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THE WHITE HOUSE

PRESS CONFERENCE

OF

FRANK G. ZARB

ADMINISTRATOR OF THE

FEDERAL ENERGY ADMINISTRATION

ROBERT C. SEAMANS

ADMINISTRATOR OF THE

ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION

AND

ROBERT FRI

DEPUTY ADMINISTRATOR OF THE

ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION

THE BRIEFING ROOM

11:30 A.M. EDT

MR. NESSEN: I think you got the idea from Jim's pool report of the importance with which the President views this legislation.

In the conversations here about this legislation, it is looked upon as something that 20 years from now, when we look back on this legislation, this proposal will seem to be one of the most important proposals of these times. It is a subject that we have not really talked about very much in these briefings.

To give you some background on what it means and what the importance of it is, we have first of all Frank Zarb, the head of the FEA; Dr. Robert Seamans, who is the Administrator of the Energy Research and Development Administration; and his deputy, Robert Fri.

They will explain to you what it is that the President is proposing today, and will answer your questions about it.

MR. ZARB: Just to open it with a general statement, in this morning's meeting, when we met with the Joint Committee, we pointed out that while this had a great deal to do with uranium enrichment and our ability to satisfy both domestic and export needs in this category, it had farther reaching complications.

It is probably the first test of our commitment to use the financial base, the management capability and the technical skills of American industry in a way which would have technology that was developed within the framework of the Federal Government transferred in some form from Government to the private sector.

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The most conservative calculations as to what it is going to cost to achieve reasonable independence or invulnerability by 1985 and lead toward the further developments required in the 1990s, is a \$600 billion bill. I emphasize that that is a conservative number.

It certainly can and probably will grow larger as we get closer to the 1980s. So the ability to tap the broad base of private capital, plus their technical capabilities and management abilities, is an important factor here to recognize in that this particular step is a move in that direction and one of many others that could occur downstream.

You all know Dr. Bob Seamans, who is the Administrator of ERDA, and he will give an overview of this particular piece of legislation, which the President said will be sent up today.

MR. SEAMANS: Thanks, Frank.

One of the most pressing issues that we faced when ERDA was formed was what to do about the nuclear industry, and particularly what to do about fuel for our present electric generating plants. This, most of you know, involves the enrichment of the uranium as one of the very important steps because when you get the ore from the ground the U-235 is only about seven-tenths of one percent and you have to get up to three or four percent in order to energize one of our reactors.

The problem that we faced was that we have in this country three plants. Each one of these is a large-scale operation. They exist at Oak Ridge; another one is at Paducah, Kentucky; and another one is at Portsmouth, Ohio. All three of these are fully committed to the generating plants that are either now in operation -- 55 in number -- or those that are under construction, and are in the planning state, the total numbering about 235.

On top of that, we have some foreign commitments, and between the domestic and the foreign we have not been able to take on additional orders for the last year. It seemed to us extremely important, as we looked ahead, as we must work more and more towards independence, cut down our import of oil, that we increase our capacity to generate electricity using a nuclear fuel.

The next step in our thinking had to do with what type of plant to build. As you know, the technology moves on. The three plants that we have involve gaseous diffusion. These are plants that have been in operation in the order of 30 years. We feel that the new technology that we have making use of a centrifuge is just about ready to go, and that we should avail ourselves of this capability and move ahead and develop plants that will use less energy to drive them, that can be built in smaller units, and will be more attractive to industry in the longrun.

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Third, is the question of how are we going to proceed with the financing and the management. Here we felt very strongly that we ought to ease the taxpayer's burden and have this a private venture, and also we liked the idea of the competition, although if I do say so, I think the Government has done a pretty good job with its processing plants.

There is always room for innovation, and you tend to get that when you go to competition. So the plan in brief is to proceed down two courses: one, to build modern gaseous diffusion plants, and at the same time to go out in the competition for the centrifuge type plant.

We have at least three companies or consortia that are interested in bidding. There may be more.

As far as the gaseous diffusion plant, the plan is to negotiate with the Uranium Enrichment Associates. These Associates are made up of the Bechtel Corporation and Goodyear. You will, undoubtedly, be bringing in additional partners.

We have for the bold outline of what they propose, but we obviously have to get into some hard negotiation before we are certain that this is the way to go. We believe it will. We believe it must get started. We could discuss with you in any detail you want what the plans entail.

I think one thing that is important is that there are bound to be some risks involved at any private operation coming in because they must rely on technology and supply of certain of the classified materials, and so on, from the Government, and in looking this over we felt that the best way to proceed, and this has been agreed to, would be to provide an arrangement whereby either party -- the Government or the private company -- could, if they wish, back out and transfer the obligation over to the Government.

We don't expect this will take place, but if for any reason there should be on one extreme a moratorium on nuclear energy, obviously the company could not then go ahead. On the other hand, there could be some management problems. Whatever it might be there would be this clause that would permit reversion of the operation to the Government.

If that should occur, the equity might be made up to the company on the basis that it was not anything over which they had any control. On the other hand, if it were a matter over which we felt they did have control, say mismanagement, then they would not get their equity back.

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On this kind of basis, we feel that we have built in what will be acceptable to the investor, and will be acceptable to the buyer of the material, because the main objective here, as the President said, is to get going and open the order book.

I think with that maybe you have enough of the background that we can go to any questions that you might have.

Q Sir, does this allow or make it easier for terrorists, people who would endanger us, to get hold of these supplies and misuse them?

MR. SEAMANS: It won't make any difference. The same safeguards will be applied that are already applied in our Government operation, and we will have exactly the same type safeguards at home and abroad in the case of the private operation.

Q Sir, what about the royalty fees? What level of royalty fees will the private companies have to pay?

MR. SEAMANS: Of course, that is going to be part of the negotiation. One of these plants is going to cost on the order of \$3.5 billion on that basis.

Looking at the probable returns, we can expect that there will be of the order of \$90 million to \$100 million coming in each year to the Government, in part for royalties and in part in the form of taxes on profit.

Q What level, what percentage are you looking at?

MR. FRI: The royalties on the percent of the cost to the Government technology sold to the gaseous diffusion operator -- we anticipate royalties in the range of \$30 million a year, but I really can't run out the percentage in my head.

MR. ZARB: I think we ought to point out that the legislation not only to accomplish this in a macro form is going forward, but the legislation within it requires the Government, the Executive Branch to put before the Congress for 45 days any contract that they are going to enter into so the Congress can look at the individual details of any given contract at any given time.

Q Does this mean you are going to sell to foreign countries, too, foreign nationals?

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MR. SEAMANS: Yes, we do now and that should continue. That is a very important part of opening up the order book.

We feel that not only do we welcome the opportunity for foreign sale, just from the standpoint of gold flow, but we also feel it is extremely important that there be an opportunity for the potential foreign buyer to come to this country where we are going to insist on appropriate safeguards.

We think if we are not involved that then that opens up all kinds of issues over which we will have absolutely no control.

Q Is that \$3.5 billion you mentioned for the gaseous diffusion plant?

MR. SEAMANS: Yes, that is the estimated cost in present dollars.

Q What do they figure the centrifuge plants might run?

MR. SEAMANS: These are still rough estimates, but they will cost of the same order of magnitude.

Q Mr. Zarb, you said that Congress would have an opportunity to look at individual contracts. Could you explain? Does that relate to UEA alone? Does it relate to centrifuge as well? Would Congress, under this legislation, have the right to disapprove any such contract in advance?

MR. ZARB: That is per the legislative process, but they will look at each contract. They will have an opportunity to review each contract and presumably will have an opportunity to either modify or to disapprove it.

Q Could you elaborate on that? What do you mean by presumably? What would the legislation specify?

MR. FRI: Well, the contract would lie before the Joint Committee for 45 days. Disapproval would require action by the Congress. The form of disapproval is a technical matter. It would probably take the form of voting an authorization, and an appropriation bill, to fund the contingent liability involved in the contract.

The Congress has a formal crack at it through that process. It is legislatively kind of complicated, but they get an up or down shot at it.

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Q A technical matter to allow authorization on an appropriation bill; is that what you said?

MR. FRI: This involves the concept of contract authority which means they would have to authorize and appropriate against a contingent liability of the Government, which we hope and anticipate we will never have to spend any money on it.

Procedurally, on the Hill, it is a little complicated, but it is just as if you were voting on an appropriation bill.

MR. SEAMANS: This would be the liability that the Government might have to take over the operation, which we don't anticipate, but you have to cover that with a Congressional bill.

Q Does that apply to centrifuge as well as the UEA?

MR. SEAMANS: Yes, it would, of course.

Q Mr. Zarb, the environmentalists have been fighting the building of new nuclear power plants in a number of areas around the country. Do you think they will also fight construction of the new uranium enrichment plants?

MR. ZARB: I really can't guess on what one group will do or not in one area of the country or not. I think the point that Dr. Seamans made a moment ago is awfully critical.

The extent to which the United States Government and the United States enterprise system can become a factor here in the world marketplace, it will have an opportunity to insure certain safeguards and certain controls that it will not have if it is not a major factor and a participant in the nuclear enrichment program.

That is awfully clear. It is clear that other nations are looking toward the development of their own capacity to become exporters of this particular service and product.

So I would think that those concerned with some of the issues raised by the environmental group and others would feel more comfortable with the United States keeping a firm total in the overall marketplace, and thereby being able to exert its influence.

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Q Mr. Zarb, a couple of years ago there was talk of the Japanese coming in and providing half the capital to build a gaseous diffusion plant in the United States somewhere. Is that still being discussed? Is there still a possibility?

MR. SEAMANS: The Uranium Enrichment Associates have been talking to a number of foreign countries. They include Japan, Iran, West Germany and I guess a few others. That is a real possibility, but that will have to be negotiated by UEA and subject to our approval. The Japanese are considered as a possible investor in this gaseous diffusion plant.

Q There is one thing on the financing I don't understand. You say that if this thing falls through so that the Government has to assume the total financial obligation, it will be \$8 billion, but on page 2 of the message, it says the alternative is continued Federal monopoly of this service at a cost to the taxpayers of at least \$30 billion over the next 15 years.

Could you explain the difference there?

MR. FRI: We anticipate that something like eight to ten additional enrichment plants, probably one gaseous diffusion and the balance centrifuge, will be built to meet demand for the balance of this century. The total cost of those plants is in the order of \$30 billion.

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The \$8 billion figure you have is based on an estimate that the gaseous diffusion plant of UEA and three initial centrifuge plants would all enter into this kind of an arrangement with the Government; all would fall through simultaneously.

The maximum liability for those four plants, to the Government, if they had to step in and take it over, would be on the order of \$8 billion.

Q One other thing. Does not the Government make money now by selling the enriched fuel that it provides private industry, and how much does that amount to?

MR. FRI: We receive revenue. There is some debate over whether we make money. The revenue is on the order of \$750 million a year. We announced yesterday we would probably ask the Joint Committee in Congress to increase that price by another \$10 or so per unit of enriched uranium.

MR. ZARB: I just would like to make one point in following up your first question. We spent an awful lot of time in "what if" type contingencies, which were designed to answer those questions, knowing that they would be raised. What would happen if there were a problem with financing or some other form of delays in this particular industry?

None of us mean to emphasize that we anticipate those occurrences, but they had to be a major part of the legislation to be able to answer the obvious questions that will be raised in this endeavor.

Q What about cost overruns? That happens all the time with this type of thing.

MR. SEAMANS: I think one of the important features of the arrangement that we are contemplating is that it is not done by committee, that either one party or the other is fully responsible. As long as UEA has that responsibility, which they would if they raised the capital, it is up to them to take care of their own overruns, and there is no commitment on the part of the Government to help them out.

Q Concurrently, is the Government expanding its facility at Portsmouth?

MR. SEAMANS: No we are not. We are considering this as a possibility and we will, according to plan, continue with some backup design work in the eventuality that everything does not proceed as we expect.

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Every expectation is that the UEA will proceed and that we will then follow that with centrifuge plants.

Q Dr. Seamans, what will this do to mining of uranium? What will it do to production?

MR. SEAMANS: Because one of the issues the country faces is the extent of our uranium reserves, part of ERDA's responsibility is to come up with the best estimate. We are actually increasing our exploration for uranium to get the best possible fix that we can.

Our expectation is that with our uranium reserves that we can keep going through this century, and we have reserves sufficient to build up to the order of 700 or 800 generating plants.

Q Dr. Seamans, does the \$3.5 billion estimate include the building of power plants to supply energy to the thing?

MR. SEAMANS: No, it does not.

Q Dr. Seamans, I am puzzled about this expansion of your enriched uranium. We seem to see nothing but opposition to generation of power by nuclear plants.

Why are you so certain that you are going to be able to expand this?

MR. SEAMANS: Why are we certain that we are going to expand our nuclear capability in this country?

Q The generating of power by nuclear plants.

It seems to be going very slowly. You are anticipating quite a large expansion.

MR. SEAMANS: We currently have 55 plants on operation, and they are operating very efficiently. Those that are fortunate to be served by a nuclear plant are getting their electricity at less cost than they are if it is a fossil fuel plant. The reliability is of the same order as other type plants.

We are obviously not satisfied and some of our basic technological work in ERDA will be in support of the kind of problems that actually do exist, material type problems, and so on. None of these affect safety, but some of these do cause increased down time.

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Looking ahead, if we don't increase our capacity to generate electricity, other than oil and gas, we are going to be in deep trouble. The two alternatives are coal and nuclear. We have got to use both because, in addition, coal has got to be used to develop a synthetic fuel, along with shale. So we have to use the nuclear, in our view.

We have got to use coal and we have to work as hard as we can on conservation. These are going to be the keys, in my estimation, for the future of this country.

MR. ZARB: In answer to your marketing question, the orders for uranium enrichment are backed up in that there is a harder demand for uranium enrichment worldwide than there is capability to satisfy our own domestic capability is sold out eight years hence.

Q I remember reading four and five years ago about projections of the number of plants we were going to have. It is way beyond anything we have now. The course has been very erratic in developing them, and I don't understand how you are going to overcome this opposition.

MR. ZARB: By answering legitimate and reasoned questions and getting any technological issues solved, such as the disposal of nuclear waste and the basic safeguards question, which are both technical issues and both can be solved as we continue to develop our nuclear capability.

Q Presumably, the production of enriched uranium will be profitable or otherwise these companies will not be interested. In fact, I think I saw one estimate from revenues of foreign sales over the next five years will reach \$5 billion.

My question is this: Why should not the United States as a whole enjoy the revenues from technology developed at taxpayer expense? I think the royalties he describes seem rather small compared to the potential profit.

MR. ZARB: I will take the first shot at that one, and then Bob may want to add to it.

When American industry gets involved in constructing plants and making a product and a service available worldwide, the American economy benefits. American workers and American capital at work -- the money stays here and it is to the benefit of all Americans.

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If you are asking why that should not be done by Government, I will go back to what I said earlier. We have, conservative, \$600 billion required for investment in energy areas between now and 1985, if we are going to achieve any real degree of independence.

We are going to have to rely on the capital-based American industry to move us in that direction, and we miss an awful lot of technological capability and other management skills if we don't tap into that great base of talent and financial resource.

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Q Except in this area there seems to be two differences, and maybe you can explain it. One is that the technology is developed by the Government, at taxpayer's expense, and two that there is a Government guarantee against loss of equity. You are not expected to do that for all development of energy, are you?

MR. ZARB: I think the royalty question is something that will be debated in the Congress, and not only in terms of the basic legislation, but in the contract by contract.

That issue may be raised and maybe there will be some movements on those numbers. I think that is an area that should be looked at very carefully, but keep in mind, when you look at what was developed at Government expense, we are talking about rubber tires and all the technological activity that has come out of the space program that have moved from Government development into the private sector to be more fully developed there.

Anyway, as we look at solar and shale and gasification and liquefaction, we are looking also at technologies which have been financed in their very early stages by the Government, but have to make the transition into the American industry or they are not going to grow and we are not going to have them where they are going to be needed in the late 1980s.

MR. SEAMANS: Just looking at enrichment alone, we are talking about not one or two or three more plants. We are talking about the possibility of eight to ten plants by the year 2000. The question is, where is the capital going to come from?

I think we often overlook the fact that you build up your capital through your profit system. If you don't have the profit, then the taxpayer is going to be burdened directly with that capital cost.

In other words, there is going to have to be financed as the first plants were financed. I think the taxpayer is a lot better off to see this turned over to a competitive system.

Q Dr. Seamans, as you make this available to foreign countries, how can you be assured that they will follow safety precautions and keeping it out of the hands of terrorists?

MR. SEAMANS: The way we are proceeding now.

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Q How do you do it now?

MR. SEAMANS: With Government-to-Government agreements, with the use of the nonproliferation treaty, with inspection by the international Atomic Energy Agency; all of these methods.

Q That does not keep terrorists from getting it, does it? Isn't that a real danger?

MR. SEAMANS: Sure, it is a matter of obvious concern to us, and we have a variety of programs for safeguarding nuclear material in this country. We are making this available to all those with whom we have agreements, invite them in to show them what we are doing, encourage them to increase their safeguards and have a method for reviewing and inspecting on an international basis how well they are doing.

Q Mr. Seamans, since there are problems currently with security and waste disposal at nuclear power plants, why don't you solve those first before embarking on a gigantic program like this that you may end up having hundreds of power plants and still have not solved the other problems?

MR. SEAMANS: These two have got to be done in parallel. We have to move ahead and increase our capability and not let the requirement for imports build up and build up.

Q Where are your proposals to improve the waste problem and safety problems? Why aren't you proposing something simultaneously?

MR. SEAMANS: We are about to present a plan to the Congress next Monday and it will address itself to these issues.

Q Dr. Seamans, two questions, if I may. The first is, would a collapse of the world enriched uranium market be found for giving companies back their money? The second one is, isn't there a contradiction between what you are announcing today and your parallel efforts to stop the spread and the export of enrichment in new processing plants to third countries? In other words, aren't you trying to create an American monopoly?

MR. SEAMANS: I don't think we are, and I think this has been discussed, but I will re-emphasize it. First, as to the terms, these have got to be carefully worked out ahead of time on what conditions can the equity be reimbursed to UEA.

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This will be part of the negotiation that will work that out. We can see in broad outline what the extremes are, but there may be some middle ground that we want to have worked out in advance.

As to your second question, it is no longer possible to completely cap the situation. The Germans, for example, we understand are going to sell a processing capability to Brazil. This is one example. The only way that this situation can be brought under control, we believe, is to be participating in the market arena at the same time we are participating country by country and with agreements as well as jointly with the blocs of countries.

MR. CARLSON: At 1 o'clock this afternoon at the FEA, there will be a more detailed, more technical briefing for those of you who are interested. We also have a 22-page fact sheet we will now make available.

These gentlemen must leave. If we can cut it off now, Ron Nessen will be down in about five minutes.

END (AT 11:57 A.M. EDT)