

May 23, 1974

**National Security Study Memorandum (NSSM) 202
on Nuclear Proliferation**

Citation:

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Summary:

Following India's nuclear weapon test, the US must reassess its nuclear non-proliferation policy and how best to deal with India in the future. The author of the memo determines that nuclear non-proliferation is still necessary and can be "effectively pursued." The memo is followed by a series of documents outlining courses of action to help deter further proliferation.

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MEMORANDUM FOR THE PRESIDENT

Subject: National Security Study Memorandum 202:
U.S. Non-Proliferation Policy

In response to NSSM 202, this study reviews the present U.S. policy concerning non-proliferation and the Non-Proliferation Treaty (NPT) in particular, in light of the recent Indian nuclear test. A recently updated NSSM 156 study is a companion paper that focuses on the specific options and courses open to us in our dealings with India.

The non-proliferation of nuclear weapons has been a consistent and important element of U.S. policy for the entire nuclear era. Simply put, our strong, repeated, resolve in support of this objective has been predicated on our belief that the instability of the world, and the danger of nuclear war, as well as the problems of arms control would significantly increase with an unrestrained spread of nuclear weapons.

Technical developments and political trends will increase both the difficulty and the importance of deterring further nuclear proliferation during the coming decade. Nuclear power generation is coming into wider use throughout the world and U.S. dominance as a commercial supplier is diminishing. At the same time, we are entering a period when political barriers to non-proliferation appears to be weakening, given movements toward a multipolar world and the decreasing credibility that

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many nations have concerning security guarantees. Finally, as a result of the Indian nuclear test, other non-nuclear weapons states will tend to rethink their decisions regarding independent nuclear weapons or nuclear explosives programs.

Nonetheless, upon closer examination, a strong case can be made that policies aimed at deterring further proliferation can still be effectively pursued. Four key factors support this judgment:

1. Not all important non-nuclear weapons states have the necessary capabilities to produce nuclear explosives, and many nations with an incentive to undertake such programs may not be able to acquire in the near-term the necessary capacity to do so.
2. Nuclear materials and equipment essential to the production of nuclear weapons are still available only from a limited number of suppliers who generally oppose proliferation.
3. Political and security disincentives for nuclear weapons decisions continue to exist in many important non-nuclear states, and many nations with advanced capabilities may not choose to exercise the nuclear option for political, security, and legal reasons.
4. U.S. national security interests can be well served even with an imperfect and incomplete non-proliferation strategy which can defer the disadvantages associated with an expanded number of nuclear powers while seeking to create conditions

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which ultimately check further spread.

The NSSM 202 study describes a number of technical and diplomatic measures that can be usefully applied to help dissuade others from entering the nuclear weapons field. The study identifies high priority policy actions, important studies needed to underpin specific policies, and longer-term U.S. non-proliferation approaches. Based upon the NSSM 202 analysis, the Under Secretaries Committee recommends that you approve an action program consisting of the following elements:

First, that the U.S. adopt an intensified national policy designed to inhibit the further spread of independent nuclear weapons capabilities, with emphasis on obtaining wider adherence to the NPT but recognizing the necessity of pursuing a non-proliferation strategy outside the treaty's framework. In this connection, the U.S. on a priority basis should take immediate steps to

- reaffirm at high levels support for the NPT; urge prompt ratification by nations whose adherence is crucial to the efficacy of the treaty; and consult with the Soviet Union in order to ensure the consistency of our respective non-proliferation strategies.
- Aggressively implement NSDM 255 in an attempt to complement our efforts to increase the universality of IAEA safeguards applications

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by securing multilateral guidelines on nuclear export controls; approach the new French Government at high levels to seek cooperation in this endeavor; develop a more stringent approach to agreements on the provision of nuclear materials and technology to countries in troubled areas; and consider as a prominent factor in impending decisions on U.S. uranium enrichment supply policy the importance to non-proliferation of the continued availability of U.S. uranium enrichment services on attractive terms.

- Consult with Canada on the question of further nuclear cooperation with India; persuade other nuclear suppliers to obtain from India assurances with respect to non-use of nuclear export for peaceful nuclear explosives; and develop a position for use by the Secretary of State for discussions with India and Pakistan during the planned late summer visit.

Second, that the Under Secretaries Committee immediately undertake studies of U.S. PNE policy, security assurances, and sanctions as issues of special significance for our near-term non-proliferation efforts.

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Third, that a standing interagency working group on non-proliferation be established by the Under Secretaries Committee to: coordinate, review, and report on policy actions and plans; execute many of the actions identified in this report; and conduct relevant studies needed to support our non-proliferation policies.

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Acting Chairman



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AMBASSADOR TAPE IS AUTHORIZED TO MAKE THE FOLLOWING STATEMENT AT JUNE MEETING OF IAEA BOARD OF GOVERNORS:

"MY GOVERNMENT HAS ASKED ME TO MAKE CLEAR AT THIS MEETING OF THE BOARD THAT THERE HAS BEEN NO CHANGE WHATSOEVER IN THE LONG-STANDING POLICY OF THE UNITED STATES AGAINST THE PROLIFERATION OF NUCLEAR EXPLOSIVE DEVICES. WE CONTINUE TO SUPPORT THE NON-PROLIFERATION TREATY AS ONE OF THE MOST SIGNIFICANT CONTRIBUTIONS OF THE POST-WAR ERA TO DISARMAMENT AND WORLD PEACE. WE THEREFORE CONTINUE TO URGE THOSE STATES WHICH HAVE NOT ADHERED TO THE TREATY TO DO SO.

"I AM ALSO INSTRUCTED TO MAKE CLEAR THAT THERE HAS BEEN NO CHANGE IN THE VIEW EXPRESSED BY THE UNITED STATES GOVERNMENT ON MANY OCCASIONS DURING THE NEGOTIATION OF THE TPT AND WHICH IT REITERATED IN ITS FORMAL INSTRUMENT OF RATIFICATION OF ADDITIONAL PROTOCOL II OF THE TREATY OF TAIPEI/ECDC. "THE UNITED STATES GOVERNMENT CONSIDERS," HE SAID IN THAT DOCUMENT, "THAT THE TECHNOLOGY OF MAKING NUCLEAR EXPLOSIVE DEVICES FOR PEACEFUL PURPOSES IS


INDISTINGUISHABLE FROM THE TECHNOLOGY OF MAKING NUCLEAR WEAPONS." FOR THAT REASON THE UNITED STATES AT THAT TIME EXPRESSED ITS WILLINGNESS TO COOPERATE WITH PARTIES TO THAT TREATY, AS IT HAD EARLIER TO PARTIES TO THE TPT, IN CARRYING OUT EXPLOSIONS OF NUCLEAR DEVICES FOR PEACEFUL PURPOSES UNDER APPROPRIATE INTERNATIONAL OBSERVATION AND IN A MANNER CONSISTENT WITH A POLICY OF NOT CONTRIBUTING TO THE PROLIFERATION OF NUCLEAR WEAPON CAPABILITIES.

"GOVERNORS WILL RECALL THAT ON MARCH 1, 1972, THE UNITED STATES PERSPECTIVELY IN THIS BOARD PLACED ON RECORD THE UNDERSTANDING INHERENT IN ALL OF OUR BILATERAL AGREEMENTS FOR COOPERATION THAT THE USE OF ANY MATERIAL OR EQUIPMENT SUPPLIED BY THE UNITED STATES UNDER SUCH AGREEMENTS FOR ANY NUCLEAR EXPLOSIVE DEVICE WAS PROHIBITED AND THE UNDERSTANDING INHERENT IN THE SAFEGUARD AGREEMENTS RELATED TO SUCH COOPERATION AGREEMENTS, THAT THE AGENCY WOULD VERIFY, INTER ALIA, THAT THE SAFEGUARDED MATERIAL

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WAS NOT USED FOR ANY NUCLEAR EXPLOSIVE DEVICE. THE CONTINUED COOPERATION OF THE UNITED STATES WITH OTHER COUNTRIES IN THE NUCLEAR FIELD IS DEPENDENT ON THE ASSURANCE THAT THESE UNDERSTANDINGS WILL CONTINUE TO BE RESPECTED IN THE FUTURE." SISCO

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Tab 3

Interests
PNE INTERESTS

Under Article V of the NPT, the NWS parties are assured that PNE services will be made available to them by the NMS parties for projects that are allowable under the LTBT. To date, no NWS party to the NPT has requested such services, although some countries (parties and non-parties) have sought assistance from the U.S. and other NMS on PNE studies.

International meetings have been held periodically by the IAEA to disseminate and exchange PNE information. These meetings have been well attended, indicating an interest by many states in keeping abreast of technical developments in this field. In this regard, it is likely that most interested countries have a fairly good understanding of the current status of the U.S. and USSR PNE programs, and the likely range of costs and benefits associated with the principal PNE applications.

Following are brief descriptions of the PNE interests and activities of a number of NWS and NMS.

Non-Nuclear Weapon State Interests

Algeria:

Has commissioned a private engineering firm to study the possibility of PNE oil storage. The Soviet Union had previously discouraged Algeria from requesting PNE study assistance from the IAEA and the NMS.

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... 1972, through the Argentina Embassy, to discuss the possible use of PFE excavation to deepen a harbor on the northern coast near Buenos Aires. They were told that no off-hand assessment of the feasibility of such a project could be made. They offered to provide additional information to the AEC, but have not pursued the matter.

Australia:

Sent a team of four scientists to the U.S. in 1963 to review our PFE activities and recommend possible Australian use of PFEs. In 1969, at the request of the Australian Government, the U.S. agreed to join in a feasibility study of a PFE harbor at Cape Keraudren in Northwest Australia. This study was dropped when the industrial sponsor withdrew because of problems in marketing and mining the iron ore that was to have been shipped from the port. Dr. Alan Wilson of the AAEC has been active in IAEA's PFE meetings, chairing working group sessions, etc. There are many potential PFE applications in Australia.

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Freedom to develop peaceful nuclear explosives.

Brazil has not contacted the U.S. regarding any PNE studies. There do appear to be possible uses for PNE in Brazil, including excavation and oil shale applications.

Canada:

Has expressed no official interest in the use of PNE technology. Occasional inquiries to the U.S. have been made by representatives of private firms, including a recent inquiry regarding the Athabaska Tar Sands which reported likely Provincial Government backing for a U.S.-Canadian study.

Egypt:

Is initiating a full-scale feasibility study of the use of PNE to excavate a canal from the Mediterranean Sea to the Qattara Depression for the purpose of generating hydroelectric power. Is expected to request U.S. assistance with the study.

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The West German Reconstruction Loan Bank (analogous to our Export-Import Bank) is providing \$4 million to Egypt for the Qattara Project study. (The project was originally conceived by a professor at the University of Darmstadt who recently completed a several-year, preliminary engineering study of it.) Officials of the bank have requested a meeting with the USAEC to discuss the study and solicit U.S. participation.

Malagasy Republic:

Contacted the IAEA in 1971 for technical assistance in evaluating the use of PNE for construction of a harbor. The U.S., USSR, and France separately agreed to provide such assistance under IAEA auspices. However, Malagasy apparently lost interest in the project and did not utilize the assistance that was offered.

Thailand:

Authorized, in 1972, an economic and engineering study of a sea-level canal across the Isthmus of Kra to shorten the trade route around the Malay Peninsula. Two private U.S. firms were engaged to perform the study which was to include PNE excavation as a possible construction method. This study was completed in September 1973, but its findings have not been publicly reported.

...of the relatively modest excavation requirements of the project.)

Nuclear Neutron States — Potential R&E Suppliers

U.S.:

Since the late sixties, has concentrated on the use of deep underground nuclear explosions for in-situ recovery of natural resources such as natural gas from tight formations, oil from oil shale, and copper from deeply buried ore deposits. Of these, only the first use has been subject to full-scale testing. Three nuclear, gas stimulation projects have been conducted with generally satisfactory results. In the early sixties, U.S. research focussed on nuclear excavation applications such as canal and harbor construction. That effort passed through a successful R&D phase prior to the

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excavation. In the last three years, the Soviets have conducted at least 20 PNE detonations and appear to have a technical advantage over the U.S. in all areas except gas stimulation, computer simulation of PNE effects, and, perhaps, explosive designs for some applications. Even in recent weeks, the Soviets appear to be preparing to do additional work on their proposed nuclear excavation project to join the Pechora and Kara Rivers in order to bring

...water to the receding Caspian Sea.

The USSR, like the U.S., has offered to assist NMS Parties to the NPT by providing explosion services for PNE projects.

France:

Has performed a number of PNE-related studies and has indicated a special interest in creating off-shore oil storage using PNEs. France has indicated an intention to become a supplier of PNE services and was the first country to offer to make an expert available to the Malagasy Republic in response to their request to the IAEA in 1971.

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United Kingdom:

Has a group at Aldermaston who follow PNE developments in other countries and who perform PNE studies and analyses. There is some government and private interest in the U.K. in PNE off-shore oil storage. However, the U.K. has said that it does not intend to conduct an active PNE program or to provide PNE services to other states.

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THE DEPUTY SECRETARY OF STATE
WASHINGTON

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December 4, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: U.S. Nuclear Non-Proliferation Policy

NSSM 202 directed a review of present U.S. policy concerning non-proliferation and the Non-Proliferation Treaty (NPT) in light of the Indian nuclear test. A recently updated NSSM 156 study is a companion paper that focuses on the specific options open to us in dealing with India. The policy decisions in NSSM 255 concerning consultations regarding multilateral supplier controls over transfers of nuclear materials, technology, and equipment, have been taken into account in this review.

On the basis of the review done pursuant to NSSM 202, the Under Secretaries Committee, recognizing that the proliferation problem is at a crucial juncture, recommends an intensified program to inhibit the further spread of independent nuclear explosives capabilities. This program would exploit the common interest of many key countries in inhibiting proliferation by providing for concerted action. The U.S. could both support such action and, where appropriate, catalyze more effective international coordination.

The Under Secretaries Committee recognizes that we might only be able to delay further proliferation however determined our anti-proliferation efforts may be, but concludes that U.S. national security objectives can be served even with a non-proliferation strategy that is only partially effective. It would be desirable

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by R. Sanders, National Security Council

to deter the development and use of nuclear weapons with an expanded number of nuclear powers as long as possible, while seeking to create conditions which might ultimately check such expansion.

In the short run, the most effective approach to slowing down the spread of nuclear weapons is for the advanced nuclear industrial states to tighten controls on weapons-usable material and related production capabilities. Proliferation can also be limited through maintaining and making more widely applicable the legal and political barriers to acquisition of independent nuclear explosives capabilities. In addition to the policy actions presented below, a successful non-proliferation strategy will be affected particularly by the confidence of non-nuclear weapon states that their security needs can continue to be met without recourse to independent nuclear forces. It will also be affected by perceptions of these states regarding progress in U.S.-Soviet nuclear arms limitations.

As a series of near-term non-proliferation steps, it is recommended that:

1. Through consultations with nuclear industrial states, particularly the U.S.S.R. and France, and a conference of such states, the U.S. should pursue coordinated policies designed to:

-- Ensure that international safeguards are both effective and widely applied to peaceful international nuclear cooperation by seeking to strengthen the political, financial, and technical base of the International Atomic Energy Agency (IAEA) safeguards program, and by requiring that such safeguards be placed on nuclear material and equipment exported by these states or material derived from these exports, at least to the extent indicated by the guidelines issued by the Sangger (Nuclear Exporters') Committee. Considerations should also be given to: (a) expanding these guidelines to cover sensitive nuclear technology and additional equipment; and (b) developing concerted policies to secure IAEA safeguards to the maximum extent possible on peaceful nuclear programs of non-nuclear weapons states who are not NPT parties.

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-- Restrict the spread of independent national uranium enrichment and chemical reprocessing facilities through: (a) reaching common principles regarding the supply of sensitive technology, equipment and assistance in the construction of national facilities; and (b) encouraging multinational plants (or bilateral plants involving the U.S.) capable of satisfying future world demands for reliable and economic commercial services in these fields. In this connection, non-proliferation considerations should be factored into U.S. policy decisions with respect to future availability and supply of uranium enrichment services.

-- Impose special conditions on nuclear exports to countries in sensitive regions, such as certain areas in the Middle East, in order to minimize the accumulation of plutonium and other special nuclear material. These conditions would include such provisions as requiring that reprocessing, storage and fabrication of plutonium derived from supplied nuclear material or equipment take place in mutually-agreed facilities outside the country or region in question. In the case of NPT parties, less stringent conditions should be arranged, if compatible with our overall non-proliferation interests.

-- Establish specific physical security standards to be included as a condition of nuclear cooperation, and strengthen international efforts to achieve widespread adoption and maintenance of meaningful physical security measures on nuclear material. In this connection, the U.S. should advocate that the IAEA be the forum for drafting a physical security convention.

-- Minimize the risk of indigenous "peaceful" nuclear explosive (PNE) development in non-nuclear weapons states not party to the NPT through: (a) seeking agreement by non-NPT parties that they will not in any way assist any NNWS to develop or acquire PNEs; (b) requiring explicit confirmation that nuclear material exported, or derived from the use of exports, will not be used for any nuclear explosives; and (c) establishing that all nuclear materials subject to IAEA safeguards may not be used for any nuclear explosives.

2. In conjunction with other NPT proponents, the U.S. should intensify efforts in support of the treaty and in seeking early ratification by key non-nuclear weapon states, through:

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-- Support for the FRG, UK, and other European countries in their high-level contacts with the Italian Government to convey both the importance of early NPT ratification and the relationships of such ratification to the ability of NPT parties to continue nuclear supplies to the European Communities.

-- High-level communications with the Japanese designed to remove any doubt about the continued importance of such ratification to the U.S. and other NPT proponents as an essential contribution to international stability and long-term progress toward nuclear arms control, and as helping to ensure a maximum role for Japan in international nuclear commerce and at the NPT Review Conference in May 1975.

-- Appropriate actions designed to achieve ratification by other prospective NPT participants, and encouragement of a common recognition by nations unlikely to adhere to the treaty in the near-term that the further spread of independent nuclear explosives capabilities endangers the security of all states.

-- Development of visible ways, consistent with the policies set forth in recommendation 1 above, in which preferential treatment could be given to NPT parties in such areas as: (a) the availability of commercial nuclear facilities, fuels, and technological support; (b) potential PNE services; and possibly (c) credit terms.

-- Taking a more positive stance with respect to implementing Article V of the NPT, but being prepared to highlight the limitations as well as the potential benefits of PNEs.* Without prejudging the scope of the future U.S. indigenous PNE program and bearing in mind that the U.S. program has been inactive for several years, this approach would involve: (a) participating more readily in selected studies of proposed PNE projects; (b) making clear our intention to meet our Article V obligations; and (c) supporting IAEA efforts to devise procedures for implementing PNE services, should such services appear warranted. On all these issues, consultations with the Soviets should

*This recommendation is presently being reviewed in the context of a more comprehensive study for the Verification Panel of U.S. policy regarding international aspects of PNEs.

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be held in an effort to develop common policies. The question of PNE services may well be affected by the outcome of negotiations with the Soviet Union on Article III of the TTBT. Evolving U.S. PNE service policy must be carefully coordinated with our test ban objectives to preclude taking actions that might, in view of the probable greater exploitation by the Soviet Union of peaceful nuclear explosives, place the U.S. in a relatively disadvantageous position with respect to nuclear weapons development and deployments.

3. Coordinated multilateral approaches should be developed to ensure that the Indian nuclear explosion does not hasten further proliferation in Pakistan and elsewhere, by:

-- Endeavoring to persuade India to place IAEA safeguards on its nuclear exports and not to export nuclear explosive technology or devices, or assist others in building national chemical reprocessing plants.

-- Seeking to dissuade India from undermining the NPT and to defer any further Indian explosive tests, particularly in the period prior to the Review Conference.

-- Avoiding the implication that India's status as a world power has been substantially enhanced as a result of its nuclear test.

-- Seeking to hold India to its peaceful protestations and to minimize the scope, pace, and military dimensions of its nuclear explosive program through Indian acceptance of such measures as: (a) accountability for weapons-usable material; (b) deferral of further PNE production and limiting it to specified current needs; and (c) international observation of PNE tests, recognizing that such observation procedures would not be expected to constitute a technically sound basis for distinguishing between PNEs and nuclear weapons.

-- Seeking Soviet and French cooperation, and the cooperation of other potential suppliers, in continuing not to supply India with long-range bombers or other sophisticated nuclear delivery capabilities.

Appropriate committees should be established to formulate and oversee future U.S. non-proliferation policies, support relevant consultations and negotiations, and conduct necessary policy studies.

-- Prompt study should be undertaken of U.S. policy on implementing Article V of the NPT and PNE services generally in a manner consistent with our test ban objectives.

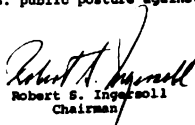
-- Urgent attention should be paid to further defining a U.S. policy on preferential treatment for NPT parties in such areas as fuel supply and technical assistance.

-- Studies should be made of sanctions as a deterrent to proliferation, measures which should be taken to assure the credibility and effectiveness of IAEA safeguards, the use of financing as a supplementary vehicle for imposing safeguards conditions on nuclear exports, and the possibility of multilateral controls on sophisticated nuclear delivery systems.

-- A series of "country studies" should be launched to investigate in detail the factors affecting potential nuclear weapons decisions in key NNWS, the preferred strategy for deterring such decisions, and options for the U.S. in the event these states acquire independent nuclear explosives.

-- The question of how best to handle the problem of security assurances at the NPT Review Conference should be examined.

-- There should be consideration of further steps to maintain a strong U.S. public posture against nuclear proliferation.


Robert S. Ingersoll
Chairman

Attachments:

1. Executive Summary
2. NSM 202 Study

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MEMORANDUM FOR THE PRESIDENT

Subject: U.S. Nuclear Non-Proliferation Policy

NSM 202 directed a review of present U.S. policy concerning non-proliferation and the Non-Proliferation Treaty (NPT) in light of the Indian nuclear test. A recently updated NSM 156 study is a companion paper that focuses on the specific options open to us in dealing with India. The policy recommendations in NSM 255 concerning the need for multilateral supplier controls over transfers of nuclear materials, technology, and equipment, have been taken into account in this review.

On the basis of the review done pursuant to NSM 202, the Under Secretaries Committee, recognizing that the proliferation problem is at a crucial juncture, recommends an intensified program to inhibit the further spread of independent nuclear explosives capabilities. This program would exploit the common interest of many key countries in inhibiting proliferation by providing for concerted action. The U.S. could both support such action and, where appropriate, catalyze more effective international coordination.

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In the short run, the most effective approach to slowing down the spread of nuclear weapons is for the advanced nuclear industrial states to tighten controls on weapons-grade material and related production capabilities. Proliferation can also be limited through maintaining and making more widely applicable the legal and political barriers to acquisition of national weapons capabilities. In addition to the policy actions presented below, a successful non-proliferation strategy will be affected by perceptions of non-nuclear weapon states regarding progress in U.S.-Soviet nuclear arms limitations and particularly by the confidence of these states that their security needs can continue to be met without recourse to independent forces.

As a series of near-term non-proliferation steps, it is recommended that:

1. Through consultations with nuclear industrial states, particularly the USSR and France, and a conference of such states, the U.S. pursue coordinated policies designed to:

-- Ensure that international safeguards are both effective and widely applied to peaceful international nuclear cooperation by seeking to strengthen the political, financial, and technical base of the IAEA safeguards program, and by requiring that such safeguards be placed on nuclear material and equipment exported by these states or material derived from these exports,

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consistent with guidelines issued by the Sanger (Nuclear Exporters') Committee.

-- Restrict the spread of independent national uranium enrichment and chemical reprocessing facilities through: (a) reaching common principles regarding the supply of sensitive enrichment technology and equipment or supply or assistance in the construction of national reprocessing facilities; and (b) encouraging multilateral plants capable of satisfying future world demands for reliable and economic commercial services in these fields. In this connection, non-proliferation considerations should be factored into the review of U.S. policy with respect to future availability and supply of uranium enrichment services.

-- Impose special conditions on nuclear exports to countries in sensitive regions, such as the Middle East, in order to minimize the accumulation of plutonium and other special nuclear material.

-- Establish specific physical security standards to be included as a condition of nuclear cooperation, and strengthen international efforts to achieve widespread adoption of meaningful physical security measures on nuclear material. In this connection, a physical security convention, drafted by the IAEA, should receive U.S. support.

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-- Minimize the risk of indigenous "peaceful" nuclear explosive (PNE) development in non-nuclear weapons states not party to the NPT through: (a) agreeing not in any way to assist any NNWS to develop or acquire PNEs; (b) requiring explicit confirmation that nuclear material exported, or derived from the use of exports, will not be used for any nuclear explosives; (c) establishing that all nuclear materials subject to IAEA safeguards may not be used for any nuclear explosives; and (d) agreeing on the need to establish within the IAEA framework further mechanisms for the assessment of PNE applications and the provision of PNE services by nuclear-weapon states.

2. In conjunction with other NPT proponents, the U.S. intensify efforts in support of the treaty and in seeking early ratification by key non-nuclear weapons states, through:

-- Support for the FRG, UK and other European countries in their high-level contacts with the Italian Government to convey both the importance of early NPT ratification and the relationship of such ratification to the ability of NPT parties to continue nuclear supplies to the European Communities.

-- High-level communications with the Japanese designed to remove any doubt about the continued importance of such ratification to the U.S. and other NPT proponents as an essential contribution to international stability and long-

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term progress toward nuclear arms control, and as helping to ensure a maximum role for Japan in international nuclear commerce and at the NPT Review Conference in May 1975.

-- Appropriate actions designed to achieve ratification by other prospective NPT participants, and encouragement of a common recognition by nations unlikely to adhere to the treaty in the near-term that the further spread of independent nuclear explosives capabilities endangers the security of all states.

-- Establishment of visible ways, consistent with the policies set forth in recommendation 1 above, in which preferential treatment will be given to NPT parties in such areas as: (a) the availability of commercial nuclear facilities, fuels, and technological support; (b) potential PNE services; and possibly (c) credit terms. In connection with PNE services, the U.S. should continue to support an active IAEA role and take a more positive stance with respect to implementing Article V of the NPT, but be prepared to highlight the limitations as well as the potential benefits of PNEs.

-- Completion of negotiations with the IAEA on the agreement implementing the Presidential offer to permit the IAEA to apply safeguards to U.S. facilities in order to facilitate ratification by FRG, Japan, and others by demonstrating that the U.S. is not seeking a commercial advantage.

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3. Coordinated multilateral approaches to be developed to ensure that the Indian nuclear explosion does not hasten further proliferation in Pakistan and elsewhere, by:

-- Endeavoring to persuade India to place IAEA safeguards on its nuclear exports and not to export nuclear explosive technology or devices, or assist others in building national chemical reprocessing plants.

-- Seeking to dissuade India from undermining the NPT and deferral of any further Indian explosive tests, particularly in the period prior to the Review Conference.

-- Avoiding the implication that India's status as a world power has been substantially enhanced as a result of its nuclear test.

-- Seeking to hold India to its peaceful protestations and minimize the scope, pace, and military dimensions of its nuclear explosive program, through Indian acceptance of such measures as: (a) accountability for weapons-grade material; (b) deferral of further PNE production and limiting it to specified current needs; and (c) international observation arrangements.

-- Seeking Soviet and French cooperation in continuing not to supply India with long-range bombers or other sophisticated nuclear delivery capabilities.

The Under Secretary's Committee should continue to coordinate, review, and report on non-proliferation policy actions and plans, and conduct relevant studies needed to support our efforts in this field.

-- Urgent attention should be paid to further defining a U.S. policy on preferential treatment and to exploring the question of security assurances in time for the NPT Review Conference.

-- Studies should be made of sanctions as a deterrent to proliferation, the use of financing as a supplementary vehicle for imposing safeguards conditions on nuclear exports and the possibility of multilateral controls on sophisticated nuclear delivery systems.

-- A series of "country studies" should be launched to investigate in detail the factors affecting potential nuclear weapons decisions in key NNWS, the preferred strategies for deterring such decisions, and options for the U.S. in the event these states acquire independent nuclear explosives.

-- The implications of Congressional concerns and actions for future U.S. policy on nuclear cooperation and non-proliferation should be examined.

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NSSM 202 STUDY

Executive Summary

U.S. NON-PROLIFERATION POLICY

In response to NSSM 202, the Under Secretaries Committee has prepared the attached study which reviews U.S. policy concerning non-proliferation and the Non-Proliferation Treaty (NPT). A NSSM 156 study, updated in light of the Indian nuclear test, is a companion paper that focuses on the specific options and courses open to us in our dealings with India.

Desirability and Feasibility of Non-Proliferation

Inhibiting the spread of nuclear weapons has been a consistent and important element of U.S. policy for the entire nuclear era. The basis for our non-proliferation interest is the assessment that the danger of nuclear war as well as world instability would significantly increase with an unrestrained spread of nuclear weapons. Acquisition of nuclear weapons would also give nations a sense of greater independence, thus complicating international diplomacy, diminishing American influence, and possibly eventually requiring extensive and costly restructuring of our defense posture. With additional nuclear weapons states (NWS), it would become more difficult to negotiate international arms control agreements, and progress in limiting the bilateral U.S.-USSR competition would be substantially complicated. Further spread of nuclear weapons would also provide increased opportunity for sub-national theft and blackmail. Finally, unless the risk that peaceful nuclear programs might be used to initiate weapons programs can be minimized, all nations will face security dangers and the continued expansion of international nuclear commerce could be threatened.

The problem of preventing the spread of nuclear weapons and independent explosives capabilities is now at a crucial stage. Commercial nuclear power generation is coming into wider use throughout the world, stimulated by the energy crisis, and many industrialized nations are becoming suppliers of nuclear material and equipment. Particularly

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as a result of the Indian nuclear test, other non-nuclear weapon states may rethink their decisions regarding the acquisition of nuclear explosives. We are in general entering a period when political barriers to non-proliferation appear to be weakening, given movements toward a multipolar world and decreasing credibility with respect to security guarantees. These trends could adversely affect the future of the Non-Proliferation Treaty (NPT), through setbacks in the ratification process in Japan and the European Community countries, by reducing the longer-term efficacy of the treaty as a non-proliferation instrument.

Nevertheless, the Under Secretaries Committee has concluded that a policy aimed at deterring further proliferation can be effectively pursued without incurring significant costs or risks. In virtually all the important non-nuclear weapon states (NNWS) there is presently a lack of either the capability or the motivation to develop nuclear explosives. This offers the opportunity to undertake policies aimed at deterring further nuclear proliferation through practical measures which can (i) deny non-nuclear states the full range of materials and equipment needed to produce nuclear explosives, and (ii) strengthen the political, legal, and security inhibitions against proliferation.

The nuclear material, equipment, and technology needed to produce nuclear weapons are still available only from a limited number of suppliers who generally oppose proliferation. Although it is essential that our supplier position and diplomatic influence be brought to bear, the U.S. cannot by itself establish an effective and durable non-proliferation regime. Such a program requires intensified concerted action, building upon existing international and multilateral mechanisms, to exploit the common non-proliferation interests of key NWS and NNWS.

The USC recognizes that we might only be able to delay further proliferation, however determined our anti-proliferation efforts may be, but concludes that U.S. national security objectives can be well served even with a non-proliferation strategy that is only partially effective. It would be desirable to defer the disadvantages associated with an expanded number of nuclear powers as long as possible, while seeking to create conditions which might ultimately check such expansion. At the same time, prudence dictates that the U.S. should begin to explore the problem of how to shape our security posture in a world environment of larger numbers

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of independent nuclear states as a means of hedging against the failure to contain fully the further spread of nuclear weapons capabilities.

This study emphasizes concerted efforts designed to curb the spread of nuclear weapons, consisting of concrete actions to contain technical capabilities, to strengthen legal, political, and security inhibitions, and to deal with the special issue of peaceful nuclear explosives (PNEs). These measures, which are summarized below, involve reliance on certain basic functional tools, such as IAEA safeguards, export controls, and the NPT, as well as approaches tailored to key countries. However, the success of a non-proliferation policy will depend in large part on whether NNWS believe that their security and political needs can continue to be met without recourse to independent nuclear forces. It will also depend on their perceptions regarding progress in U.S.-Soviet arms limitations. Thus, our overall foreign and defense policy, the relative stability of regions of potential conflict in the world, and the general structure of peace in the international system have an important bearing on the longer-term prospects for limiting the spread of nuclear weapons.

Containing Technical Capabilities

All manufacturers of commercial nuclear equipment and material, except France (and potentially India), are either NPT parties or signatories moving toward ratification, and support efforts to standardize safeguards applications. France has publicly declared that it will behave as if it were a party to the NPT, but it has apparently been lax in practice in adhering to this position in its nuclear export policy and has been reluctant to cooperate with other suppliers in developing export guidelines. There are signs, however, that the new French Government might be interested in adopting a more positive safeguards policy. Although this generally favorable situation will deteriorate to some extent in coming years, as NNWS acquire greater technical capabilities, it provides potential leverage for limiting the availability of weapons-grade material and technologies through nuclear export controls and international safeguards. Despite its apparent negative thrust, this approach can benefit all users of peaceful nuclear energy by permitting material and equipment to

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be made available within a framework of credible and effective safeguards controls. Furthermore, selective controls over international transfers of delivery vehicles and related technologies could be effective in dissuading certain major powers from embarking on an independent nuclear arms program.

The U.S. is still the dominant international supplier of nuclear power plants and fuel, but our leverage in the international commercial nuclear field is diminishing. Loss of U.S. dominance in the peaceful nuclear area could allow customers to deal with other suppliers who impose less rigorous controls on sensitive material, equipment, and technology. Accordingly, there is now an urgent need to upgrade our safeguards and control policies and to consult with other nuclear suppliers on this matter.* Although informal contacts and the use of existing multilateral mechanisms should continue to be pursued, a conference of nuclear industrialized states would provide a unique opportunity for realizing such a coordinated approach. A restricted conference attended by the major current and potential nuclear suppliers, namely the U.S., France, the USSR, Japan, the FRG, the UK, and Canada would appear to be a preferable first-step that could later lead to a broader conference which included other nuclear industrial states. Soviet and French support of such an approach would be crucial and would dictate the need for advance consultations with both countries.

The most important substantive non-proliferation objectives to be achieved in a program of consultation and coordination among commercial nuclear suppliers can be summarized as follows:

1. Ensure that IAEA safeguards are applied to exports of nuclear equipment and material to NNWS, particularly states who are not NPT parties, and strengthen the political, financial, and technical base of the IAEA's safeguards program. Of immediate importance would be gaining widest possible acceptance of the Zangger Committee export guidelines as well as agreed procedures for codifying, implementing, and modifying these guidelines. Consideration should

*NSDM 255 authorized consultations with other nuclear suppliers with the aim of minimizing risks of commercial nuclear transfers of sensitive material and technology.

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C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 700

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TARBI EAIN TO
SURJI AID/PHAP TRANSITION

8. SUMMARY: PERIOD OF TRANSITION FROM INDOONESIAN DEPENDENCE ON LARGE AMOUNTS GRANT AND SOFT LOAN ASSISTANCE HAS BEGUN. SUCCESSFUL CONTINUATION OF TRANSITION, HOWEVER, WILL REQUIRE SPECIAL PLANNING EFFORT BOTH IN FIELD AND WASHINGTON TO ENSURE IT CARRIED OUT IN FORM AND AT PACE WHICH IS IN PHASE WITH OTHER DONORS AND WHICH PROTECTS IMPORTANT U.S. INTERESTS AND ACCESS. STATE/AID MAY WISH REFLECT INTENT AND JUSTIFICATION FOR THIS TRANSITION IN ANY FORTHCOMING CONGRESSIONAL INTERAGENCY PRESENTATIONS ON INDOONESIAN AID, WITH DETAILED PLANNING TO FOLLOW. END SUMMARY.

9. SHARPLY INCREASED INDOONESIAN OIL REVENUES HAVE NATURALLY RAISED QUESTIONS CONCERNING JUSTIFICATION OF CONTINUED GRANT AND SOFT LOAN FINANCED ECONOMIC AND MILITARY AID TO INDOONESIA. NOT UNEXPECTEDLY, THERE ALSO HAVE BEEN QUESTIONS AS TO WHY WE CANNOT IMMEDIATELY TERMINATE SUCH ASSISTANCE. OBVIOUSLY CONTINUING OUR ASSISTANCE, AS

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IF NOTHING HAS HAPPENED, IS NEITHER TENABLE NOR APPROPRIATE POSITION. WE HAVE TOO MUCH INVESTED AND TOO MUCH AT STAKE IN INDONESIA, HOWEVER, TO FOREGO BENEFITS TO DATE WITHOUT SERIOUS EFFORT DETERMINE HOW WE CAN BEST IN CHANGED CIRCUMSTANCES, PRESERVE THESE BENEFITS. IT IS POSSIBLE PATTERNS WHICH COULD BE DEVELOPED FOR INDONESIA COULD SERVE FOR OTHER COUNTRIES WHERE SIMILAR TRANSITION MAY BE NECESSARY.

3. IN 1965 ALL MAJOR U.S. INVESTMENTS IN INDONESIA WERE EITHER NATIONALIZED OR IN SERIOUS JEOPARDY. OUR POLITICAL INFLUENCE WAS NIL AND SUKARNO WAS ON POINT OF BREAKING RELATIONS. COMMUNIST PARTY WAS RIDING HIGH AND INDONESIA INCREASINGLY ORIENTED TO CHINA. THE COUNTRY WAS VIRTUALLY BANKRUPT AND THREATENING TO REPUDIATE DEBTS.

4. ENTRY OF SUMARTO CHANGED THIS PICTURE. HE TURNED COUNTRY AROUND AND REORIENTED ITS POLICIES IN SUCH IMPORTANT AREAS AS REGIONAL COOPERATION AND FOREIGN PRIVATE INVESTMENT. SUPPORT WE HAVE GIVEN SUMARTO HAS UNDOUBTEDLY BEEN IMPORTANT TO THE CONTINUED SUCCESSFUL IMPLEMENTATION AND IMPROVEMENT OF THESE POLICIES WHICH HAVE BEEN HIGHLY BENEFICIAL TO U.S. INTERESTS. WE HAVE ALSO BENEFITED SUBSTANTIALLY FROM FAR MORE MODERATE INDONESIAN POLITICAL ORIENTATION AND ACCESS TO INDONESIAN GOVERNMENT. IN FACT, U.S. TODAY PROBABLY OCCUPIES AS FAVORABLE POSITION AS ANY FOREIGN COUNTRY WITHIN PANTHEON OF FOREIGN POLICY.

5. THIS POST, WHILE RECOGNIZING INCREASING DIFFICULTY OF JUSTIFYING LARGE AMOUNTS CONCESSIONAL ASSISTANCE TO INDONESIA, BELIEVES THAT TRANSITION FROM THAT TYPE ASSISTANCE SHOULD BE ARRANGED AND TIMED SO THAT WE DO NOT FOREGO IMPORTANT RETURNS FROM OVER \$2 BILLION U.S. INVESTMENT AND COMPARABLY LARGE U.S. PRIVATE INVESTMENT OVER PAST 8 YEARS. ABRUPT TERMINATION COULD PRODUCE A SHOCK EFFECT AMONG INDONESIANS, ESPECIALLY PRESIDENT SUMARTO, WHO WOULD VIEW IT AS WITHDRAWAL OF U.S. SUPPORT FOR THE GOVT, AND WOULD BOLSTER NATIONALIST-CHAUNISTIC TENDENCIES AND WEAKEN MORE IN THE GOI WHO FAVOR COOPERATIVE RELATIONS WITH THE UNITED STATES. WE SHOULD

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NOT CONCLUDE THAT RELATIVELY SMOOTH ACCEPTANCE BY INDONESIA OF CUTS ALREADY MADE SUGGESTS THEIR READINESS REE ABRUPT TERMINATION. WE HAVE BENEFITTED FROM EXACTLY KIND OF PLANNED PHASING IN OF OTHER SOURCES ASSISTANCE WHICH WE ENVISAGE FOR FUTURE. NEITHER SHOULD WE IGNORE FACT THAT SUKARNO-LIKE NATIONALISTIC TENDENCIES STILL LIE BELOW SURFACE AND COULD EXPLOIT SUDDEN WITHDRAWAL U.S. ASSISTANCE. TECHNOCRATS WHO HAVE BEEN PARTICULARLY HELPFUL TO US AND REASONABLE IN THEIR APPROACH TO DEVELOPMENT WOULD BE MOST SERIOUSLY HURT.

4. GRADUAL REDUCTION ON THE OTHER HAND WOULD PERMIT US TO SEEK AND TO PHASE IN ALTERNATE WAYS OF MAINTAINING THE ESSENCE OF OUR RELATIONSHIP AS GRANT ASSISTANCE IS PHASED OUT. WE ARE, THEREFORE, PROPOSING A PLANNED PERIOD OF TRANSITION WHICH WOULD INCLUDE ALL U.S. GOVERNMENT ASSISTANCE PROGRAMS OPERATING IN INDONESIA. IDEALLY, WE SHOULD PROVIDE INDONESIANS WITH BROAD OUTLINE OF WHAT WE EXPECT TO BE ABLE TO FURNISH AND GIVE THEM SOME OPPORTUNITY CONSULT ON PRIORITIES. AS IT IS NOW, PRIORITIES ARE BEING SET PIECEMEAL IN WASHINGTON; THIS HAS ALREADY RESULTED IN SEVERAL INDEPENDENT PROGRAM REDUCTIONS WHEN THERE MAY BE OTHER AREAS MORE SUITED TO SCALING DOWN OF U.S. INPUT. IF WE AND INDONESIANS ARE TO ADAPT TO NEW SITUATION WITH MINIMUM OF DIFFICULTY IN OUR OVERALL RELATIONS, U.S. WILL NEED COORDINATED APPROACH RATHER THAN SERIES UNRELATED DISPARATE ACTIONS.

7. IT IS ALSO IMPORTANT THAT U.S. KEEP IN PHASE WITH OTHER IGGI DONORS IN TRANSITION PERIOD. ABRUPT TERMINATION WOULD BE EVEN MORE DAMAGING OUR INTERESTS IF WE WERE CLEARLY OUT IN FRONT AND WERE BLAMED FOR AFFECTING DEPRIVATIONS OF OTHER DONORS. WE ARE IN PHASE NOW WITH INDONESIANS AND WITH OTHER DONORS; WE SHOULD INSURE THAT WE STAY THAT WAY.

8. WE PROPOSE THAT INTERAGENCY PLANNING BEGIN IMMEDIATELY FOR PERIOD OF TRANSITION (3-5 YEARS FOR ECONOMIC ASSISTANCE (OFFERING ON WORLD BANK CONCLUSIONS) AND 5-7 FOR MAP). INTENT AND JUSTIFICATION FOR THIS TRANSITION COULD BE REFLECTED IN ANY FORTHCOMING CONGRESSIONAL AND INTEN-

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AGENCY PRESENTATIONS WITH MORE DETAILED PLANNING TO FOLLOW.

A. ECONOMIC ASSISTANCE:

1) TRANSITION PLAN FOR ECONOMIC ASSISTANCE SHOULD PROVIDE FOR MAJOR DECISIONS CONCERNING THE LONGER TERM FUTURE COURSE ECONOMIC AID TO BE MADE FOLLOWING REVIEW WORLD BANK STUDY OF INDONESIA'S ECONOMIC PERFORMANCE AND PROSPECTS WHICH IS TO BE AVAILABLE EARLY 1975 FOR CONSIDERATION BY IGGI IN APRIL. BANK REPORT WILL PROVIDE IN-DEPTH ANALYSIS INDONESIA'S PERFORMANCE DURING REPALITA I AS WELL AS ASSESSMENT INDONESIA'S DEVELOPMENT PLANS AND FORECAST OF RESOURCE REQUIREMENTS FOR REPALITA II. IT CAN BE ANTICIPATED WORLD BANK REPORT WILL INDICATE THAT DESPITE SHORT TERM FINANCIAL HINDRANCE, AFTER INITIAL PERIOD OF ADJUSTMENT INDONESIA WILL AGAIN REQUIRE LARGE CAPITAL IMPORTS; IT WILL BE ABLE BORROW REQUIRED CAPITAL ON LESS THAN FULLY CONCESSIONAL TERMS HOWEVER.

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2) WE HAVE ALREADY TAKEN INITIAL STEPS IN ADJUST-
 THE ECONOMIC ASSISTANCE TO NEW ECONOMIC REALITIES. THESE
 INCLUDE ELIMINATION OF PROGRAMS LEADING AND SUCCESSFUL
 RESULTS IN CONCESSIONS OF COSTS AND, REVEALED OUR
 INTEREST IN BEING AND PLANS TO SEEK GREATER INDOONESIAN
 SHARE IN FINANCING COSTS OF AID PROGRAM. IN PLANNING
 FOR TRANSITION FY 75 SHOULD BE VIEWED AS YEAR JOINING
 WHICH USG WILL ATTEMPT PROVIDE RECENTLY ADJUSTED PRO-
 GRAMMED LEVELS OF AID. MAJOR DECISIONS REGARDING FUTURE
 ASSISTANCE, INCLUDING FY 76, WILL BE MADE WITHIN FRAMEWORK
 TYPING ABOVE BARE REPORT AND ISST CONSENSUS. THIS WILL
 PERMIT USG TO TAKE IMPORTANT AND DECISIONS WITH GREATER
 CONFIDENCE AND HARMONIOUS WITHIN CONTEXT INTERNATIONALLY
 ACCEPTED BASIS.

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3) INDOONESIA IS STILL A COUNTRY WITH SERIOUS
 DEVELOPMENT NEEDS. A LONG NEGLECTED INFRASTRUCTURE,
 SUSTAINED POPULATION GROWTH, AND THE NEED TO HELP LARGE
 NUMBERS OF DEPRIVELY POOR PEOPLE REQUIRE ACTION IN
 AGRICULTURAL AND RURAL DEVELOPMENT, PUBLIC HEALTH AND
 FAMILY PLANNING SERVICES, AND GREATER EDUCATIONAL
 OPPORTUNITIES. EVEN AT SIGNIFICANTLY LOWER LEVELS, A



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CONTINUATION OF U.S. ASSISTANCE OVER THE NEXT FEW YEARS FOR PROJECTS IN THE 400/0 AREAS, WHICH EMPHASIZE EMPLOYMENT CREATION AND INCOME DISTRIBUTION, SHOULD CONTRIBUTE TO STABILITY AND GROWTH OF INDONESIA BY HELPING TO FOCUS ATTENTION ON DEPRIVED AND POTENTIALLY DISSATISFIED MASSSES, ESPECIALLY THOSE IN RURAL AREAS. (MURPHY (AID) LETTER TO SPANION NUMBER OF JUNE 7 IS EXCELLENT PRESENTATION OF U.S. STAKE AND PRESENT AID STRATEGY IN INDONESIA.) FACT SHOULD ALSO BE RE-RECALC(AID) THAT IMPACT OF OIL REVENUES WHICH ONLY BEGAN TO COME IN AT PRESENT LEVELS THIS YEAR WILL BE GRADUAL.

4) OUR TRANSITION PLANNING SHOULD ALSO RECOGNIZE THAT MANY OF THOSE RESPONSIBLE FOR IMPLEMENTATION OF INDONESIA'S DEVELOPMENT MUST TO AVOID OPENING GATES TO ARRANGEMENTS UNDER WHICH THE AGENCIES MAY AVOID THEMSELVES OF COMMERCIAL FINANCING FOR DEVELOPMENT PROJECTS INCLUDING CONSULTANTS. SUCH ARRANGEMENTS CAN BE ENCOURAGED WITH POLITICAL INFLUENCE AND OTHER PRESSURES WHICH DEVELOPMENT LEADERS DESIRE TO AVOID. THEREFORE, EVEN IF FINANCING IS NO LONGER A PROBLEM, INDONESIA OFFICIALS PROBABLY MAY WELL WISH TO MAKE ARRANGEMENTS FOR TECHNICAL AND ADVISORY HELP TO COMPLEMENTABLE EXTENT FROM FOREIGN GOVERNMENT AGENCIES.

5) THERE IS ALSO DIRECT RELATIONSHIP BETWEEN EXISTENCE U.S. TECHNICIANS (WHETHER FINANCED UNDER U.S. AID PROGRAMS OR BY GOI ON REIMBURSABLE BASIS) AND INDONESIA'S DELETIONS TO PROCURE IMPORTS IN UNITED STATES OTHER IS ALSO TRUE FOR MILITARY EQUIPMENT). TECHNICIANS DRAW UP SPECIFICATIONS AND ADVISE ON PROCUREMENT. PER TECHNICIANS OF OTHER NATIONALITIES WILL MAKE ANY SPECIAL EFFORT TO HELP U.S. EXPORTS. THIS WILL BE AREA OF TRANSITION REQUIRING VERY SPECIAL ATTENTION IF WE ARE TO OBTAIN MAXIMUM RETURNS IN ECONOMIC, COMMERCIAL AND, IN SOME CASES, POLITICAL BENEFITS. ONCE GOI BEGINS TO PAY FOR TECHNICAL ASSISTANCE, THEY WILL BE LESS INCLINED CHOOSE OURS UNLESS OUR PROCEDURES ARE PROMPT AND EFFICIENT AND ORIENTED IN AREAS WHERE WE HAVE SPECIAL COMPETENCE WHICH ARE OF INTEREST TO THEM.

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R. MILITARY ASSISTANCE

1) INDONESIAN MILITARY IS STILL SERIOUSLY SHORT OF BASIC REQUIREMENTS FOR SECURITY OF WIDESPREAD ISLAND COUNTRY. WITH INCREASED OIL REVENUES HE MAY EXPECT IN FUTURE INDONESIA WILL BE IN MARKET FOR SHIPS (INCLUDING PATROL CRAFT), MILITARY AIR TRANSPORT, IMPROVED COMMUNICATION FACILITIES, ETC. AND THE NECESSARY TECHNICAL ASSISTANCE AND TRAINING PACKAGES THAT GO WITH THEM. (WE KNOW INDONESIAN MILITARY HAS BEEN PROVIDED INCREASED INVESTMENT MONEY DURING FIVE-YEAR PLAN PERIOD WHICH HAS JUST BEGUN.) MANY IN INDONESIAN MILITARY SEEM TO PREFER U.S. FMS PROCEDURES WHICH HAVE USG ACTING AS AN INTERFARE NOT ONLY IN NEGOTIATION PHASE BUT EXECUTION PHASE AS WELL. INDONESIAN MILITARY INDUSTRY IS NOW LARGELY U.S. EQUIPMENT, AND GRADUAL PHASING FROM GRANT AID TO FMS CREDIT AND EVENTUALLY TO COMMERCIAL SALES OF APPROPRIATE ARTICLES COULD PROTECT THIS MUTUALLY ADVANTAGEOUS MILITARY RELATIONSHIP.

2. WE SUGGEST FOLLOWING ACTIONS CONCERNING ECONOMIC AND MILITARY AID TRANSITIONS: A) FOR PLANNING AND CONGRESSIONAL PRESENTATION PURPOSES DEPARTMENT/AID AND MISSION DRAW UP PLAN FOR PHASED TRANSITION TO MAJOR AVERAGE TERMS OF DEVELOPMENT FINANCING (PRESUMABLY THROUGH MIX OF ATU/UL, EXIM AND POSSIBLY PL 488 RESOURCES) AND TECHNICAL ASSISTANCE OVER 3-5 YEAR PERIOD WHICH WOULD PROVIDE FOR ULTIMATE DECISION AS TO WHETHER OR NOT WE SHOULD CONTINUE ANY CONCESSIONAL LOAN OR GRANT FINANCING TO BE MADE AFTER USG HAS HAD OPPORTUNITY REVIEW MAJOR CONCLUSIONS OF WORLD BANK REPORT, MEANWHILE, JUSTIFYING CONTINUATION OF ADJUSTED LEVEL OF ASSISTANCE ALONG LINES SUGGESTED ABOVE; B) 3-7 YEAR PHASE-OUT PLANNING BE UNDERTAKEN FOR MILITARY GRANT AID PROGRAM TRANSITION TO FMS CREDIT BUILDING ON MAP PLANNING ALREADY COMPLETED. INITIATION OF FMS CREDIT IN FY 74 HAS BEEN EXCELLENT FIRST STEP IN TRANSITION AND SHOULD BE FOLLOWED BY INCREASED CREDIT IN FY 75; C) STUDY BE MADE OF HOW USG CAN CONTINUE TO SUPPLY EXPERTS AND TECHNICIANS DEFINED BY GOI ON REIMBURSABLE BASIS UNDER SECTION 687 OF THE FAA AND FROM OTHER SOURCES IN USG (SUCH AS NATIONAL

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SCIENCE FOUNDATION). GIVEN POSSIBILITY THAT REQUIRING
 THROUGHOUT TO PAY FULL COSTS MIGHT AFFECT VITAL PROGRAMS,
 CONSIDER POSSIBILITY OF TOPPING OFF (SHOULD APPRECIATE
 BEING INFORMED WHETHER CURRENT LEGISLATION PROVIDES FOR
 TOPPING OFF ARRANGEMENT); U) IDENTIFY AREAS OF
 TECHNICAL ASSISTANCE OF SPECIAL COMMERCIAL INTEREST;
 V) HARVEY TRANS OF PL 400 TITLE I PROGRAM AND
 CONSIDER EARLY REINSTITUTION OF CC CREDITS; W) ESTABLISH
 CLEAR RESPONSIBILITY IN WASHINGTON FOR MONITORING ALL
 TRANSITION ACTIONS SO THAT APPROACH CAN BE EFFECTIVELY
 COORDINATED AND PRESENTED TO GOI; AND X) ESTABLISH PLAN
 FOR CONSULTATION WITH OTHER I&EI DONORS.
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