

by about noon.

THANKS.

Richard Boucher  
632-2656

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**R5**

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**B1, 1.5(D), B5**

TO: D - Mr. Dam

FROM: EAP - Paul Wolfowitz

RELEASE IN FULL

SUBJECT: The Secretary's Meeting with Premier Zhao - Nuclear Cooperation

Attached are materials for you to raise the subject of the Nuclear Cooperation Agreement during the Secretary's meeting with Premier Zhao.

Zhao intends to make a statement on non-proliferation in his toast at the state dinner, January 10. This statement, together with the clarifications of Chinese negotiators, will resolve the concerns which arose from past Chinese assistance to Pakistan.

Two major points are not yet resolved in the text: 1) US rights to consent to the disposition of nuclear materials and 2) arrangements for the exchange of visits to nuclear facilities. Other textual issues -- such as the wording of the pledge against explosive use -- are expected to fall into place once these are solved.

B1, B5

Release

There have been intense discussions over the past three days, and Ambassador Kennedy will have to brief you right before the meeting on Tuesday's negotiations. If we can settle these major points, we could make an announcement of agreement in principle, as Zhao has requested.

- Attachments:
- A. Talking points
  - B. Status sheet
  - C. Background paper and summary sheet prepared before the latest talks.
  - D. Talking points provided for the President's meeting this morning.

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1/11 - Copies passed to Commerce Secy Baldrige & Commerce/DAS Lawson

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Talking Points for Secretary Baldrige

B1, 1.5(B), 1.5(D)

Release in Full

Nuclear Cooperation Agreement Negotiations

There has been some progress in recent days towards satisfying our requirements for a nuclear agreement which would permit U.S. exports to support China's nuclear power program. Zhao will make a statement on non-proliferation, which, together

with explanations from his negotiators, provides the assurance we need. We are nearing agreement to overcome textual problems.

The Chinese have been particularly reluctant to grant explicit rights, required by U.S. law, concerning future disposition of nuclear materials.

Ambassador Kennedy met again with the Chinese Tuesday afternoon and evening to try to settle the few remaining issues, but as of Wednesday morning, the Chinese are still considering the latest proposals.

If the few remaining points can be settled, it will be possible to announce (possibly Thursday morning) that agreement in principle has been reached.)

TALKING POINTS

-- A nuclear cooperation agreement is important to both our countries. I understand that both sides have been working hard and are very close to agreement.

-- The outstanding problems in the agreement are difficult ones. We hope solutions will be found which clearly meet our requirements, yet which take proper account of your sensitivities and your status as a nuclear weapons state.

-- We welcome your important public statement on non-proliferation. I understand the statement is intended to make clear that China will not assist others in any way in obtaining any nuclear explosive device.

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CHINA: NUCLEAR ISSUE

(R7)

I. STATUS OF NEGOTIATIONS AS OF NOON, JANUARY 11

Release in Full

Ambassador Kennedy and small team met with the Chinese Tuesday afternoon at Madison Hotel to try to settle textual issues.

Premier Zhao made a statement at White House dinner on China's non-proliferation policy.

While his statement refers to "nuclear weapons", the Premier's party has explained, and the Premier himself has acknowledged, that phrase encompasses any nuclear explosive device.

Both sides have been working hard since Monday to resolve a few important points in the agreement text.

The difficulties are with some of the guarantees and U.S. rights required under Section 123 of the Atomic Energy Act.

The Chinese have felt that those guarantees and rights would be an intrusion on China's sovereignty, would interfere with its national program in nuclear energy, and are inconsistent with its status as a nuclear weapon state.

For our part, we have made it clear that we must include those provisions in accordance with the law.

Finding formulas which satisfy both sides has not been easy.

We are still hopeful that agreement on those few issues can be resolved, but that appears unlikely during the current visit.

Thus, it is unlikely that we will announce, during the visit, that agreement in principle has been reached.

II. NEXT STEPS

Memo forwarded to Secretary and Deputy Secretary attaching talking points for use at 2:00 pm meeting with the Foreign Minister to:

Restate our understanding that Premier Zhao's statement on non-proliferation encompasses nuclear explosive devices (he said nuclear weapons - his party has repeatedly advised us that their policy encompasses nuclear explosive devices).

Make clear that, although progress towards an agreement has been made, the issue of consent rights must be resolved in a way that satisfies U.S. legal requirements.

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