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August 7, 1987

Secretary of the Commission U.S. Nuclear Regulatory Commission Washington, D.C. 20555

Attention: Docketing and Service Branch

Subject: Uranium Imports from South Africa (Docket No. 11003919)

The NRC's Federal Register Notice of June 17, 1987 solicits public comments on eight applications to import to the United States uranium from South Africa, particularly in reference to provisions of the comprehensive Anti-Apartheid Act of 1986 ("the CAA"). The views of a number of members of the U.S. Council for Energy Awareness (USCEA) with expertise in this subject have been sought and the following comments represent a consensus of these views. (The USCEA includes the technical fuel cycle activities of its predecessor, the Atomic Industrial Forum.)

By letter of May 11, 1987, to Treasury's Office of Foreign Assets Control (OFAC), with copy to NRC Chairman Lando Zech, the Atomic Industrial Forum's International Nuclear Policy Committee provided comments in support of the OFAC's interim rule permitting the importation of South African uranium in any form for U.S. upgrading and subsequent export. Although the OFAC permitted this interim rule to lapse on July 2, 1987 (Vol. 52, No. 129, page 25576, et. seq.) we continue to believe that most of these comments remain valid. Thus, we are enclosing a copy of the May 11, 1987 letter to be incorporated as a part of our present submission.

Because of this, we will focus our comments at this time primarily on the four specific NRC questions raised in this hearing pursuant to 10CFR110.85:

1. Did Congress bar only the import of uranium ore and uranium oxide, or did Congress intend to bar all forms of uranium? Our review of the legislative history of the CAA reveals nothing to support the contention that it was

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the intent of Congress to bar all forms of uranium. Although Senator Wolpe's floor statement that "...H.R. 4868, as amended by the Senate bars imports of textiles, agricultural products, uranium, and steel from South Africa..." has been cited by some as evidence of such intent, we believe that this statement was intended only as a summary of the types of commodities barred from import, as they appear in several separate sections of the CAA. Thus, its failure to distinguish any particular form of uranium has no significance in determining intent.

From the legal viewpoint, since the CAA does not expressly mention uranium hexafluoride, it is necessary to refer to the rules of statutory construction. A basic rule of statutory construction is that powers or authorities that are not expressly provided for in a statute will not be implied. Consequently, it would be improper to attribute to Congress an intent to ban a broader range of South African uranium products than those specific products which Congress listed in Section 309. As an example, in Andrus v. Glover Construction Co., 446 U.S. 608 (1979), the Supreme Court refused to infer exceptions in addition to those expressly provided in a statute requiring com-petitive bidding. The Court stated: "Where Congress explicitly enumerated certain exceptions to a general prohibition, additional exceptions are not implied in the absence of contrary legislative intent." (Id. at 617-18.) Under this rule of construction, imports into the United States of forms of South African uranium other than uranium ore and uranium oxide, such as uranium hexafluoride, would be allowed because Congress did not specifically mention the other forms in the list of banned products.

In addition, Congress did not use any language to indicate that products other than those specifically listed should also be banned. For example, Congress could have indicated such intent by prohibiting imports of uranium ore, uranium oxide, or other uranium compounds. Senator Lugar implicitly relies on this theory in his letter to Secretary Shultz when he states "had Congress wished to include this item in the list of banned items, it would have done so expressly."

Additional support for the view that the CAA's ban on imports of South African uranium ore and oxide should not be interpreted to include a ban on imports of those

> uranium products not specifically mentioned in the CAA, such as uranium hexafluoride converted in a second country from South African uranium, may be found in the history of U.S. trade sanctions imposed on other countries such as Cuba, Nicaragua, and Libya. The Cuban sanctions in 31 CFR 515.2 prevent the import into the United States of an article of Cuban origin or of any article from a second country that is "made or derived in whole or in part of any article which is the growth product or manufacture of Cuba." Thus, these sanctions prevent the import into the United States of any product containing Cuban raw materials even if those Cuban raw materials were transformed into a new product in a second country. However, in both the Libyan and Nicaraguan cases, the sanctions contain a clause that states:

> > "Imports into the United States from third countries of goods containing raw material or components of (Libyan or Nicaraguan) origin are not prohibited if those raw materials or components have been incorporated into manufactured products or otherwise substantially transformed in a second country." (emphasis added)

These sanctions clearly do not prevent the import into the United States of products from a second country containing Libyan or Nicaraguan raw materials, if those raw materials were substantially transformed in a second country.

If Congress had wished to ban imports from second countries containing South African raw materials, it could have done so by using language similar to that contained in the Cuban sanctions. The fact that Congress did not use such language is strong evidence that it did not intend to impose broad sanctions applicable to South African products which were substantially transformed in a second country. Congress' decision to include only uranium ore and oxide in Section 309 was a sensible recognition of the traditional reluctance of the United States to extend sanctions beyond the immediate products of the country against which the sanctions are aimed.

While a small minority of the members of Congress may have stated following enactment of the CAA that their intent was to bar all South African uranium imports, the

issue was never discussed or debated. Thus, it seems ironic that some of these same members have objected to the McConnell-Ford-Lugar interpretation of "import"--the so-called colloquy--on the grounds that, among other things, it was not spoken on the Senate floor or printed in the August 15, 1987 Congressional Record.

2. Does the import bar cover imported uranium regardless of its intended end use, or does it only bar the import of uranium which will be used domestically and not reexported? The OFAC's decision to let its interim regulation covering this issue lapse on July 2, 1987, appears to have made this question moot, regardless of whether or not one agrees with the analysis which led the OFAC to take this action. I might add that we do not believe that OFAC has fully taken into account all of the issues and precedents involved in reaching its decision. In connection with the OFAC's decision, it should be noted that the existence and legitimacy of the McConnell-Ford-Lugar colloquy was acknowledged, but in OFAC's view consistency in interpretation of the word "importation" apparently carried greater weight.

It is of interest to note that on the Senate side, which is where this issue surfaced, 27 Senators have advised the Department of Treasury of their belief that the legislation should be interpreted to permit the import of South African uranium for upgrading and export, whereas only 11 Senators have taken a position in opposition. Furthermore, the CAA as adopted was based on the Senate version of the legislation and no changes in the language of Section 309(a) resulted from the House-Senate conference.

Did Congress bar South Africa-origin uranium ore and uranium oxide which has been "substantially transformed" into another form of uranium in countries other than South Africa and the United States? There is no legislative indication that Congress intended to prevent the import of South African ore or oxide which had been substantially transformed. It is our understanding that the Congressional staffers who drafted the language of Sec. 309(a) specifically determined that ore and oxide represented the forms of uranium in which exports were made from South Africa.

Whenever determination of a product's country of origin is necessary under U.S. customs and trade law, the test

> of substantial transformation is applied. For example, in Bellcrest Linens v. United States, 741 F. 2d 1368 Fed. Cir. 1984) the court applied the substantial transformation test to determine whether a product was the product of a communist country for purposes of imposing a higher tariff than would otherwise be applied. Similarly, in Texas Instruments v. United States, 681 F. 2d 778 (U.S. Ct. of Customs and Patent Apps. 1982, the court applied the test to determine whether a product was entitled to enter the United States under the lower tariffs extended to products of developing countries. The doctrine of substantial transformation should be equally applicable to the CAA. The doctrine is a basic principle of U.S. customs and trade law and is used whenever the determination of a product's country of origin is necessary. To read the Act in a manner to ban substantially transformed products is to ignore this basic principle of U.S. customs law. Furthermore, refusal to apply the principle of substantial transformation would have the effect of dramatically extending the impact of the punitive sanctions directed against South Africa to innocent third countries that happen to use South African raw materials in their products. While Congress may have the power to require such a result, it should not be presumed without explicit evidence of Congressional intent to do so.

> The Treasury Department, the agency most familiar with the doctrine of substantial transformation, has found that the conversion of uranium oxide into hexafluoride is indeed a substantial transformation. Support for this position may be found in numerous court cases. In Chemo Puro Mfg. Co. v. United States, 146 F. Supp./ 178 (1954) (cited with approval in Bellcrest Lines v. United States, supra), the court determined the conversion of raw material into tannic acid was a substantial transformation because the process resulted in a product bearing a "new name, a new use, and a distinct tariff status." Id. at 181. Similarly, in F.W. Myers & Co. v. United States, 36 Cust. Ct. 5 (1955) the conversion of a crude drug into an advanced drug was found to result in a substantial transformation.

The conversion of uranium oxide into hexafluoride should qualify as a substantial transformation. First, uranium oxide and uranium hexafluoride have a different tariff status. Second, a chemical reaction must take place in

order for uranium oxide to be converted into hexafluoride. Third, and perhaps most importantly, there are separate existing markets for uranium oxide and uranium hexafluoride. Finally, uranium hexafluoride has a distinct name, character, and use different from uranium oxide. These factors strongly indicate that a uranium oxide is "substantially transformed" when converted into hexafluoride.

In fact, in view of the clear language of the CAA barring South African imports only in the form of ore or oxide, and absent any legislative history indicating intent to extend this to other chemical forms of uranium, it may not even be necessary to make a case that uranium hexafluoride is a substantially transformed compound of ore and oxide in order to justify its import under the CAA.

Did Congress assign to the Executive Branch or to the NRC 4. or both the responsibility for interpreting the scope of section 309(a) of the Anti-Apartheid Act and for implementing that section? There is no clear, irrefutable answer to this question or it obviously would not be asked. Since the NRC is the Federal agency charged under the Atomic Energy and Energy Reorganization Acts with the issuance of source material import licenses, it would appear to have, as a minimum, such a role in this instance. The question of responsibility for interpretation is a more difficult one. Sec. 307 of the CAA assigns to the Secretaries of State and of Energy and to the NRC certain specific responsibilities in the prohibitions of nuclear trade with South Africa; the import of South African uranium is not, however, covered in this section.

Sec. 601 charges the President with responsibility for carrying out the provisions of the CAA, which function was delegated to the Secretary of the Treasury by Executive Order 12571 of October 29, 1986. This would seem to strongly support a conclusion that the Executive Branch (President or his delegate) is responsible for interpretation of the CAA and for its overall implementation. The NRC would thus be responsible for issuance of import licenses for South African-origin uranium as directed by the Executive Branch unless such issuance was in conflict with a law other than the CAA (such as the Atomic Energy Act).

step in the nuclear fuel cycle potentially subjects our nuclear capability (including naval fleet and weapons production) to an uncertainty that is unacceptable during a period of conflict.

Nuclear power remains an essential component of this country's desire to maintain a balanced and mixed supply of energy showed how vulnerable the United States could be when we became energy needs. About 16 percent of the electricity generated in the Continued vitality of domestic enrichment, conversion, and

CONCLUSION

For the reasons discussed above, the International Nuclear Policy Committee of the Atomic Industrial Forum believes that the interim rule serves vital U.S. non-proliferation and national securaty interests and contributes to the well-being of several important American industries. Therefore, the rule should be issued as a expiration date of July 1, 1987.

Man- Ay

Sincerely yours

William O. Doub Chairman

International Nuclear Policy

Committee

Atomic Industrial Forum

WOD/slw

cc: Honorable Francis A. Keating, II
Assistant Secretary for Enforcement
Department of Treasury

Honorable Richard T. Kennedy Ambassador at Large for Non-Proliferation Department of State

Honorable A. David Rossin Assistant Secretary for Nuclear Energy Department of Energy

Honorable Lando Zech Chairman Nuclear Regulatory Commission

substantial business opportunities, including fabricators and those engaged in transportation activities. The U.S. already had substantial trade deficits with many of the nations involved, such as Japan and Taiwan, and the loss of such nuclear business would add to these deficits.

Impact on U.S. Non-Proliferation Objectives. U.S. non-proliferation policy since inception of the Atoms for Peace program has rested heavily on our being a major, reliable supplier of materials for the peaceful nuclear programs of nations accepting non-proliferation principles similar to our own. Although U.S. leverage in this area has diminished as additional suppliers have developed, this principle--and particularly the concept of reliability--remains a keystone of U.S. non-proliferation objectives. Failure to permit the import of South African-origin uranium for upgrading and re-export could seriously erode this important aspect of U.S. non-proliferation policy.

Sincerely,

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John R. Siegel Vice President

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Enclosure

cc: Dr. Frederick F. McGoldrick
Director, Office of Non-Proliferation
and Export Policy
Bureau of Oceans and Environmental
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Honorable James W. Vaughn, Jr. Acting Assistant Secretary for Nuclear Energy U.S. Department of Energy

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May 11, 1987

Mr. R. Richard Newcomb, Director Office of Foreign Assets Control Unit SA 427
Department of the Treasury 1331 G Street, N.W.
Washington, D.C. 20220

RE:

Comments on Interim Rule Regarding South African Transactions

Dear Mr. Newcomb:

By Federal Register notice published on March 10, 1987 (52 F.R. 7274 et. seq.), the Office of Foreign Assets Control of the Department of Treasury invited comments by interested persons on an interim rule which amends the South African Transaction regulations to interpret the prohibition on importation of South African uranium ore and uranium oxide contained in Section 309 (a) (1) and (2) of the Comprehensive Anti-Apartheid Act of 1986 (CAA): The following comments are submitted by the Committee on International Nuclear Policy of the Atomic Industrial Forum (AIF).

INTRODUCTION

In a letter to Assistant Secretary of Treasury Francis A. Keating, II, dated November 26, 1986, the AIF's International Nuclear Policy Committee urged the adoption of a rule allowing entry into the United States of South African uranium products for the limited purpose of conversion, enrichment, and fabrication, followed by export to foreign customers without any consumption in the United States. The Committee strongly supports the Treasury Department's decision to take such action, in the form of the interim rule. As explained below, the Committee believes that indefinite extension of the interim rule is in the interest of the economic well-being of American electric utilities and the American industries which



furnish services in connection with nuclear power stations throughout the world. Preservation of the sound policy articulated in the interim rule is also essential to the Reagan Administration's nuclear commodities and services as an essential element of international cooperation to discourage the spread of sensitive nuclear facilities to the countries which presently lack such capability and which present proliferation concerns.

THE INTERIM RULE IS CONSISTENT WITH THE CAA

Based upon a review of the CAA and its legislative history, the Committee is convinced that the Treasury Department's interim rule correctly reflects Congress' intent. As the Treasury rule, a bipartisan colloquy on the floor of the Senate expressly except with respect to products which are imported into the United interim rule, the Treasury Department properly relied upon well-stablished principles of statutory interpretation to carry out the Reagan Administration's non-proliferation policy and to avoid need-less harm to American industry.

In its request for comments, the Treasury Department notes that it is seeking "clarification" of Congress' intent. It must not be forgotten, however, that the Treasury Department's action in promulgating the interim rule necessarily reflects the Department's carefully considered determination that the temporary entry of South African uranium products, under bond, for processing in the United States and re-export, were consistent with the CAA and with the long-standing distinction in U.S. Customs practice between imports for consumption in the United States and items entering the United States temporarily under bond pending shipment abroad. In the view of this Committee, the Treasury Department should not reopen its previous determination that it possessed legal authority to allow such temporary entry under bond. Although post-enactment comments regarding legislative intent may be helpful, it should be kept in mind that the best basis for judging Congressional intent is the statute itself as well as the contemporaneous legislative history.

For the reasons discussed below, the AIF urges the Treasury Department to continue the well-considered policies of the interim rule by promulgating a final rule which removes the current



July 1, 1987, expiration date with respect to temporary entry under bond of South African uranium products pending shipment abroad.

THE INTERIM RULE PROPERLY AVOIDS UNNECESSARY HARM TO AMERICAN

The sound policy underlying the Treasury Department's interim rule in no way challenges or undermines Congress' fundamental decision, in the CAA, to impose economic sanctions on South Africa. While the effectiveness of such sanctions has been widely debated, there can be no question that sanctions are meaningless unless they actually result in a reduction in international markets for South African products. Under the Treasury Department's rule, all imports of South African uranium ore or oxide for domestic consumption are banned. The fact remains, however, that most nations with nuclear power programs continue to allow the import of South African uranium products. Hence, South African uranium ore and oxide currently flow from South Africa to the United Kingdom, France, and other countries where conversion, enrichment and fabrication services are performed. The resulting uranium product is then available for re-export to electric utility consumers in Korea, Japan, Taiwan, and other countries.

If the United States declared that South African uranium ore and oxide could no longer be brought into the United States for the performance of conversion, enrichment, and fabrication services, services without any diminution of international trade in South African uranium products. The only measurable result of such a policy would be to inflict significant harm upon American industry without any realistic expectation that international consumption of South African uranium products would decline.

According to testimony on March 5, 1987, by A. David Rossin, Assistant DOE Secretary for Nuclear Energy, before the House Appropriations Subcommittee on Energy and Water Development, DOE's ability to provide enrichment services on a competitive basis would be seriously impaired if South African uranium ore and oxide could not be brought into the United States for the limited purpose of performing services followed by re-export without consumption in this country. As Rossin testified, approximately \$200 million annually of DOE enrichment services is furnished with respect to South African origin uranium ore and oxide. As Rossin acknowledged in his testimony, DOE's foreign enrichment customers probably would be



forced to take the South African feed material they have purchased to conversion and enrichment facilities in Europe, which would cause DOE to lose 20 percent of its annual enrichment business. As Rossin also pointed out, the loss to DOE could rise to \$300 million annually since DOE's foreign enrichment customers may be persuaded, under these circumstances, to terminate their enrichment service relationship with DOE, even with respect to enrichment services on non-South African origin uranium products.

If DOE's enrichment service enterprise suffered an annual loss in sales amounting to 20 or 30 percent of its overall business, which would be shared among a substantially reduced base of customers. Ultimately, the added cost would be passed along to American consumers of electricity.

Abolition of the interim rule would also disrupt the American uranium conversion industry. Conversion is performed in the United States by two private companies which must compete for business against government-owned or government-subsidized facilities in Canada, France, the United Kingdom, and the Soviet Union. Currently, about 20 percent of this industry's business is the conversion of South African uranium for foreign utilities. Loss of this business would threaten the economic viability of the U.S. conversion industry. And loss of this industry could have serious and adverse implications for the United States.

THE INTERIM RULE FURTHERS U.S. NON-PROLIFERATION OBJECTIVES

In enacting the Nuclear Non-Proliferation Act of 1978 (NNPA), 22 U.S.C. 3201 et. seq., Congress adopted the fundamental policy that the United States should "take such actions as are required to confirm the reliability of the United States in meeting its commitments to supply nuclear reactors and fuel to nations which adhere to effective non-proliferation policies. . . . (22 U.S.C. Section 3201). As Congress recognized in the NNPA, the reliable supply of nuclear fuel to other nations is an essential element of U.S. non-proliferation policy:

The United States, as a matter of national policy, shall take such actions and institute such measures as may be necessary and feasible to assure other nations and groups of nations that may seek to utilize the benefits of atomic energy for peaceful purposes that it will provide a reliable supply of nuclear fuel to those nations and groups of nations which adhere to policies designed to

prevent proliferation. Such nuclear fuel shall be provided under agreements entered into pursuant to Section 161 of the 1954 Act or as otherwise authorized by law. [22 U.S.C. Section 3221]

It bears emphasis that continuation beyond July 1, 1987, of the Treasury Department's interim rule would allow DOE to meet its current obligations to supply enrichment services to foreign customers, as authorized by Section 161 v of the Atomic Energy Act of 1954, as amended, (AEA). As Congress recognized in the NNPA, several essential non-proliferation objectives are served by continued provision of U.S. conversion, enrichment, and fabrication services to foreign electric utility customers. First, U.S. legal controls attach to uranium which is converted to UF6 in the United States and/or enriched or fabricated in the United States. Uranium and uranium products enter the United States subject to the terms of bilateral nuclear cooperation agreements, which establish U.S. controls with respect to export, use, and retransfer of such material. Moreover, foreign uranium which is converted, enriched, or fabricated in the United States cannot be exported without the Nuclear Regulatory Commission's (NRC) issuance of an export license, which in turn requires the Executive Branch and NRC to find that U.S. export requirements, established by the NNPA, will be met, including requirements with respect to physical protection of nuclear material, safeguards, peaceful use assurances, and U.S. consent rights with respect to retransfer and reprocessing of the exported material. In summary, U.S. legal controls over nuclear material in international commerce are created if such material enters the United States. A decision by the United States to prevent the temporary entry under bond of nuclear material of South African origin would deprive the United States of an opportunity to establish such non-proliferation controls. It would also lessen the ability of the United States to influence the policies of other nations with respect to international nuclear commerce. In the case of Taiwan, maintenance of a U.S. role in the supply of nuclear fuel for the Taiwan nuclear power reactors is of special significance, supporting the desirability of continued U.S. involvement.

By interpreting the CAA to allow temporary entry under bond of South African uranium ore and oxide, the Treasury Department has recognized the important obligations of the United States, pursuant to the NNPA. Attainment of these objectives requires the United States to refrain from adopting trade sanctions which isolate the United States from international nuclear commerce and thereby lessen U.S. influence and ability to control such material. Absent the clearest possible evidence, the CAA should not be interpreted to

require the erection of trade barriers to U.S. processing of South African uranium for re-export without any consumption in this country. Such action would be inconsistent with the fundamental purposes of the NNPA and constitute a significant and unwarranted reversal of the Reagan Administration's policies to date with respect to the NNPA and the international non-proliferation regime.

CONTINUATION OF THE INTERIM RULE SUPPORTS U.S. NATIONAL SECURITY AND FOREIGN POLICY OBJECTIVES

Maintenance of a strong U.S. enrichment, conversion, and fabrication capacity is clearly in the interest of U.S. national security. As discussed above, DOE's ability to provide enrichment its ability to retain its present base of customers is linked to of the interim rule would allow DOE's foreign customers with South enrichment, and fabrication services in the United States. With the to compete in the international enrichment market, and thereby retain its domestic customers as well.

In testimony before the Senate Energy and Natural Resources Subcommittee on Energy Research and Development on March 13, 1987, Assistant Secretary for Nuclear Energy David Rossin of this important asset — with serious national and energy security national security provide strong motivation for maintaining an efficient, stable, and economically competitive uranium enrichment capability in the United States."

Maintenance of a strong U.S. conversion, enrichment, and U.S. national security and energy independence. The U.S. naval fabricated in the United States. As DOE has recently recognized, being of the U.S. nuclear fuel contributes to the economic well-tinued availability of this industry for U.S. national security and used as naval reactor fuel.

The national security of the United States depends in part on the ability to be self-sufficient in all aspects of nuclear technology. Having to depend on any other nation to provide a necessary



step in the nuclear fuel cycle potentially subjects our nuclear capability (including naval fleet and weapons production) to an uncertainty that is unacceptable during a period of conflict.

Nuclear power remains an essential component of this country's desire to maintain a balanced and mixed supply of energy showed how vulnerable the United States could be when we became energy needs. About 16 percent of the electricity generated in the Continued vitality of domestic enrichment, conversion, and

CONCLUSION

For the reasons discussed above, the International Nuclear Policy Committee of the Atomic Industrial Forum believes that the interim rule serves vital U.S. non-proliferation and national securaty interests and contributes to the well-being of several important final rule, continuing indefinitely beyond its presently scheduled expiration date of July 1, 1987.

Sincerely yours,

William O. Doub

Chairman

International Nuclear Policy

Committee

Atomic Industrial Forum

WOD/slw

cc: Honorable Francis A. Keating, II
Assistant Secretary for Enforcement
Department of Treasury

Honorable Richard T. Kennedy Ambassador at Large for Non-Proliferation Department of State

Honorable A. David Rossin Assistant Secretary for Nuclear Energy Department of Energy

Honorable Lando Zech Chairman Nuclear Regulatory Commission