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82-13497/1



DEPARTMENT OF STATE

Washington, D.C. 20520

December 17, 1982

SECRET
With SECRET/NODIS Attachment

To: NSC - Mr. Michael O. Wheeler
ACDA - Mr. Joseph Presel
CIA - [redacted]
Commerce - Mrs. Helen Robbins
DOD - COL John Stanford
Energy - Mr. William Vitale
OSTP - Dr. George Keyworth

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Subject: Peaceful Nuclear Cooperation with China

Attached is a final draft of the options paper on Peaceful Nuclear Cooperation with China. A Senior Interagency Meeting will be held on December 21 to endorse the draft so that it may be forwarded to the White House. The meeting will be at 3:00 p.m. in Room 7516 of the Department of State. Please telephone the names of your agency's representatives to Sheila Lopez, 632-5804, by cob Monday, December 20.

Charles Hiel

L. Paul Bremer, III
Executive Secretary

NSC review completed - unredacted segments may be declassified

Attachment:

As stated.

DOE review completed.

SECRET
DECL: OADR

State Dept. review
completed

DRAFT MEMORANDUM

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ISSUE FOR DECISION

Whether to pursue peaceful nuclear cooperation now with China and, if so, under what conditions?

ESSENTIAL FACTORS

A combination of considerations must be carefully weighed in determining whether to cooperate with China's peaceful nuclear program. Cooperation would provide both political and economic benefits. It also would allow us to work with the UK which sees its participation in China's Guangdong reactor project as an important way of influencing the future status of Hong Kong. But unless the difficulties posed by China's nuclear exports practices and its assistance to the Pak nuclear weapons program can be resolved, peaceful nuclear cooperation would pose a major problem in light of the requirements of the Atomic Energy and Nuclear Non-Proliferation Acts, and your non-proliferation policy.

Background

China may purchase two power reactors for Guangdong province with the participation of a Hong Kong utility. The British have requested U.S. approval to export Westinghouse reactor technology to China for this project. The French, as well as U.S. firms, also are interested in providing the Guangdong reactors. China also is planning to build a small indigenously designed (300 MWe) power reactor near Shanghai and has sought US and other foreign assistance for technology and equipment.

China has exported nuclear materials without internationally accepted safeguards or controls, e.g. to South Africa and Argentina. Such exports threaten to undermine common suppliers' policies which are essential to our non-proliferation goals.

25X1

SECRET/NODIS/NOFORN/ORCON

SECRET/NODIS/NOFORN/ORCON

- 2 -

In April 1981, the Chinese Ambassador told Deputy Secretary Stoessel that China would not assist other nations to develop nuclear weapons. Because of this summer's intelligence, General Walters traveled to Beijing in early August to seek confirmation of that statement. Foreign Minister Huang and Premier Zhao, however, would only repeat that China's views on the nuclear issue differed from those of the U.S. Although not explicitly disavowing the Ambassador's assurance, each avoided reiterating that China would not assist any other country in the development of nuclear weapons. They asserted that China has no information that Pakistan is developing nuclear weapons and they emphasized that China strongly shares our interest in peace and stability on the subcontinent.

Ambassador Hummel pressed the Chinese once again for this assurance on August 30. On September 28, Vice Minister Han Xu called in Hummel and reiterated the two points made to Walters.

Given the recent information, we have not actively sought to negotiate a nuclear cooperation agreement with China. We have told the British that we cannot, under current circumstances, approve their request to transfer Westinghouse technology to China. We have told Westinghouse that we may not legally license U.S. nuclear exports to China, and we have not approved requests for the export of U.S. nuclear technology.

Legal Constraints

Either type of Chinese assistance described above to the Pak weapons program legally would preclude direct U.S. export of reactors or nuclear materials or equipment, unless the President determines that China has taken steps representing sufficient progress toward terminating these activities.*

* /
Section 129 of the Atomic Energy Act precludes the export of nuclear materials and equipment or sensitive nuclear technology to any nation found by the President to have, after March 1978, "assisted, encouraged or induced any non-nuclear-weapon state to engage in activities involving source or special nuclear material and having direct significance for the manufacture or acquisition of nuclear explosive devices, and has failed to take steps which, in the President's judgement, represent sufficient progress, toward terminating such assistance, encouragement or inducement."

SECRET/NODIS/NOFORN/ORCON

SECRET/NODIS/NOFORN/ORCON

- 3 -

This prohibition can be waived, subject to Congressional review, if the President determines that not permitting such exports would be seriously prejudicial to the achievement of U.S. non-proliferation objectives or otherwise jeopardize the U.S. common defense and security. We believe that at this time there is an insufficient basis for the President to make either determination.

In addition, to export U.S. nuclear reactors and fuel to China we would need to negotiate an arrangement for peaceful nuclear cooperation. There are a number of legally mandated provisions that must be in such an agreement, such as peaceful use assurance and retransfer consent, but IAEA safeguards are not required in an agreement with a nuclear-weapon state. The President must find that the agreement promotes, and does not constitute an unreasonable risk to, the U.S. common defense and security. The agreement is subject to Congressional review.

Nuclear reactor technology, in contrast to reactors or fuel, may be exported by U.S. companies or their licensees if the Secretary of Energy, with the concurrence of the Department of State, finds the export will not be inimical to U.S. interests.

Policy Considerations

Chinese readiness to export nuclear materials without internationally accepted controls and Chinese assistance to the Pak weapons program are serious threats to U.S. non-proliferation goals and a major obstacle to peaceful nuclear cooperation. We have repeatedly stressed at home and abroad that we will not sacrifice our longstanding commitment to nonproliferation in pursuit of commercial gain. But we need to deal with the issue of peaceful nuclear cooperation with China in a way that can help us to change China's damaging non-proliferation and nuclear exports practices.

Peaceful nuclear cooperation would be politically valuable because it would show the Chinese that we are prepared to expand our relationship in areas of mutual benefit. The British believe that UK participation would contribute to closer Chinese ties with the West.

Were it feasible, peaceful nuclear cooperation also would offer substantial commercial benefits. Due to the depressed state of the U.S. nuclear power industry and the decline of domestic demand, foreign sales of nuclear power plants and associated equipment and technology have taken on great significance. The Department of Commerce estimates that the total potential value for foreign firms of direct

SECRET/NODIS/NOFORN/ORCON

SECRET/NODIS/NOFORN/ORCON

- 4 -

nuclear cooperation with China could be \$1.7 billion, and that the potential value of indirect cooperation could be \$410 million. (See Attachment A). Were it possible to go forward in the nuclear area, that would also demonstrate our ability to follow through and could lead to broader economic cooperation in other areas.

Any cooperation arrangement will be subject to Congressional review and scrutiny. Although not a legal impediment, a cooperation arrangement without IAEA safeguards would be criticized both as setting a poor non-proliferation precedent and as potentially assisting a Communist country's military nuclear program. It would also be seen by many non-nuclear weapons states as discrimination in favor of a nuclear weapons state. Finally, unless the matters of Chinese export practices and assistance to the Pak weapons program were resolved in a way consistent with our non-proliferation goals there would be intense Congressional opposition to cooperation.

Even if all the legal and political obstacles were resolved satisfactorily, we would still need to proceed carefully in order to minimize possible adverse regional implications that could follow public and Congressional debate of this issue. In particular, "if the Indians were to conclude that the Chinese were involved in the Pakistani nuclear weapons design effort the intelligence community expects a severe Indian reaction that could range from renewed nuclear testing to direct military action against Pakistan."*

ANALYSIS OF OPTIONS

1. Resolve outstanding non-proliferation issues before seeking nuclear cooperation with China

We would continue our non-proliferation dialogue with China, but would not seek to go forward now with exports of US material, equipment or technology for the Chinese reactors currently under consideration. If China changed its nuclear exports practices and ceased assistance to the PAK weapons program, we would consider such cooperation favorably later.



25X1

SECRET/NODIS/NOFORN/ORCON

SECRET/NODIS/NOFORN/ORCON

- 5 -

Pros:

-- Resolving outstanding non-proliferation issues before seeking nuclear cooperation would clearly avoid the risk or perception that we would sacrifice our non-proliferation posture for commercial gain.

-- If continuing non-proliferation discussions resulted in satisfactory assurances and no evidence to the contrary emerged, we would seek to cooperate on future projects.

-- This approach entails considerably fewer political costs or opposition in Congress, and it would avoid a public debate over the extent of Chinese aid to the Pak nuclear weapons program which would hurt broader US interests in China and in Pakistan.

Cons:

-- By not making clear our desire at least in principle to engage in peaceful nuclear cooperation, we do not provide any additional incentive for China to change its non-proliferation and nuclear export policies.

-- We lose the opportunity which would be afforded by US nuclear cooperation to improve the overall climate of cooperation between countries, and to contribute to political and economic ties.

-- Refusal to permit UK firms to use licensed US technology is a matter of concern to PM Thatcher.

-- There is a high likelihood that if the US does not sell the reactors, France alone, or perhaps with UK participation, will, despite our efforts to dissuade them.

2. Pursue nuclear cooperation with China on the basis of adequate non-proliferation assurances and other conditions.

We would make clear to the Chinese our desire to cooperate in this field and conclude a peaceful nuclear cooperation agreement allowing transfer of nuclear technology, reactors, and fuel if we (1) get convincing assurances from the highest levels that China would not assist any country to obtain nuclear weapons, and there is no evidence leading to a contrary conclusion; (2) obtain Chinese agreement to adequate bilateral procedures which assure that our exports are not used for any military purpose and obtain the other provisions needed in an agreement for peaceful nuclear cooperation; and (3) obtain a Chinese commitment to adhere to international norms in its own nuclear exports, including IAEA safeguards.

SECRET/NODIS/NOFORN/ORCON

SECRET/NODIS/NOFORN/ORCON

- 6 -

We would need to consider carefully how best to approach the Chinese in order to achieve these three objectives. Before concluding an agreement or licensing exports, the President would need to be in a position to determine that China had "taken steps which represent sufficient progress toward terminating" assistance to Pakistan's "activities involving source or special nuclear material and having direct significance for the manufacture or acquisition of nuclear explosive devices." Thus, we would also need to assess carefully the validity of Chinese assurances, and the impact of a Presidential determination on our relations with Pakistan.

Pros:

-- Making clear our readiness to cooperate if certain conditions are met could foster our non-proliferation objectives, while providing a legally sound and more politically acceptable basis for realizing the political and economic benefits of peaceful nuclear cooperation with China.

-- Not approving exports unless the outstanding non-proliferation problems are resolved would lessen criticism at home and abroad that we have sacrificed our longstanding non-proliferation goals in pursuit of commercial advantage.

-- It would show the UK that we are willing to continue trying to pursue a positive approach to its request for cooperation.

Cons:

-- Even cooperation on these terms would face Congressional opposition as well as skepticism about the basis of the Presidential determination.

-- The public debate could harm broader US interests in China and South Asia.

-- Having accepted Chinese assurances and pursued cooperation, if we were to receive further reports of activities contrary to those assurances, US-China relations and US credibility in the nuclear field could be damaged.

-- Once engaged in discussions, there would be pressures to settle for less than adequate assurances, or to dismiss evidence suggesting that the Chinese were not living up to their assurances, in order to meet the commercial time-table.

SECRET/NODIS/NOFORN/ORCON

SECRET/NODIS/NOFORN/ORCON

- 7 -

3. Allow only the transfer of US nuclear technology to China by U.S. firms or their licensees while continuing to seek Chinese non-proliferation assurances to permit later reactor and fuel exports.

We would not pursue any direct exports of significant nuclear material or equipment. But we would not oppose technology exports by U.S. firms or their foreign licensees, e.g., in the UK and France, even though not receiving prior assurance from China concerning assistance to weapons programs in non-nuclear-weapon states or its nuclear export practices. The export of nuclear reactor technology would require a finding by the Secretary of Energy, with concurrence of the Department of State, that they "will not be inimical to the interests of the United States." It would not require approval of Congress. We would continue the nuclear dialogue in an attempt to provide a basis for more extensive cooperation later.

Pros:

-- Cooperation with China on nuclear reactor technology could help demonstrate our ability to work with China, while having at least some economic benefits.

-- Actual cooperation, even if limited, could provide an entree to influence Chinese nuclear exports practices and non-proliferation policy.

-- Authorizing use of U.S. technology by UK firms would enhance the chances for UK participation in the Guangdong project, improving the atmosphere for resolution of Hong Kong's future status.

-- US opposition to the transfer to China of US technology by foreign licensees might further antagonize our European allies in the wake of the Soviet pipeline issue.

Cons:

-- The Administration would be seen domestically and abroad as not serious in its commitment to non-proliferation when it permits technology exports even though reactors and fuel exports are inconsistent with US law.

-- Unless the outstanding non-proliferation issues are satisfactorily resolved, Congressional and public reaction to even technology exports would be hostile, and likely to engender substantial debate about the China/Pak connection to the detriment of our overall Asian and non-proliferation policies.

SECRET/NODIS/NOFORN/ORCON

SECRET/NODIS/NOFORN/ORCON

- 8 -

-- Even limited exports without credible assurances would greatly increase pressures for passage of pending legislation restricting nuclear exports.

-- There would be continuing pressure if a joint U.S.-U.K. project were established to allow US export of components for this project, with even greater political costs.

-- Since this option would not meet China's preference for direct reactor or major component exports, and another country would be the supplier, we would lose the non-proliferation and economic benefits of more extensive exports.

4. Seek to establish nuclear cooperation with China despite legal and political obstacles without any non-proliferation conditions.

We would continue our non-proliferation dialogue with the Chinese, including seeking to dissuade China from assisting the Pak weapons program, but we would not require assurances from China on this point or assurances about Chinese nuclear exports as conditions for cooperation. However, we would require adequate bilateral procedures to ensure our exports are not used for any military purpose, and other provisions needed in an agreement for peaceful nuclear cooperation.

This option would require either (a) a Presidential determination that China has taken sufficient steps to terminate assistance to the Pak weapons program or (b) a Presidential waiver under Section 129 of the Atomic Energy Act (subject to Congressional review) on grounds that not permitting nuclear exports to China would be seriously prejudicial to the achievement of U.S. non-proliferation objectives or otherwise jeopardize U.S. common defense and security.

Pro:

-- If upheld by Congress, we would realize the political and economic benefits of nuclear cooperation.

-- Actual cooperation could provide leverage to move the Chinese on non-proliferation issues.

Con:

-- At this time there is insufficient basis for either a Presidential determination or waiver.

SECRET/NODIS/NOFORN/ORCON

SECRET/NODIS/NOFORN/ORCON

- 9 -

-- Seeking cooperation without non-proliferation assurances would guarantee very strong public and Congressional criticism, including debate over the China-Pak connection, which would damage our relations with China and our strategic interests in Southwest Asia.

-- The credibility of this Administration's commitment to non-proliferation would be destroyed.

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Options for U.S. Nuclear Exports to China

Maximum Estimated Value of U.S. Exports (\$M) for Guangdong
(2x1000) Nuclear Power Plant


	Engineering and Consulting	Fuel Technology	Nuclear Steam Supply Systems Technology	Turbine Generators	Other Equipment	Total
A Current Legal Provision:	0	0	0	0	0	0
B Technology Transfer: to China:	\$300m	\$10m	\$60m	\$30m	\$10m	\$410m
+ U.S Licensees:	0	10	60m	0	0	\$70m
C Maintain Cooperation	Same as D if cooperation is achieved within reasonable time frame					
D Export Technology & Equipment: Directly	300	500	400	300	200	\$1.7b

Attachment A

EXECUTIVE SECRETARIAT
Routing Slip

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2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI	✓			
6	DDA				
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8	DDS&T				
9	Chm/NIC				
10	GC				
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12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA		✓		
18	AO/DCI				
19	C/IPD/OIS				
20	N/O/EA		✓		
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			Date		

Remarks:


Executive Secretary
12/20/62
 Date