capability. Relatedly would give added credibility to our undertaking in Article IV of the NPT to cooperate with NPT parties.

- Could provide the U.S. with substantial leverage over the shape and direction of Iran's

reprocessing program should Iran be interested in our cooperation.

CONS

- Might still be rejected by the GOI should Iran remain vigorous in its opposition to a U.S. veto.

- Doesn't fully meet the Iranian objection to discriminatory treatment inasmuch as several long-term U.S. nuclear agreements (including some with NPT opponents) would permit the cooperating country to reprocess U.S. materials subject only to a one-shot determination that safeguards can be applied effectively to the facility.

- Is really not so different from option 1, if one assumes that we would have difficulty in not approving a multilateral facility under that option.

- Could be viewed by some as imprudent, since it might be argued that we should reserve our approval of any Iranian facility, including a multinational venture, until we know the specifics and participate.

- Might be subjected to Congressional criticism particularly if Congress equates Iran with Israel or Egypt or has doubts about the true additive value of the "multinational" plant concept.

- Could accelerate, through possible U.S. cooperation, the pace by which Iran would be able to acquire a reprocessing capability.

- In the event of concrete U.S. cooperation, might enable Iran, to exploit our technology in the construction of a wholly independent facility that could be used to reprocess non-U.S. materials. However, the current plans for the supplier conference envisage control and safeguarding of replicated facilities.

- Also could undercut U.S. attempts to convince suppliers to withhold supply of

reprocessing technology from some worriesome countries.

(3) Retain the explicit U.S. right of veto over reprocessing but drop our multilateral condition. However, concurrently give Iran our general approval, if she agrees to treat any facility processing materials as if it were obtained as a safeguarded facility acquired from the U.S. under our agreement for cooperation. This would help assure that our bilateral safeguards would apply to the plant and its products if IAEA controls are terminated for any reason. It also would be understood that the actual reprocessing would be contingent on the normal mutual finding that the facility is safeguardable.

PROS

- Provides an alternative that has many of the virtues of the options noted above but that might be more attractive to Iran if it does not now wish to committ itself to a multi-lateral venture.

- Might strike Iran as more compatible with its NPT status than the foregoing options since the negotiating history of the NPT suggested that states party to the Treaty would be free to develop indigenous national fuel cycle capabilities if appropriately safeguarded.

- Extracts an important additional safeguard commitment from Iran which is additional to, and independent of, Iran's NPT obligations. Substitutes such an undertaking for a constraint (multilateral plant concept) which some believe to be of only marginal value.

- Can still be defended, however, as providing additive controls over plutonium over and beyond our earlier agreements.

- Preserves the option to impose stricter controls for non-NPT parties.

CONS

- Ignores the fact that the U.S. is advocating the "multilateral plant" criterion in

its current consultations with other suppliers.

- Could be viewed by Iran and others as an endorsement of the concept that independent national reprocessing plants are acceptable, thereby, weakening our non-proliferation policies.

- Tends to discount or ignore the fact that if Iran withdraws from the NPT she also might abrogate any safeguards undertakings with the U.S.

(4) Drop the U.S. veto over reprocessing, fabrication, etc., if Iran can now give us categorical assurances that such reprocessing will be performed in a bona fide multinational regional facility which could be located in Iran. In addition also seek agreement to treat any facility processing U.S. materials as if it were obtained from the U.S. under our agreement. This would help assure that our bilateral safeguards would apply to the plant and its products if IAEA controls are terminated for any reason.

PROS

- Stands a high degree of being acceptable to Iran by minimizing implication that Iran is being subjected to discriminatory treatment. Would be more consistent with the agreements we have negotiated to date which contemplate local reprocessing, if the plants can be safeguarded.

- Can still be defended, however, as providing additive controls over plutonium beyond our earlier agreements.

- Preserves option to impose stricter controls for non-NPT parties.

- Is substantively the same, insofar as Iran is concerned, as option 3.

- Preserves our "multinational" plant concept.

- Extracts an additional safeguard commitment from Iran which is additional to

and independent of Iran's NPT obligations.

- Is more compatible with the NPT negotiating history which suggested that adhering states would be free to develop indigenous fuel cycle capabilities if appropriately safeguarded.

CONS

- Stands a considerable risk of being criticized by those Congressional elements hostile to an Iranian agreement or that favor using the postulated Israeli and Egyptian agreement as the new norm.

- Weakens our ability to counter proliferation by prejudicing our ability to include explicit veto rights in agreements with other countries that might give us a greater basis for concern.

- Narrows our position in the forthcoming supplier consultations, should others press to have such veto rights included in agreements.

(5) Accord Iran exactly the same treatment as we generally have given to all other nations save Israel and Egypt. Permit Iran to perform reprocessing in Iran if the parties agree that adequate safeguards can apply to the facility.

PROS

- Avoids subjecting Iran to any discriminatory treatment in this area, thereby assuring successful negotiations.

- Could be represented as a distinct favoring of an NPT party, which in turn, could strengthen the treat.

- Avoids possible criticism that by now seeking to control foreign reprocessing in NPT states we are running counter to Article IV of the Treaty.

- Would still permit us to include some minor additive constraints in the accord, such

as assurances that adequate physical security would apply.

CONS

- Probably would be rejected by Congress as unresponsive to its increased concern over foreign plutonium production.
- Could be viewed as seriously imprudent and not in conformance with the assurance we gave some Congressmen that additive constraints would be included in the Iranian Agreement.
- Could be viewed by other suppliers as fundamentally inconsistent with other efforts being made by the U.S. to place supplier assistance to foreign reprocessing plants under more rigorous control.

Congressional Relations

As noted, we anticipate serious adverse Congressional reactions to the proposition of concluding a nuclear agreement with Iran. Even with the present U.S. position, (option 1) some believe that Congressional approval will be difficult to obtain, and that any relaxation from this position could increase the difficulty. Under these circumstances, therefore, and regardless of the option that is selected, a fairly high-level and intense series of consultations with Congress will be required on our part to assure that the product of the negotiations receives a satisfactory reception.

Timing

If the U.S. selects an option that Iran is judged likely to accept (i.e., certainly option 5 but possibly other options short of option 1), we could attempt to conclude our negotiations before the Shah's visit. On the other hand, whatever option is chosen, there are reasons to consider delaying a final negotiation with Iran until we know how the principal other suppliers view our postulated new export policies. The pros and cons of this procedural, as contrasted to substantive, approach are set forth below.

PROS

- Would tend to assure that our posture

with Iran is not undermined by more liberal policies of other suppliers.

- Could serve to moderate our position if we learn that we stand alone in advocating some constraints.

- Could be justified to Iran as a deliberate effort on our part to assure that she is not subjected to any discriminatory treatment.

CONS

- Might be viewed by the Shah as particularly provocative and dilatory on our part, given Iran's forthcoming attitude in proposing to invest in the U.S. UEA project.

- Might jeopardize the entire agreement as well as U.S.-Iranian relationships if Iran is determined to move quickly in its nuclear program.

- Might afford those suppliers, (i.e., France and the FRG) who are adhering to more flexible arrangements, an opportunity to capture our market.

- Discounts the possibility that we might be able to reach a mutually acceptable arrangement with Iran.

- Might be viewed by Iran as an effort on our part to limit their options with other suppliers.