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U.S.-Japan Energy Working Group

U.S. Proposed Issues for Discussion for the First Meeting

Introduction

The world energy outlook has calmed considerably since the oil market disruptions of 1979 and 1980. Energy supplies are ample and oil prices are falling, bringing much needed relief to OECD economies. Nevertheless, the International Energy Agency warns that industrialized countries should not be complacent about the present situation. As our economies recover, the surplus of oil will gradually disappear. Depending on developments in economic activity, oil markets could be uncomfortably close to balance by the late 1980s at stable 1983 real prices. Given security problems and continued uncertainty of many sources of oil and gas supply, the 1990s could prove to be another turbulent decade in energy and economic activity. On the other hand, if we take concerted and measured action today, energy can prove to be a contributor, not a constraint, to economic activity in the decades ahead.

Japan has been successful in beginning the process of reducing its high level of oil dependence by diversifying into other sources of energy. But, as economic growth recovers in Japan and worldwide, demand for energy will rise -- perhaps dramatically. Rather than a stop and go approach to diversifying energy supplies based on current market conditions, Japan must make a continuous effort to seek new and more secure supplies.

The United States, on the other hand, is a country rich in energy resources. The present Administration's objective is to eliminate artificial market barriers to resource development and trade, so that our resources can be developed for the economic and security benefit of the United States and our trading partners. Yet lead times for energy supply development are long, and plans must be drawn up today if new energy systems and projects are to be in place in the 1990s.

The principal purpose of the Japan-U.S. Energy Working Group, in our view, is to identify the potential for energy cooperation and trade in the 1990s and to remove artificial market impediments which currently prohibit greater trade between our nations. We view long-term energy trade as an important opportunity to strengthen the economic and security ties between our two nations. We are optimistic that the U.S.-Japan Energy Working Group can begin the process of turning this opportunity into a reality and hope that we will be in a position to give our heads of state a progress report by the time of the Williamsburg Summit.

## COMMERCIAL SYNTHETIC FUELS ACTIVITIES

### Coal Gasification

- o Fourteen 1000-ton per day Lurgi fixed-bed gasifiers at the Great Plains Coal Gasification Plant under construction in North Dakota (12 of which will operate during full production with two kept on standby); start up underway; full production of high-Btus, pipeline gas - December 1984.
- o Two 900-ton per day Texaco entrained bed gasifiers, which are now in operation at the Tennessee Eastman coal-to-methanol facility in Kingspoint, Tenn.; currently operating.
- o Two 1000-ton per day Texaco entrained bed gasifiers are being installed at the Cool Water gasification/combined cycle plant under construction at Daggett, Calif.; planned operation: May 1984.
- o A 600-ton per day KilnGas horizontal rotating gasifier now in startup at the Wood-River Power Station near Alton, Illinois; to produce low-Btu gas for power generation; privately financed.
- o A 800-ton per day Dowsyn entrained bed gasifier pilot plant now in operation at Dow Chemical Company's demonstration unit in Louisiana; privately financed.

### Oil Shale

- o Union I, constructed by Union Oil of California; located in Parachute, CO; production of 10,500 barrels per day of hydrotreated shale oil; has a \$0.4 billion price guarantee transferred to the U.S. Synthetic Fuels Corporation from DOE; start up underway.
- o Union II; expansion of Union I project; located in Parachute, CO. has a planned production of 42,152 barrels per day of hydrotreated shale oil; planned operation 1990-1994.
- o Cathedral Bluffs, a joint project of Occidental, Inc. and Tenneco, Inc.; located in Rio Blanco County, CO.; production of 14,000 barrels per day of hydrotreated shale oil. Letter of intent signed for a loan guarantee and price guarantee in the amount of \$2.9 billion; planned operation: 1988 (underground retorting); 1987 (above ground retorting).

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TO: LARRY KELLEY, A GUEST AT THE WATERGATE HOTEL  
FROM: MEAD TREADWELL

LARRY, WE ARE PUTTING TOGETHER AN ANNOUNCEMENT FOR WEDNESDAY. FROM OUR END, WE ARE NAMING WALTER J. HICKEL, LOREN LOUNSBURY, WILLIAM A. EGAN, AND WILLIAM BITTNER TO THE BOARD OF DIRECTORS. THE ANNOUNCEMENT WILL HAVE YOU, PEN, BILL BLACKLEDGE, AND D.K. LUDWIG'S GUY ALSO ON THE BOARD. I WILL CALL WILSON TOMORROW TO GET HIS NAME.

IF YOU HAVE A CHANCE WHILE YOU ARE THERE IN WASHINGTON, WALLY SUGGESTS YOU CALL AND SEE RON BIRCH AND ERIC EISEN (202) 650-5800.

THE FOLLOWING STATEMENT IS FOR YOU TO DELIVER TO NORM BAILEY.

MEMORANDUM

ADVANTAGES OF NORTH SLOPE GAS EXPORT TO AMERICA AND JAPAN

MORE THAN 26 TRILLION CUBIC FEET OF NATURAL GAS IS AVAILABLE ON THE NORTH SLOPE OF ALASKA. SINCE DISCOVERY IN 1968 THE UNSOLVED PROBLEM HAS BEEN HOW TO GET THAT GAS TO MARKET.

A ROUTE ACROSS ALASKA WOULD MAKE THE GAS AVAILABLE FOR MARKETS IN THE PACIFIC RIM AND IN THE UNITED STATES. SUBSTANTIAL BENEFITS WOULD ACCRUE TO BOTH JAPAN AND THE UNITED STATES IF BOTH COUNTRIES COOPERATE IN NORTH SLOPE GAS DEVELOPMENT.

BENEFITS TO JAPAN  
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AMERICAN SUPPLY STABILITY:

1. A COMMITMENT TO PURCHASE NORTH SLOPE GAS WOULD CREATE A LONG-TERM STABLE ENERGY RELATIONSHIP WITH THE UNITED STATES THAT DOES NOT EXIST TODAY. IT WILL STRENGTHEN TIES BETWEEN THE TWO NATIONS. FOR JAPAN, IT WOULD REPRESENT TRADE WITH THE MOST STABLE OF POTENTIAL SUPPLIERS FOR LNG.

## HELP TO BALANCE TRADE:

2. BALANCE OF TRADE PROBLEMS BETWEEN THE UNITED STATES AND JAPAN COULD BE SIGNIFICANTLY REDUCED WITH A MAJOR TRADE IN NATURAL GAS.

## ENVIRONMENTAL OPPORTUNITY:

3. THE AVAILABILITY OF LARGE UNUSED SUPPLIES COMBINED WITH AMERICA'S READINESS TO SELL REPRESENTS AN OPPORTUNITY FOR JAPAN TO INCREASE THE SMALL PERCENTAGE ROLE LNG HAS IN ITS MIX OF FUELS. THE OPPORTUNITY TO NEGOTIATE A PRICE COMPETITIVE WITH OTHER FUELS WILL ALLOW JAPAN TO USE CLEAN-BURNING LNG AT A TIME WHEN CONCERN ABOUT THE ENVIRONMENTAL IMPACT OF OTHER FUELS IS RISING.

## COMMERCIAL OPPORTUNITY:

4. JOINT DEVELOPMENT OF THE TRANSPORTATION SYSTEM ENVISIONED WOULD MAKE JAPANESE COMPANIES A PARTNER IN THE LARGEST PRIVATE CONSTRUCTION PROJECT EVER BUILT. COMMERCIAL OPPORTUNITIES ASSOCIATED WITH THIS PROJECT ARE VIRTUALLY UNNUMBERED. AT THE SAME TIME, IN COMPARISON TO OTHER POTENTIAL LNG SOURCES, DEVELOPMENT IS NOT DEPENDENT SOLELY ON JAPANESE FINANCING.

## OTHER ENERGY SUPPLIES:

5. NEW OIL SUPPLIES MADE AVAILABLE BY THE CONSTRUCTION OF A GAS TRANSPORTATION SYSTEM WOULD BE AN ADDITIONAL SOURCE OF SECURE ENERGY FOR JAPAN. PRESENTLY, OIL EXPLORATION IS SLOW IN AMERICA'S HIGHEST POTENTIAL ENERGY REGION, ALASKA, DUE TO THE LACK OF A GAS TRANSPORTATION SYSTEM AND THE HIGH PROBABILITIES THAT GAS WILL BE FOUND WITH OIL. AS NEW OIL COMES ON LINE WITH EXPLORATION, THERE IS A STRONG POSSIBILITY THAT OIL WOULD BE SOUGHT BY JAPAN. JOINT OIL DEVELOPMENT BETWEEN THE TWO NATIONS ON AMERICAN SOIL IS MADE MORE LIKELY.

## BENEFITS TO THE UNITED STATES:

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### NEW ENERGY SUPPLIES:

1. FAILURE TO ESTABLISH A GAS TRANSPORTATION SYSTEM OFF THE NORTH SLOPE OF ALASKA HAS RESULTED IN DAMPENED INTEREST IN EXPLORATION IN THE AREA. THE LIKELIHOOD THAT GAS WILL BE FOUND IN CERTAIN TRACTS HAS LOWERED THE EXPECTED VALUE TO THE EXTENT THAT DRILLING HAS NOT TAKEN PLACE IN PROMISING AREAS. WITHOUT A TRANSPORTATION SYSTEM, GAS MUST BE REINJECTED, A COSTLY PROCESS.

### HIGHER FEDERAL LEASING REVENUES:

2. LESS THAN THE BEST REVENUES FROM FEDERAL AND STATE LEASING PROGRAMS ARE BEING RECEIVED BECAUSE BIDS ARE BEING DISCOUNTED BY THE EXPECTED COST OF GAS REINJECTION.

HELP TO BALANCE TRADE:

3. AMERICA'S CONTINUING TRADE DIFFICULTIES WITH JAPAN, RESULTING FROM A LARGE BALANCE OF TRADE DEFICIT WITH THAT COUNTRY, CAN BE HELPED WITH ENERGY EXPORTS FROM ALASKA, HAVING ECONOMIC VALUE IN THE BILLIONS OF DOLLARS PER YEAR.

NATIONAL SECURITY:

4. WHILE UNITED STATES POLICY HAS CONFINED ALASKA ENERGY DEVELOPMENT TO MEET ONLY U.S. DEMAND FOR ENERGY, EXPORT POLICIES OF ALASKA'S NEIGHBORS IN THE PACIFIC RIM, INCLUDING THE SOVIET UNION, ARE ANSWERING THE NEEDS OF JAPAN AND ASIAN NEWLY INDUSTRIALIZED NATIONS. OVER A LONG PERIOD OF TIME, THE EFFECT OF SUCH TRADE CAN BE TO CREATE STRONGER ALLIANCES POTENTIALLY AT ODDS WITH THE INTERESTS OF THE UNITED STATES.

TRANSPORTATION EFFICIENCY:

5. GIVEN WORLD MARKETS, THE TIDEWATER ROUTE IS EFFICIENT. TODAY, ALASKA'S OIL GOES EAST THROUGH THE PANAMA CANAL TOWARD GULF OF MEXICO REFINERIES WHILE MEXICAN OIL FOUND IN THE GULF HEADS WEST TOWARD JAPAN. A SIMILAR INEFFICIENT CIRCLE STANDS TO BE DRAWN IF ALASKA GAS IS FORCED THROUGH ALBERTA TOWARD CHICAGO WHILE CANADIAN GAS, UNDER A CURRENTLY PENDING EXPORT PROPOSAL, WOULD LEAVE ALBERTA IN THE OPPOSITE DIRECTION TO BRITISH COLUMBIA AND THEN VENTURE BY SHIP ACROSS THE GULF OF ALASKA TO JAPAN.

ECONOMIC GROWTH:

6. GOVERNMENT ACTION TO SPUR THE NATION'S ECONOMY SHOULD NOT STOP WITH TAXING AND SPENDING POLICIES. A REGULATORY DECISION AT THE HIGHEST GOVERNMENT LEVELS TO PERMIT THIS PROJECT, HELP MARKET THE GAS, AND TO INCREASE ENERGY EXPLORATION WITH ITS COMPLETION CAN STIMULATE THE ECONOMIC GROWTH OF THE NATION WITHOUT THE USE OF FEDERAL FUNDS.

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VIA TRT