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Authority *WWD 989504*
By *R.F.* NARA Date *4-6-09*

S/S MEMO FILE



DEPARTMENT OF STATE

Washington, D.C. 20520

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NEA
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OES
RF (jlmh)

December 11, 1974

MEMORANDUM FOR: NEA - Mr. Sober, Acting
OES - Mr. Clingan, Acting

Subject: Nuclear Energy Agreement for
Cooperation with Iran
(S/S 7424045)

The Secretary's staff has informed us that he has approved the recommendation contained in your subject memorandum.

He asks why we briefed key Congressmen and Senators to the effect that the agreement includes additional bilateral provisions going beyond TAEA requirements? NEA is requested to take the lead in preparing a short briefing memorandum for the Secretary explaining the circumstances that led to the briefing in the form described.

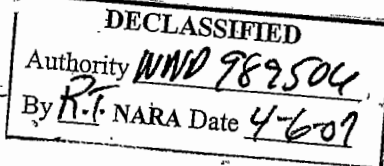
The briefing memorandum is due in S/S at noon Friday, December 13. The S/S-S action officer is Rick Sherman, Room 7241, x28062.

Samuel R. Gammon
Deputy Executive Secretary

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DEPARTMENT OF STATE

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ACTION MEMORANDUM

S/S
DSK

December 6, 1974

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TO: The Secretary

THROUGH: P - Mr. Sisco

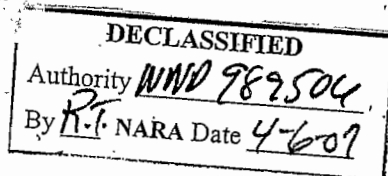
FROM: NEA - Alfred L. Atherton, Jr.
OES/~~SC1~~ - Nelson F. Sievering Jr., actingNuclear Energy Agreement for
Cooperation with IranProblem

We would like to make available to Iran our proposed text of an agreement for cooperation in nuclear energy in advance of the meeting of the U.S.-Iran Joint Commission on Atomic Energy which is now planned for Washington in mid-January. Your decision is needed on what additional bilateral safeguards, if any, should be included in the agreement to supplement standard IAEA safeguards.

Background

The agreement with Iran, a party to the NPT, is the first to be considered since the Egypt/Israel reactor sale announcement and the subsequent surge of Congressional concern over nuclear sales abroad. In the proposed Egyptian-Israeli agreements we decided to include additional bilateral provisions which we subsequently tightened in response to Congressional concerns. Importantly, these special conditions require: reprocessing, fabrication and storage of U.S. material and plutonium produced from the use of U.S. supplied material or equipment take place outside the country; offering the U.S. first option to "buy back" produced plutonium; the provision of mutually agreed physical security measures; expressed confirmation that the recipient would not use U.S. material for PNE's; and that all future nuclear material and facilities entering the country would be subject to IAEA safeguards.

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Per Secto 20 TP-7
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As an NPT party, Iran, unlike Israel and Egypt, is obligated to place all its nuclear facilities under IAEA safeguards and to refrain from acquiring peaceful nuclear explosives.

The Shah, as part of his proposed nuclear power program, has already announced his intent to procure eight nuclear power plants from the U.S. and five from France. Iran signed letters of intent this month with a German and a French firm for a total of four nuclear power plants. Also, at our instigation, approaches have been made by the Bechtel Corporation to Iran to encourage the Shah's investment (on the order of \$300 million) in a private uranium enrichment plant to be built in the United States. There is nothing to prevent Iran from purchasing enrichment services from the U.S. and then to use the fuel obtained in reactors purchased from other countries.

Consequently, our posture in approaching Iran with a draft agreement for cooperation should take into account that too strong a position on our side may induce the Shah to deal with others, while too weak a position may make Congressional approval impossible to attain.

The Options

Option One: Standard Agreement with IAEA Safeguards

Advantages: The standard agreement, which provides for IAEA safeguards and which we have signed with 29 countries, has worked well. Signing this agreement with Iran would be consonant with our special relationship and would emphasize that we view Iran as a mature and stable power. This option would assist our broader non-proliferation objectives by highlighting the importance we attach to Iran being an NPT party and would avoid the need for special controls beyond the NPT-related safeguards, thereby avoiding calling the basic IAEA system into question.

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Disadvantages: We have already briefed key Congressmen and Senators that the Iranian agreement would include additional bilateral provisions that go beyond IAEA requirements. We would have to go to the Hill again and reopen this matter. On substantive grounds, the standard agreement does not provide a U.S. veto over the reprocessing, fabrication and storage of the plutonium generated by the reactors, or special physical security features to protect the nuclear material from theft. These omissions mean that the nuclear weapons potential of our material would introduce risks in the event Iran were to abrogate from the NPT, and that the danger of sub-national theft of our material might be serious.

Option Two: Standard Agreement with Addition of Physical Protection Features

Advantages: This could be interpreted as fulfilling any obligations made to Congress, at least for the imposition of additional security measures. At the same time, the Shah should be receptive to the argument that mounting international concern about increased terrorism requires the establishment of mutually agreed security procedures (which are not part of the NPT or IAEA safeguards).

Disadvantages: The Shah may feel that Iran is being singled out for harsher treatment than the countries of Western Europe, Japan, etc., although we can explain that these physical security features are to be included in all new agreements. Members of Congress who are generally anti-nuclear or who have expressed the greatest dismay over the agreements with Egypt and Israel may not be satisfied with the inclusion of physical security conditions alone.

Option Three: Standard Agreement with Addition of Some of the Bilateral Controls over Materials Proposed for Egypt/Israel

Advantages: This option would deal with certain of the Congressional concerns that might arise from the sale of U.S. reactors or nuclear fuel to Iran. Under this option, the U.S. veto rights over reprocessing,

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fabrication and storage of U.S. material and plutonium produced from the use of U.S. supplied material or equipment would give us the option either of insisting upon external reprocessing and storage or of setting standards for internal disposition and possible construction of a multilateral reprocessing plant in Iran. Although we would lose the assurance of external disposition of plutonium and the "buy-back" option, we would nevertheless be able to minimize proliferation risks associated with U.S.-supplied fuel and reactors. Mutually agreed measures regarding physical security, as in Option 2, would help reduce our concerns in this regard.

Disadvantages: The Shah might strenuously object to having Iran, an NPT signatory and a nation with which we have a special relationship, treated differently from the countries with which we have standard agreements, although we could again present these features as less restrictive than the proposed Egypt/Israel agreements and as the "new standard" for agreements, and state that NPT status will strongly influence the way they are implemented -- that is, in terms of how we interpret the U.S. veto. (We realize that general U.S. policy in this field has not been established but this is being studied in the context of proposed discussion with other key suppliers.) This option or one more severe might alienate him toward the U.S. as a supplier of enriched fuel and nuclear power plants. We would take some risk that we would lose Iran's investment in a U.S. private enrichment plant, and might lose the sale of enrichment services and the leverage we are able to gain because of them. More generally, we could run the risk of alienating other NPT parties, deterring future signatures or ratifications by establishing a precedent of requiring supplementary bilateral provisions for an NPT signatory, and being seen as calling IAEA safeguards into question.

Option Four: Tightened Conditions Identical to the Proposed Israel/Egypt Agreements

Advantages: Congress would be pleased. All possible loose ends would be tied down in limiting the quantities of plutonium associated with U.S. fuel or reactors located in Iran and gaining assurance over physical protection.

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Disadvantages: Same, but more so, as in Option Three. Tightening of physical security requirements might not be well received, but the extension of the special conditions to explicitly preclude reprocessing, fabrication, and storage of U.S. fuel and plutonium produced from U.S. fuel or equipment in Iran would be seen by the Shah as especially onerous. Further, the lack of any preferential treatment for Iran compared to Israel and Egypt would be a negative blow for the NPT, especially in view of the forthcoming Review Conference.

Recommendation:

We recommend that we include a set of special conditions in the Agreement with Iran which go beyond the standard agreement but are less stringent than the agreements for Israel and Egypt. Specifically, we recommend, and the Atomic Energy Commission concurs, that you approve submitting to Iran for negotiation the standard agreement for cooperation with the additional bilateral controls set out in Option Three.

Approve ✓ *HAK* Disapprove _____ *per Sect 20*

If you disapprove that, that you approve submitting to Iran for negotiation the standard agreement for cooperation with such additional controls as are set out in:

- Option One _____
- Option Two _____
- Option Four _____

asks Why we brief Congress to effect added bilateral requirements beyond HEA requirements

from original draft by:
NEA/IRN:CWNaas; S/P:JHKahan; SCI/AE:JLBloom

OES/SCI:NFSievering, Jr.
x23488