

BUDGET 4 SUBSIDY PROGRAM

Budget & Subsidy
Programs

April 11, 1963

Mrs. Esther James Dodgson
Economic Division, Legislative
Reference Service
Library of Congress
Washington 25, D.C.

Dear Mrs. Dodgson:

I would like to thank you for all your help on my research project on federal assistance to air lines. The Joint Economic Committee print, "Subsidy and Subsidylike Programs of the U.S. Government" was particularly useful. Since I have no further need for the copy of it which you made available to me, I am returning it to you.

Sincerely yours,

Richard G. Hewlett
Chief Historian

OFFICE	SEGY					
SURNAME	Hewlett, et					
DATE	4-11-63					

4/11/63



Budget Authority Program
UNITED STATES
ATOMIC ENERGY COMMISSION
WASHINGTON 25, D. C.

January 18, 1963

Dear Senator Pastore:

Transmitted herewith is a copy of the report on government assistance in the atomic energy program prepared pursuant to the request in Mr. Holifield's letter of February 28, 1962. An initial draft of this report was submitted to Mr. Holifield by letter dated May 15, 1962. Subsequent to that date, the cognizant audit staff of the General Accounting Office has reviewed the report and several meetings have been held among representatives of AEC, GAO and the Joint Committee staff to discuss the contents of the report. Appropriate changes have been made and this report can be considered final.

Government assistance, as discussed in this report is provided as a part of the total AEC program pursuant to the Atomic Energy Act for the development, use and control of atomic energy so as to make the maximum contribution to the common defense and security, promote world peace, improve the general welfare, increase the standard of living and strengthen free competition in private enterprise. Funds appropriated through June 30, 1963 to the Atomic Energy Commission and its predecessor agencies total \$33 billion.

A significant aspect of government assistance in the atomic energy program relates to civilian nuclear power. For this reason this report is somewhat related to our recent report to the President on civilian nuclear power containing discussions of the need for nuclear power, the developmental role of the Federal Government, the present status of the program, technical considerations, objectives for the future, and legal, financial and administrative matters pertaining to the development of nuclear power.

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January 18, 1963

While every effort has been made to make this report on government assistance objective and responsive to the request of Mr. Holifield, it should be recognized that a study of this nature involves many judgment factors and that some of these judgments, assumptions and estimates are subject to wide differences of opinion.

Sincerely,

Henry E. Lebowitz
Chairman

Honorable John O. Pastore
Chairman, Joint Committee on Atomic Energy
Congress of the United States

Enclosures:
As stated

- cc: Chairman (2)
- Commissioner Haworth
- Commissioner Palfrey
- Commissioner Ramey
- Commissioner Wilson
- General Manager
- General Counsel
- Congr. Liaison (2)
- Secretary
- Quinn, AGMPP
- English, AGMRD
- Deputy General Mgr.
- Asst. Gen. Mgr.
- Johnson, DFM
- Pittman, DRD
- Fine, OA
- Baranowski, Prod.
- Controller
- Audit, OC
- Budget, OC
- Acctg. (2)

Cost Analysis & Eval. Br. EAShepherd:ec 11/16/62	Asst. Contrlr for Acctg WECampbell	Controller JPAbbadessa
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UNITED STATES GOVERNMENT

Memorandum

TO : File

DATE: May 16, 1962

FROM : W. B. McCool, *W. B. McCool* Secretary

SUBJECT: CONTROLLER'S MAY 4 DRAFT REPORT TO THE JOINT COMMITTEE RE
GOVERNMENT ASSISTANCE TO THE NUCLEAR INDUSTRY

SYMBOL: SECY:AHE

1. At Information Meeting 152 on May 9, 1962, the Chairman noted circulation of the Controller's Draft Report to the Joint Committee re Government Assistance to the Nuclear Industry and Mr. Hollingsworth invited Commissioners' comments be directed to the Controller prior to Friday, May 11.

2. At Information Meeting 153 on May 11, 1962, the Commissioners requested Part C of the Draft Report be circulated for Commissioners comments prior to transmittal to the Joint Committee.

3. At Information Meeting 154 on May 14, 1962, the Commissioners approved transmittal of Sections A and B of the Draft Report to the Joint Committee. The Chairman's transmittal letter will suggest discussions with Chairman Hollifield on the request for information on the pros and cons or merits of assistance.

cc:
Chairman
General Manager
Deputy General Manager
Asst. General Manager
General Counsel
Controller
Asst. to the General Manager

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UNITED STATES GOVERNMENT

Memorandum

TO : File

DATE: April 27, 1962

FROM : W. B. McCord *W. B. McCord* Secretary

SUBJECT: AEC 1109/1 - GOVERNMENT ASSISTANCE TO THE ATOMIC ENERGY INDUSTRY

SYMBOL: SECY:ANE

At Information Meeting 144 on April 20, 1962 the Commissioners discussed AEC 1109/1 - Government Assistance to the Atomic Energy Industry, and agreed that paragraphs 15 and 16 of the Comments and Suggestions attached to AEC Draft Report on Government Assistance to Industry in the Atomic Energy Program, together with other similar items in the attachment, should be identified for separate discussion in the response to the JCAE.

cc: Chairman
General Manager
Deputy General Manager
Asst. General Manager
Asst. Gen. Mgr. for Research and Development
Asst. to the General Manager
Director, Reactor Development

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4-27-62

Budget - Security Program

SPECIAL CORRESPONDENCE

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AEC 1109/1

April 20, 1962

COPY NO. 55

ATOMIC ENERGY COMMISSION

GOVERNMENT ASSISTANCE TO THE ATOMIC ENERGY INDUSTRY

Note by the Secretary

AEC 1109 /

1. The attached letter from the Chairman, Joint Committee on Atomic Energy, is circulated for the information of the Commission. It has been referred to the General Manager for preparation of a reply for the Chairman's signature.

2. The matter will be discussed at Information Meeting, Friday, April 20, 1962.

W. B. McCool

Secretary

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Asst. GM Operations	12
Asst. Gen. Mgr. R&D	13
Asst. Gen. Mgr. Adm.	14
General Counsel	15-19
Biology & Medicine	20
Congr. Liaison	21
Contracts	22-24
Controller	25-27
Isotope Development	28
Ind. Participation	29
Public Information	30-31
Operations Analysis	32
Plans	33
Raw Materials	34-35
Reactor Development	36-48
Manager, Naval Reactors	49
Research	50-51
D. C. Office	52-54
Secretariat	55-60

4-20-62

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CONGRESS OF THE UNITED STATES
JOINT COMMITTEE ON ATOMIC ENERGY

April 13, 1962

Honorable Glenn T. Seaborg
Chairman
U. S. Atomic Energy Commission
Washington 25, D. C.

Dear Dr. Seaborg:

This letter will confirm arrangements and understandings reached during the meeting of March 29, 1962, among representatives of AEC, GAO, and the Joint Committee staff concerning the study requested in my letter to you of February 28, 1962, on Government assistance to the atomic energy industry. As you know, the study is being carried out in three phases: first, to identify all areas of Government assistance; second, to estimate the monetary value of each type of assistance, within reasonable parameters; and third, to consider the merit of each type of assistance as to whether it is serving proper and effective purposes in the program.

The first phase of the study can now be considered substantially complete with the identification of possible areas of Government assistance having been made.

Under the second phase of the study, the Commission prepared a draft report which discusses Government assistance to the atomic energy industry. We are attaching our principal comments and suggestions on the AEC draft report which should be taken into account in the completion of the second phase of the study. Because most of these comments and suggestions were covered during the meeting on March 29, 1962, we would hope that AEC could prepare a revised draft report and that another meeting could be scheduled among representatives of AEC, GAO, and the Committee staff within about two weeks to review the revised draft.

We would also hope that AEC could prepare an outline or draft of the third phase of the study in time for discussion during the next meeting of our staffs.

A copy of this letter is being sent to the Comptroller General with a request that appropriate staff members of the GAO continue to be made available to participate in this study.

Sincerely yours,

/s/

Chet Hollifield
Chairman

Enclosure:
JCAE Comments
on AEC Draft Report

*Circulated as AEC 1109

PRINCIPAL COMMENTS AND SUGGESTIONS ON
AEC DRAFT REPORT ON GOVERNMENT ASSIST-
ANCE TO INDUSTRY IN THE ATOMIC ENERGY
PROGRAM

1. Title:

The title should indicate that the report is a study prepared by AEC at the request of JCAE.

2. Introduction:

Introductory comments should be added to indicate that (a) JCAE initially requested that the study encompass subsidies in the atomic power program, and (b) pursuant to subsequent discussions with the JCAE staff, it was decided that the study would encompass all Government direct and indirect assistance to industry in the atomic energy program, including subsidies.

3. Page 1, line 10:

The phrase "purchase of special nuclear materials produced by industry" should be treated as a separate item since such assistance is not of the same type as the others mentioned in the same sentence.

4. Page 3, items 1, 2 and 3 -- Waiver of Use Charges; Research and Development Assistance; and Construction of AEC Owned Power Demonstration Reactors, respectively:

List the projects and the dollar value of the type of assistance for each project under each item or in an appendix.

5. Page 3, item 2 -- Research and Development Assistance:

The discussion under this item should be expanded to be more explanatory of the type of assistance involved. For example, this item covers research and development work performed in AEC laboratories, etc. Also, the monetary value of some of this assistance might more properly be considered under Part B of the study. In any event, the relationship of research and development assistance under Part A and Part B of the study should be clarified.

6. Page 3, item 3 -- Construction of AEC Owned Power Demonstration Reactors:

With respect to the utilities' option to purchase reactor plants at the end of the terms of the contracts, a comment should be added on the basic provisions of the contracts to explain whether such plants would be purchased at less or equal to AEC's depreciated cost.

7. Page 3, item 4 -- Irradiated Fuel Processing:

To provide an indication of the magnitude of differences in industrial and government charges for this item, it is suggested that the reprocessing costs contained in the Davison proposal be compared with the government's guaranteed costs.

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8. Page 4, item 5 -- Guaranteed Fair Prices for Pu and U-233:

Add a brief explanation of the present situation concerning the feasibility of using plutonium as a nuclear fuel; that is, explain that present estimates of the fuel value are based primarily on theoretical work and that the feasibility of using plutonium as a fuel has not been practically demonstrated.

Also, add an estimate of the plutonium buy-back commitments for foreign reactors under Euratom and other international cooperative programs.

9. Page 6, item 7 -- Leasing of enriched uranium:

The discussion on both the public and private carrying charges should be expanded to include an explanation of the method of arriving at the estimated carrying charges. Also, an estimate should be added of the dollar magnitude of the assistance given by individual projects based on present commitments to furnish U-235 under lease arrangements compared to public and private financing of carrying charges.

10. Page 7, item 9 -- Raw Material Incentive Bonus:

A comment might be added to indicate whether the incentive bonus costs are included in the Government price schedules for enriched uranium.

11. Page 8, item 12 -- Government Indemnity:

The discussion should be expanded to indicate the extent of indemnity protection provided. Also, the monetary value of this assistance should be estimated based on the extrapolation of current commercial indemnity rates to the value of Government indemnity protection provided.

12. Page 8, item 13 -- Indirect Costs:

Consideration should be given to estimating the higher interest rates, taxes and insurance which would be required under industrial production. A note should also be added to indicate that the magnitude of additional costs for U-235 has been covered under item 7, Leasing of Enriched Uranium.

13. Page 12 -- Bonus Programs:

If there is a difference between the bonus programs on page 12 under Part B of the report and page 9 under Part A of the report, the difference should be stated and a comment might be added to indicate whether these bonus costs have been included in the Government price schedules for enriched uranium.

14. Pages 14 and 15 -- Statistics on Assistance:

On pages 14 and 15 it is suggested that the monetary statistics given for the exploration, bonus, process development and vanadium programs be included in the preceding section where these programs are discussed.

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15. Page 15 -- Vanadium Production:

Clarify whether or not the \$28,000,000 for purchase of vanadium excludes reimbursements through sales of vanadium to industry.

16. Page 15 -- Other Items:

A comparison should be made of the total uranium procurement costs at the guaranteed Government prices with the costs at the negotiated prices and a reasonable estimate should be given of the increased costs at the guaranteed prices.

17. Page 16 -- Tax Write-Offs (Uranium Mills):

A reasonable estimate of the uranium mill five-year tax write-off benefits and the financial benefits (carrying charge) flowing from reimbursement of mill costs based on five-year amortization allowances should be prepared in coordination with the GAO. Also, some historical discussion of these benefits should be added.

18. Page 17, item 2 -- Production Process Development and Operations:

Prepare an estimate of the fuel material preparation and enriched uranium production development costs.

19. Page 17, item 3 -- Reactor Development:

A discussion should be added to explain General Reactor Technology.

20. Page 19 -- Reactor Development Program Cost Schedule:

Group Civilian Power, Power Demonstration and Euratom, and indicate a subtotal of the costs for these items. Also, estimate the portion of General Reactor Technology and Reactor Safety expenditures which are directly applicable to commercial applications.

21. Pages 20 and 21, items 4, 5 and 6 -- Physical Research, Biology and Medicine, Radioisotopes:

Include the costs for each of these programs with qualifying discussion.

22. Page 24, item 14 -- AEC Experimental Prototype Reactors:

More discussion should be added on civilian power. Also, a listing of each project and the related costs should be shown for the cooperative power demonstration program.

In addition, clarify whether this item is covered on page 19 and change the item title to: "AEC Experimental Power Producing Reactors."

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23. Other Items:

Information should be added on the assistance provided, if any, to the atomic energy industry in connection with (a) averaging of enrichments for pricing of uranium in reactors and the resulting differences in costs and price, (b) REA loans to rural electric cooperatives, and (c) the devaluation of inventory when prices for enriched uranium were reduced.

24. General:

- (a) Each item should include an estimate of monetary assistance, where appropriate, even if such assistance is qualified through the addition of some prose.
- (b) In preparing estimates of monetary assistance, use June 30, 1963, as cut-off date to coincide with Pu buy-back period.
- (c) A section should be added at the end of the Part A and Part B of the report in which the amounts of assistance under each item are tabulated. Notes should be made of the range of these estimates based upon what might be considered direct or indirect assistance.
- (d) Indicate magnitude of industrial development effort.
- (e) Comment on contribution by Department of Defense on Parts A and B, especially in connection with cores of nuclear reactors.
- (f) Prepare final summary tabulations of Parts A and B divided into major categories or types of assistance.

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AEC 1109

March 9, 1962

COPY NO. 53

AEC
1109

ATOMIC ENERGY COMMISSION

JCAE REQUEST FOR SUBSIDY INFORMATION

Note by the Secretary

1. The Office of the Chairman has requested that the attached letter from the Chairman, Joint Committee on Atomic Energy be circulated for the information of the Commission.

2. It will be recalled that at Meeting 1821, Mr. Hollingsworth reported he learned prior to the Meeting that the JCAE had requested the General Accounting Office to prepare a study of the Civilian Power Reactor Program, and that he would inform the Commission when additional information became available.

W. B. McCool
Secretary

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Asst. Gen. Mgr. Adm.	14
General Counsel	15-- 19
Biology & Medicine	20
Congr. Liaison	21
Contracts	20 - 22
Control	23 - 25
Isotope Development	26
Ind. Participation	27
Public Information	28 - 29
Operations Analysis	30
Plans	31
Raw Materials	32 - 33
Reactor Development	34 - 46
Manager, Naval Reactors	47
Research	48 - 49
D. C. Office	50 - 52
Secretariat	53 - 57

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CONGRESS OF THE UNITED STATES
JOINT COMMITTEE ON ATOMIC ENERGY

February 28, 1962

Honorable Glenn T. Seaborg
Chairman
U.S. Atomic Energy Commission
Washington 25, D. C.

Dear Mr. Chairman:

Section 202 of the Atomic Energy Act of 1954 provides that the Joint Committee shall make "continuing studies of the activities of the Atomic Energy Commission, use and control of atomic energy . . ." During the current session, the Committee plans to undertake a study of the types of subsidies or assistance, both direct and indirect, which occur in the atomic energy program and particularly the atomic power program. I believe that this study might be carried out in three phases:

First, to identify all the possible subsidies;

Second, to estimate, within reasonable parameters, the monetary value of each type of subsidy; and

Third, to consider the pros and cons or merit of each type of subsidy as to whether it is serving as a proper and effective purpose in the program.

After agreement is reached on the first phase above, a report will be requested from AEC to serve as the basis for the second and third phases. In order to complete work this session, including possible hearings, this report should be received by the Joint Committee no later than May 15, 1962.

It is intended that the scope of the study should cover the entire production process from raw materials, through feed materials, U-235 separation, fuel element fabrication, reactor development, construction and operation, reprocessing and recovery.

Our preliminary thinking as to the particular subsidies includes the following: raw materials procurement; U-235 costs, including leasing and burnup charges; waiver of fuel use charges; research and development assistance; construction costs; plutonium buy-back; fuel reprocessing; waste disposal; indirect costs; governmental indemnity; tax write-offs; and the radioisotope program.

Consideration should also be given to possible off-setting items where AEC may be charging more than cost, such as the current U-235 price.

This is suggested merely as a preliminary list to be developed more precisely by meetings of the Joint Committee staff and AEC staff.

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I am also sending a copy of this letter to the Comptroller General with the request that appropriate staff members of the General Accounting Office be made available to participate in this study.

Sincerely yours,

/s/ Chet Holifield

Chet Holifield
Chairman