

Ronald Reagan Presidential Library
Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: Matlock, Jack F.: Files
Folder Title: Pipeline – USSR (4)
Box: 30

To see more digitized collections visit:

<https://reaganlibrary.gov/archives/digital-library>

To see all Ronald Reagan Presidential Library inventories visit:

<https://reaganlibrary.gov/document-collection>

Contact a reference archivist at: reagan.library@nara.gov

Citation Guidelines: <https://reaganlibrary.gov/citing>

National Archives Catalogue: <https://catalog.archives.gov/>

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name MATLOCK, JACK: FILES

Withdrawer

JET 5/18/2005

File Folder USSR PIPELINE 4/6

FOIA

F06-114/9

Box Number 30

YARHI-MILO

3013

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
10737	PAPER	USSR: PIPELINE PROJECT UPDATE D 11/17/2009 F06-114/9	1	10/24/1981	B1
10738	FAX COVER SHEET	STRATEGY PAPER ON YAMAL ENERGY ALTERNATIVES R 7/21/2008 NLRRF06-114/9	1	10/27/1981	B1
10739	MEMO	BRYEN RE STRATEGY PAPER ON YAMAL ENERGY ALTERNATIVES R 7/21/2008 NLRRF06-114/9 DOCUMENT PENDING REVIEW IN ACCORDANCE WITH E.O. 13233	2	10/27/1981	B1
10740	PAPER	POSSIBLE ALLIED RESPONSES TO US STRATEGY ON THE YAMAL PIPELINE PAR 9/25/2012 F2006-114/9	5	11/2/1981	B1
10741	MEMO	LENZ TO CORMACK RE ANALYSIS OF ABILITY OF U.S./COCOM OIL/GAS CONTROLS TO IMPEDE SOVIET OIL/GAS PRODUCTION R 9/25/2012 F2006-114/9	1	10/22/1981	B1
10746	CABLE	030013Z NOV 81 R 3/24/2011 F2006-114/9	4	11/3/1981	B1
10747	CABLE	041657Z DEC 81 R 3/24/2011 F2006-114/9	1	12/4/1981	B1
10748	CABLE	241005Z DEC 81 R 3/24/2011 F2006-114/9	1	12/24/1981	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name MATLOCK, JACK: FILES

Withdrawer

JET 5/18/2005

File Folder USSR PIPELINE 4/6

FOIA

F06-114/9

Box Number 30

YARHI-MILO

3013

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
10751	CABLE	152145Z JAN 82 D 9/25/2012 F2006-114/9	1	1/15/1982	B1 B3
10742	PAPER	ANNEX NIGERIAN GAS FOR WESTERN EUROPE R 11/17/2009 F06-114/9	2	ND	B1
10743	PAPER	US SANCTIONS AND THE SIBERIAN NATURAL GAS PIPELINE	1	2/8/1982	B1
10744	PAPER	DRAFT STRATEGY PAPER FOR THE HIGH-LEVEL MISSION TO EUROPE ON OIL AND GAS EQUIPMENT TRADE CONTROLS AND CREDIT LIMITATIONS R 3/24/2011 F2006-114/9	4	2/8/1982	B1
10745	PAPER	TERMS OF REFERENCE FOR HIGH-LEVEL USG MISSION TO EUROPE ON SOVIET SANCTIONS R 3/24/2011 F2006-114/9	4	2/22/1982	B1
10749	MEMO	REPORT ON INTERAGENCY MISSION TO EUROPE R 3/24/2011 F2006-114/9	3	3/1/1982	B1
10750	CABLE	051826Z MAR 82 R 3/24/2011 F2006-114/9	8	3/5/1982	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

URGENT ✓

REQUEST/RECEIPT FOR TRANSMISSION RECEIVED

DECLASSIFIED NLRR FO6-714/9 #10738 BY <u>W</u> NARA DATE <u>7/21/08</u> 22	SITE D	81 OCT 27 P 3:04 SITUATION ROOM
DATE AND TIME TRANSMITTED	<u>036</u> SSN NBR	DATE AND TIME RECEIVED

TO BE COMPLETED BY REQUESTER

FROM Goldstein OFFICE/DESK ISP/1ETSP PHONE NBR 6153558
 SUBJECT SIG Paper - DOD Comments
 CLASSIFICATION Secret PAGES 2

DELIVERY INSTRUCTIONS HOLD FOR NORMAL DUTY HOURS
 IMMEDIATELY - Deliver at Once!

NOTE: FURNISH AFTER DUTY HOUR CONTACT TELEPHONE NUMBER FOR EACH ADDRESSEE REQUIRING AFTER HOUR DELIVERY.

TRANSMIT TO

AGENCY	INDIVIDUALS NAME	OFFICE	ROOM NBR	PHONE NBR
State	Under Secretary Roshinski	E	7250	632 3256
State	Paul Bremer	S	7224	632 2500
State	David Howenfeld	FB	3331	632 1052
NISC	Norman Bailey	Planning	365	395 4985

REMARKS:

pages ←

91 11 1961 130 23

URGENT



DECLASSIFIED

NLRR Feb-14/9 #10739

BY CH NARADATE 7/21/08

27 OCT 1981

In reply refer to
I-25281/81

INTERNATIONAL
SECURITY POLICY

MEMORANDUM FOR THE SPECIAL ASSISTANT

SUBJECT: Strategy Paper on Yamal Energy Alternatives (C)

(S) This paper fails to develop a genuine strategy. We need a clearer idea of other measures the U.S. will take to support arguments with the Europeans.

(S) The paper should emphasize that the U.S. has, thus far, taken no concrete action to (a) impede the pipeline or (b) make the case to the allies on the strategic implications of the pipeline or (c) present clear alternatives to the Europeans to replace the gas expected to be delivered to Europe from the USSR.

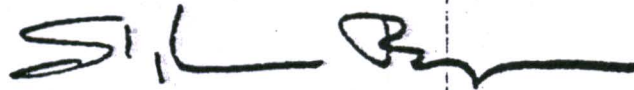
(S) The paper should state, explicitly, that there has been no follow-up to the President's stated objections to the West Siberian pipeline tabled to the allies at the Ottawa Summit conference.

(S) The paper does not elaborate on (a) why we need to buy time in order to put together alternatives to the pipeline through intensive negotiations with the Europeans nor (b) does it pinpoint for policy makers what an appropriate objective might be. As impeding the pipeline is costly in terms of economic loss and use of limited political leverage, a good strategy ought to be aimed at compensating for an initial loss of business to the USSR and at providing more reliable future supplies.

(S) Initiatives aimed at both identifying and negotiating viable alternatives ought to be explained in the strategy paper. For example, if Norway has suitable gas reserves and if Holland has storage facilities, a long term arrangement might be pursued that could assist both countries in gaining the greatest benefit from a gas project while, at the same time, compensating for particular problems each may have (i.e. Norway's reluctance to speed up gas exploitation because of domestic economic and cultural problems).

(S) The divergence of views on East-West trade explained on the first page of the paper is both inadequately explained and is not so clear cut. The bottom line issue is what to do about the German steel pipe industry which would be adversely affected unless pipelines elsewhere are built or, alternatively, unless the industry has options other than producing large diameter steel pipe.

We need more discussion of actual political issue at stake -- e.g., do the Germans really intend the gas project only as an economic program, or is there a hidden political agenda? If the latter, how does this affect the U.S. program and how is the "hidden agenda" problem to be handled, both at the public and private level? Understanding this is essential to the presentation of the U.S. position and in our overall dealings with the alliance.



Dr. Stephen D. Bryen
Deputy Assistant Secretary
International Economic, Trade and
Security Policy

DECLASSIFIED IN PART

NLRR E06-114/a-#10740

BY km NARA DATE 9/25/12

~~SECRET~~

Possible Allied Responses to US Strategy on the Yamal Pipeline

(Prepared by CIA)

A policy of seeking COCOM cooperation to stop the Siberian pipeline would probably have a low yield and a high cost. The Allies have already decided that the project is in their interest and will not voluntarily halt their participation. In the immediate term, US attempts to force a stop to the project are likely to jeopardize the current US initiative to broaden and strengthen COCOM export controls in a number of military-related industrial sectors. In addition, the West Europeans view the project as strictly their own affair and resent US interference; US pressure thus could pose major risks for US-Allied relations.

E. O. 12958
As Amended
Sec. 1.4(c)

COCOM may not in any case be the best vehicle for applying US pressure. The US is no longer able to exert a significant amount of influence or control within COCOM because Western Europe and Japan, as well as several non-COCOM members such as Austria, Switzerland, and Sweden, either possess equivalent technology or are ahead in a number of the latest technologies that COCOM attempts to deny the Communist countries. Although reasonably successful, the recent US experience in attempting to strengthen COCOM controls in the aftermath of the Soviet invasion of Afghanistan illustrates how difficult it has become for one country to force its way in the COCOM forum. Oil and gas equipment technology is not currently subject to COCOM embargo, and our Allies would resist strongly placing such items on the COCOM list on strategic grounds. However, because some advanced technology components involved in the pipeline may be subject to COCOM exception notes, the US could at least raise the issue as one of concern within present COCOM procedures.

Even outside COCOM, persuasion has failed with the West Europeans and Japanese because -- despite US arguments -- they see aiding the Soviets in energy production as a positive contribution to the global economy. They also are convinced they will derive a formidable list of economic and political benefits from the pipeline project, including:

- o Near-term export earnings for industries supplying materials for the pipeline and a stream of future exports financed by Soviet gas sales.
- o The chance to use another country's energy resources, thus saving domestic resources for later consumption.
- o The project's contribution to improved East-West relations generally.

Convincing the Allies to halt pipeline-related equipment and technology sales would require several carrots or sticks, or some combination of the two. These incentives could be used directly or indirectly. In other words, the potential benefits to the

~~SECRET~~

~~SECRET~~

~~SECRET~~

major Allies outlined above must be attacked or offset directly, or an indirect cost must be imposed that is perceived to be greater than the potential benefits.

It is very late in the game to attack West European and Japanese perceptions directly.

- o The West Europeans have not found credible US suggestions concerning other energy sources such as US coal, help in nuclear construction, or assistance in developing alternative sources of gas such as Algeria, Nigeria, or the North Sea.
- o No substitute project appears on the immediate horizon that could provide the employment and earnings offered by the Soviet deal.
- o Most West Europeans are convinced they will need the gas, and they view with suspicion any US forecasts indicating otherwise.
- o The West Europeans and Japanese would perceive a restrictive US pipeline policy as a potential threat to all East-West trade, rather than a threat "only" to energy-related trade. Moreover, backing out of the pipeline deal after preliminary agreements have been reached would be viewed by the Allies as a breach of faith on their part that would threaten other commercial relations.

It would at least theoretically be possible to make benefits available to the Allies that offset many of those they think would derive from the pipeline. But alternatives would be extremely costly, e.g., providing them with commensurate export earnings, or giving them guarantees in regard to energy supply that would be credible enough to offset their perception of Soviet reliability. Moreover, some of the motives for their commitment -- desire to encourage Soviet energy production and to broaden East-West relations, for example -- are almost impossible to counter.

Washington could warn that US trade relations with both Japan and Western Europe would be harmed seriously if the pipeline sales are concluded. For example, a tighter trigger price mechanism on steel or a tougher stance toward EC agricultural commodities such as sugar could be adopted. Other pressures could include non-tariff measures such as stricter labeling standards or increases in excise taxes on alcoholic beverages. The US might also limit sales of particular goods to the Allies, although such measures would have only a minor impact since alternatives to most US goods exist. More important, trade actions along these lines would be interpreted as first salvos in a full-fledged economic war and would almost certainly result in retaliation. As the US currently runs a sizable trade surplus

~~SECRET~~

~~SECRET~~

~~SECRET~~

~~SECRET~~

with Western Europe -- to the tune of around \$25 billion last year -- the US probably would be the ultimate loser in economic terms. []

In the area of finance, the US could offer to reduce its interest rates -- a major irritant in current economic relations with the Allies. The West Europeans and Japanese would probably view the promise as either impossible to keep or something the US should do regardless of Allied decisions on the Soviet gas deal. The US also might threaten to tighten controls on US banking subsidiaries overseas or on foreign investment in the US. This would upset West European and Japanese capital markets but would be unlikely to force the Allies to renege on the pipeline deal. In addition, the Allies would view such a move as self-defeating as it could punish US banks and the dollar more than it would hurt the Allies. []

Another potential area for US action is in the military/strategic field. The US could refuse to pay for stationing US troops in Western Europe, particularly in West Germany, and threaten to withdraw these troops if funds were not forthcoming from the West Europeans. Such a move would of course greatly aggravate the West Europeans' current concerns over whether they could count on the US if war broke out in Europe, and it would make NATO cooperation even more difficult. A significant positive incentive would be a US offer to make the "two-way street" in government military contracts wider and allow more traffic on it. A negative incentive would be US cutbacks in military technology sharing or co-production agreements such as jet engines for Sweden or tactical systems for the UK and Japan. []

From an individual country point of view, the United Kingdom would stand to lose the least if exports of pipeline-related equipment were blocked. The British enjoy net energy self-sufficiency, and they will be buying none of the Soviet gas. On the other hand, British agreement to US strategic export definitions would have little impact on the other major West Europeans, all of whom are more involved in the pipeline project and whose stake in East-West trade generally is much greater. Moreover, Rolls Royce is the only major producer of pipeline compressors that does not rely on US technology. If the US refuses to license pipeline-related exports and is able to prevent foreign licensees from selling the equipment, London and Rolls Royce have indicated their willingness to fill the vacuum -- an action consistent with Britain's present economic problems. []

West Germany's commitment to the pipeline project -- and to "Ostpolitik" generally -- is firm and Bonn views the two as closely linked. Although West Germany's future gas needs are not as pressing as those of France or Italy, the project for Bonn has become an important symbol of the benefits of East-West economic cooperation. Cancellation of the pipeline deal thus would be

~~SECRET~~
~~SECRET~~

~~SECRET~~

seen as a severe blow to Ostpolitik and would undermine Bonn's fundamental national policy -- reconciliation with East Germany. Because the US is perceived to endorse this reconciliation, US action against the pipeline would be seen as a betrayal of German interests. Given the current political climate in West Germany, no government in Bonn could survive if it gave in to US pressure. Even if the more conservative opposition came to power, it would defend West German interests in similar terms. []

French President Mitterrand is more cautious toward the Soviet relationship than was his predecessor, and Paris currently appears more willing to consider the strategic implications of the gas deal than is Bonn, Rome, or perhaps even London. Paris argues, however, that France needs the gas and that allowances have already been made to reduce the potential for Soviet leverage. The amount of gas to be purchased has been reduced, increased storage capacity is planned, interruptable contracts for industry will be used, and residential consumption will not be encouraged. The French also point out that their only immediate alternative supplier is Algeria, and it's cut-off of gas exports last year, plus current price disputes, indicate that the USSR is a better -- and safer -- bet. In addition, although Mitterrand's East-West views appear close to Washington's, the French president cannot appear to be giving in to US pressure. []

The Italians, although apparently further along in the pipeline negotiations than the other West Europeans, might be more vulnerable to US pressure. A US commitment to grant the Italians more nearly equal status in "Western power" deliberations would go a long way toward persuading Rome -- provided that the Italians saw no chance of other West Europeans snapping up any deal turned down by Rome. Italy's decision would have little impact, however, on the decisions of France or West Germany. []

Japan, in response to a perception that the US has begun to ease up on Afghanistan-related sanctions, has been edging recently toward a new dialogue with Moscow. The Japanese believe that increased interdependence contributes to the stability of Tokyo's relations with Moscow; they would not voluntarily abandon a cooperative approach except as part of a unified Western response to a crisis in East-West relations. Even in a crisis, Tokyo would be likely to follow suit only if the leading West European allies, particularly West Germany, agreed to tight new sanctions. The cost of buying Japanese cooperation if West Germany did not go along would be extremely high. To placate the business community, Tokyo would surely argue for future access to Alaskan oil if it were forced to deal itself out of the pipeline or to cut back on other joint energy development projects in the USSR. The US has a growing trade deficit with Japan and could use Japanese reliance on the US market as a lever. Any move to tie the trade issue to East-West relations, however, would run a

~~SECRET~~

~~SECRET~~

very high risk of undoing what progress Washington has made in opening Japan's market to US goods and encouraging the Japanese to increase their defense efforts.

It is therefore our judgment that persuading the Allies to halt the pipeline project could be accomplished only at great cost. In fact, the political and strategic impact of applying the sticks to achieve US goals could be profound. COCOM almost certainly would be undermined and might collapse. The very informality of COCOM makes it both a flexible and a fragile organization. The unanimity rule allows each member to protect its own interests but also can prevent action. The other COCOM members already view the US as too restrictive and will resist further US moves to tighten the COCOM embargo at the upcoming high-level COCOM Ministers Conference tentatively scheduled for November 1981. A perception of US heavy-handedness in COCOM could shatter the consensus that holds COCOM together. Beyond COCOM, there is a good chance that NATO and Western cooperation generally would be seriously threatened.

Any pressures applied by the US would have a much greater chance of success if the West Europeans saw total, unwavering commitment on Washington's part. For example, in West European eyes, US opposition to the pipeline deal currently appears self-serving and inconsistent. US decisions to lift the grain embargo and to approve the Caterpillar pipe-laying equipment contract have contributed to this view. We believe a successful campaign would necessarily involve at least the appearance of shared sacrifice. For the West Europeans, the clearest example of US sacrifice would be a firm US embargo on grain exports to the USSR as well as sales of energy equipment and technology. We would emphasize, however, that such measures might not succeed and that the West Europeans would be sorely tempted in any event to fill the void created by a US embargo on exports to the Soviet Union.

~~SECRET~~

DECLASSIFIED

~~SECRET~~

10741

10

6180

NLRR FD6-114/9 #10741

NATIONAL SECURITY COUNCIL

WASHINGTON, D.C. 20506

BY KML NARA DATE 9/25/12

VIA LDX

~~SECRET~~

October 22, 1981

MEMORANDUM FOR THOMAS B. CORMACK
Executive Secretary
Central Intelligence Agency

SUBJECT: Analysis of Ability of U.S./COCOM Oil/Gas Controls
to Impede Soviet Oil/Gas Production

The following is urgently required for high-level executive use:

A concise (three to five pages) analysis of the ability to impede Soviet oil/gas production by imposition of the Option I/II Oil and Gas Equipment and Technology Controls as defined in the existing Oil/Gas Options Paper. The assessment should focus on the probable net effect on Soviet oil/gas production (a) if the U.S. were successful in enlisting COCOM acceptance of such controls and (b) if the U.S. proceeds unilaterally, without COCOM cooperation.

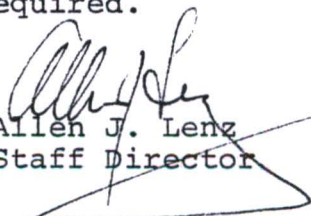
Ideally, both assessments would provide estimates of the effects on production levels in terms of the percentage of production loss that would result and would translate these percentages to effects on the growth rate of the economy and to other difficulties and shortages that might result.

It is also important that the time frame over which the effects of the U.S./Western control actions would occur be defined. For example, since most Western exports aid drilling or exploration, there would probably be considerable lag between the imposition of controls and resultant effects on Soviet production.

Similarly, how long would Soviet production be impaired? Permanently? Or would they gradually overcome the loss of Western equipment and technology?

I recognize the difficulties of providing this information. However, I am confident that your estimates will be very useful in establishing the rough orders of magnitude of the effects of alternative policies.

Your response by close of business, Tuesday, October 27, 1981, would be greatly appreciated. Please do not hesitate to call me for any further amplification that may be required.


Allen J. Lenz
Staff Director

~~SECRET~~

Review October 23, 1987

~~SECRET~~

~~CONFIDENTIAL~~

PIPELINE

11

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

10746

PAGE 01 OF 04 SECSTATE WASHDC 2024 DTG: 030013Z NOV 81 PSN: 053256
EOB476 AN008730 TOR: 307/0312Z CSN: HCE345

DISTRIBUTION: BALY-01 FEIT-01 LENZ-01 NAU-01 PIPE-01 POAT-01
RENT-01 /007 A1

WHTS ASSIGNED DISTRIBUTION:
SIT: NAN (FYI) EOB
EOB:

DECLASSIFIED

NLRR ~~FOIA~~-114/a #10746

BY KML NARA DATE 4/7/2011

OP IMMED
DE RUEHC #2024 3070248
O 030013Z NOV 81
FM SECSTATE WASHDC

TO AMEMBASSY PARIS . IMMEDIATE 0000

INFO AMEMBASSY BONN IMMEDIATE 0000
AMEMBASSY LONDON IMMEDIATE 0000
AMEMBASSY ROME IMMEDIATE 0000
AMEMBASSY BRUSSELS IMMEDIATE 0000



~~CONFIDENTIAL~~ STATE 292024

BRUSSELS ALSO FOR USEC, PARIS ALSO FOR USOEC
E.O. 12065: GDS 11/2/87 (FERRITER, JOHN P.)

TAGS: EGEN, ENRG

SUBJECT: BRIEFING PAPER FOR PRESENTATION ON SIBERIAN GAS
PIPELINE

REF: PARIS 3303 NOTAL

1. DAS WENDT IS HAND CARRY, NG ADDITIONAL MATERIALS REQUESTED REFTEL. IN CASE THERE IS ANY DELAY IN HIS FLIGHT, FOLLOWING CABLE PROVIDES THE SAME MATERIALS. PER GUIDANCE FROM MARTIN WE HAVE NOT PREPARED ADDITIONAL PAPERS ON WORLD ENERGY MARKETS AND HAVE DONE ONLY A BROAD BRUSH SECTION ON SECURITY ISSUES.

2. TOPIC A: INTRODUCTION: OVERVIEW OF ENERGY AND SECURITY ISSUES

TALKING POINTS:

-- THE SECURITY ISSUES SURROUNDING THE PROPOSED GAS PIPELINE FROM THE USSR TO WESTERN EUROPE ARE HIGHLY COMPLEX AND ARE THE SUBJECT OF GREAT CONCERN IN THE UNITED STATES. WE ARE HERE AT THE REQUEST OF PRESIDENT REAGAN TO DISCUSS THOSE ISSUES WITH YOU, AND TO OUTLINE SOME ENERGY ALTERNATIVES, AS AGREED WHEN OUR LEADERS DISCUSSED THIS MATTER AT OTTAWA.

-- OVER THE LAST DECADE WE HAVE LEARNED THAT IT IS PERILOUS TO HAVE OUR NATIONAL ECONOMIES DEPENDENT ON ENERGY SOURCES WHICH ARE CONTROLLED BY NATIONS IN A POSITION TO USE THEIR CONTROL OF VITAL RESOURCES TO APPLY POLITICAL LEVERAGE. WE RECOGNIZE THAT A PRIMARY CONCERN OF EUROPEAN ENERGY POLICY HAS BEEN TO LESSEN DEPENDENCE ON OIL FROM THE UNSTABLE MIDDLE EAST -- AND WE APPLAUD THAT OBJECTIVE -- BUT WE ARE DEEPLY CONCERNED THAT THE PROPOSED PIPELINE MAY REPLACE ONE DEPENDENCE WITH ANOTHER WHICH IS JUST AS RISKY.

-- WE BELIEVE THAT THE PROPOSED PIPELINE CROSSES THE THRESHOLD OF A PRUDENT LEVEL OF DEPENDENCY ON SOVIET GAS. THE AMOUNT OF ENERGY INVOLVED IS SUBSTANTIAL -- THE EQUIVALENT OF 500,000 BARRELS OF OIL EACH DAY.

-- MORE IMPORTANTLY, THIS ENERGY IS TO BE SOLD AS PIPELINE GAS, AN ENERGY SOURCE WHICH IS HIGHLY SUSCEPTIBLE TO SUPPLIER MANIPULATION. ONCE THE LARGE INITIAL INVESTMENT HAS BEEN MADE, THE PIPELINE BUILT, AND CONSUMPTION PATTERNS ESTABLISHED, CERTAIN REGIONS WILL BE HEAVILY DEPENDENT ON SOVIET GAS, WITH NO SHORT-TERM ALTERNATIVE SUPPLIES AVAILABLE.

-- THERE IS NO SPOT MARKET IN GAS. CURRENT SURGE PRODUCTION CAPACITY IN EUROPE IS LIMITED. STRATEGIC STOCKS OF GAS IN EUROPE ARE RELATIVELY SMALL, AND BUILDING SUCH STOCKS IS AN EXPENSIVE AND TECHNICALLY CHALLENGING TASK.

-- RESIDENTIAL AND COMMERCIAL USERS WOULD BE PARTICULARLY DEPENDENT ON GAS, AND A CUT-OFF WOULD BE ONEROUS FOR THESE POLITICALLY SENSITIVE SECTORS. RESIDENTIAL AND COMMERCIAL CUSTOMERS ARE THE LEAST ABLE TO ABSORB OR ADJUST TO AN ABRUPT FUEL SUPPLY INTERRUPTION.

-- A CUTOFF OF GAS SUPPLY IS NOT THE ONLY CONSEQUENCE TO BE CONSIDERED IN OUR PLANNING. THE PROPOSED PIPELINE COULD SUBSTANTIALLY INCREASE SOVIET ENERGY LEVERAGE OVER WESTERN EUROPE. IT IS NOT UNREASONABLE TO ASSUME THAT THE SOVIETS FROM TIME TO TIME WOULD SEE THIS LEVERAGE AS A USEFUL TOOL WITH WHICH TO SEEK POLITICAL AND/OR ECONOMIC BENEFITS.

-- IT HAS BEEN ARGUED THAT THE SOVIET UNION IS A RELIABLE SUPPLIER WHICH HAS NEVER INTERRUPTED ENERGY SUPPLIES. THIS IS A FALLACY -- THE USSR HAS USED ENERGY

EXPORTS AS A POLITICAL LEVER, INTERRUPTING SUPPLIES TO YUGOSLAVIA, ISRAEL, AND CHINA, AMONG OTHERS. EVEN ITS EAST EUROPEAN ALLIES ARE KEPT ON A SOVIET OIL-SUPPLY LEASH. WHILE IT IS TRUE THAT SOVIET CONTRACTUAL COMMITMENTS TO WESTERN EUROPE HAVE IN THE PAST BEEN MET, IT IS ALSO TRUE THAT THE LEVERAGE WHICH THE SOVIETS OBTAINED FROM PAST ENERGY FLOWS WAS QUITE LIMITED. OIL SUPPLIES, IN PARTICULAR, WERE READILY AVAILABLE ELSEWHERE, AND SOVIET GAS MADE UP ONLY A SMALL PORTION OF THE EUROPEAN MARKET. THE PROPOSED GAS PIPELINE WOULD ALTER THE RELATIVE POSITIONS OF SOVIET PRODUCER AND EUROPEAN CONSUMER AND GIVE THE SOVIETS THE POSSIBILITY OF USING THEIR LEVERAGE TO PURSUE POLITICAL GOALS.

3 TOPIC B: PRICE ISSUES

NATURAL GAS PRICES MAY BE PEAKING

-- CURRENT NEGOTIATIONS ARE TAKING PLACE DURING THE CREST OF ALGERIAN AND TO A SOMEWHAT LESSER DEGREE SOVIET EFFORTS TO ACHIEVE CRUDE OIL EQUIVALENT BTU PRICING FOR NATURAL GAS. ALGERIA JUST SIGNED A CONTRACT WITH BELGIUM, WHICH NOT ONLY CALLS FOR A HIGH BASE PRICE, \$4.80 PER MMBTU, BUT AN ABSOLUTE BTU CRUDE OIL EQUIVALENT ESCALATOR.

-- ALGERIA HAS BEEN HOLDING UP SHIPMENTS TO A NUMBER OF COUNTRIES TO OBTAIN SIMILAR TERMS. ALGERIAN DELIVERIES OF PIPELINE GAS TO ITALY HAVE BEEN DELAYED DUE TO A PRICING DISPUTE. THE U.S. FIRM, TRUNKLINE, GAS, WHICH WAS EXPECTED TO START UP IN AUGUST WITH AN FOB PRICE OF \$4.12 MMBTU, HAS ALSO BEEN DELAYED.

-- THE SOVIETS HAVE BEEN SLIGHTLY MORE REALISTIC, BUT STILL ARE REPORTED TO BE SEEKING OVER \$5.00 PER MMBTU AND

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 02 OF 04 SECSTATE WASHDC 2024 DTG: 030013Z NOV 81 PSN: 053256

AN ESCALATOR BASED ON A MIX OF PETROLEUM PRODUCTS AND CRUDE OIL.

WE BELIEVE THE CURRENT EFFORTS TO ACHIEVE OIL EQUIVALENCE WILL FAIL IF CONSUMERS CONTINUE TO RESIST.

-- THE LATEST PUSH ON HIGH NATURAL GAS PRICES WAS FORMULATED WHEN THE IRAN/IRAQ WAR SENT OIL PRICES SOARING AND CONSUMERS SCRAMBLING FOR ALTERNATIVE SUPPLIES. THE SITUATION HAS REVERSED AND OPEC PRICES HAVE BEEN UNIFIED AND FROZEN THROUGH 1982.

-- STRUCTURAL CHANGES IN CONSUMING COUNTRIES HAVE LED TO LOWER ENERGY DEMAND AND MARKETS ARE EXPECTED TO CONTINUE TO BE SOFT IN THE FUTURE. EUROPEAN GAS DEMAND FELL BY 4 PERCENT LAST YEAR.

-- THE CURRENT HIGH GAS PRICES, COMPARED TO ALTERNATIVE INDUSTRIAL FUELS SUCH AS RESIDUAL OIL AND COAL, HAS LED TO SHARP CONSUMER RESISTANCE. FOR, EXAMPLE, AT THE HIGH BORDER PRICE OF \$4.94, CANADIAN EXPORTS OF GAS TO THE U.S. HAVE FALLEN TO APPROXIMATELY 50 PERCENT OF AUTHORIZED LEVELS.

-- THE CHANGES IN THE WORLD OIL MARKET SHOULD ALSO CHANGE THE ATMOSPHERE OF NEGOTIATIONS IN FAVOR OF ENERGY CONSUMERS. LOWER OIL PRICES NOT ONLY REDUCE THE PRICE OF COMPETITIVE INDUSTRIAL FUELS BUT LEAVE KEY GAS EXPORTERS STRAPPED FOR PETROLEUM REVENUES.

-- ALGERIA WILL BE PARTICULARLY HARD HIT. LOWER OIL PRICES WILL REDUCE REVENUES AND OIL PRODUCTION HAS ALREADY PEAKED AND WILL LIKELY DECLINE BY 5 TO 7 PERCENT ANNUALLY THROUGH THE DECADE. RISING DOMESTIC CONSUMPTION WILL TAKE AN ADDITIONAL 5 TO 7 PERCENT ANNUAL BITE OUT OF EXPORTS.

-- THE ONLY WAY THESE REVENUES CAN BE MADE UP IS THROUGH INCREASED GAS EXPORTS. WE PROJECT THAT ALGERIA IF IT CHANGES ITS PRESENT POLICY CAN PROVIDE WESTERN EUROPE WITH SUBSTANTIAL ADDITIONAL VOLUMES OF GAS ABOVE PRESENT CONTRACT COMMITMENTS BY 1990.

-- THE ONLY WAY ALGERIA CAN USE ITS NATURAL GAS EXPORTS AS AN ALTERNATIVE TO OIL REVENUES IS TO SHOW GREATER FLEXIBILITY ON PRICE.

-- ALGERIA WILL ALSO FACE NEW COMPETITION IN THE FUTURE. NIGERIAN RESERVES EXCEED 2.0 TRILLION CUBIC METERS. THE CAMEROON AND QATAR MAY BE ALTERNATIVES AND ARGENTINA AND TRINIDAD HAVE SHOWN AN INTEREST IN LNG. GREATER COMPETITION SHOULD PUT PRESSURE ON PRICES AND GIVE GREATER ASSURANCE OF SUPPLY.

-- WITH THE U.S. OUT OF THE LNG MARKET AT CURRENT HIGH PRICES, EUROPE IS THE ONLY FEASIBLE ALTERNATIVE FOR A NUMBER OF GAS PRODUCERS.

CONCLUSIONS

-- FROM A PRICE STANDPOINT THIS IS NOT THE MOMENT TO CONCLUDE A HIGH PRICED AGREEMENT WITH THE SOVIETS. ALGERIA WILL SOON BE AT THE POINT WHERE IT WILL HAVE TO SHOW GREATER PRICE FLEXIBILITY. AS ALGERIAN PRICING POLICY BECOMES MORE REALISTIC, THE SOVIETS WILL HAVE TO FURTHER LOWER THEIR ASKING PRICES.

-- EUROPEAN LEVERAGE WILL INCREASE OVER TIME. EUROPE IS THE ONLY FEASIBLE MARKET AND EUROPEAN GAS DEMAND IS

DECLINING. GAS EXPORTERS ARE HARD UP FOR REVENUE AND MORE PRODUCTION IS COMING ON STREAM.

-- IF EUROPE IS GOING TO PURCHASE SOVIET GAS, IT MAKES LITTLE SENSE TO PAY AN UNNECESSARY PRICE PREMIUM. A DELAY IN CONCLUDING NEGOTIATIONS SHOULD STRENGTHEN THE EUROPEAN BARGAINING POSITION.

4. TOPIC D: ALTERNATIVES

-- IF WORLD ENERGY MARKETS REMAIN SOFT, THERE WILL BE ALTERNATIVE ENERGY OPTIONS WHICH WILL BE MORE ECONOMIC AND SECURE THAN SOVIET GAS.

-- OIL ITSELF MAY BE AN IMPORTANT ALTERNATIVE. STRUCTURAL CHANGES IN OIL CONSUMPTION PATTERNS COULD KEEP OIL DEMAND WELL BELOW PRODUCTION CAPACITY.

-- THE U.S. WILL MAKE A POWERFUL CONTRIBUTION TO THIS TREND. U.S. OIL IMPORTS THIS YEAR ARE RUNNING AT ABOUT 5 MILLION BARRELS PER DAY (MMB/D), 3 1/2 MMB/D BELOW THEIR 1977 PEAK.

-- AFRICAN GAS IS A POSSIBLE ALTERNATIVE TO SOVIET GAS. THERE ARE ALSO SUBSTANTIAL GAS RESOURCES IN ALGERIA, CAMEROON AND QATAR.

ALGERIA

-- THE MAINTENANCE OF OUR EXISTING COMPETITIVE FUELS GAS IMPORT POLICY MAY RESULT IN THE ULTIMATE FAILURE OF FUTURE ALGERIAN LNG PROJECTS TO THE U.S.--TRUNKLINE AND DISTRIGAS. ALGERIAN DEMANDS FOR CRUDE OIL PARITY LNG PRICES, WHICH VIOLATE OUR COMPETITIVE FUELS TEST, WILL YIELD GAS WHICH IS UNMARKETABLE IN THE U.S. UNLESS IT IS SUBSIDIZED THROUGH PRICE-AVERAGING WITH REGULATED DOMESTIC GAS.

-- THE ALGERIAN GAS CONTRACTS TO THE U.S. ACCOUNT FOR ABOUT HALF OF PROSPECTIVE NORTHWEST SIBERIAN GAS DELIVERIES UNDER A ONE PIPELINE--75 ATMOSPHERES SCENARIO. ALL OF THIS LNG MAY BE DIVERTED TO WESTERN EUROPE BEFORE THE SIBERIAN PIPELINE COULD BE COMPLETED. EUROPE ALSO ENJOYS A \$1 PER MILLION BTU TRANSPORTATION ADVANTAGE OVER THE U.S. IN TERMS OF THE PRICE IT CAN PAY FOR ALGERIAN LNG.

NIGERIA

-- A WEST EUROPEAN CONSORTIUM OF 8 NATURAL GAS UTILITIES HAS CONCLUDED CONTRACTS FOR 0.3 TRILLION CUBIC FEET (TCF/YEAR) OF NIGERIAN GAS AND HAS AN OPTION TO PURCHASE THE U.S. VOLUMES (ALSO 0.3 TCF/YEAR) IF U.S. COMPANIES CANNOT OR DECIDE NOT TO CONSUMMATE THE TRANSACTION. THE BONNY PROJECT COULD BE COMPLETED BY THE LATE 1980S, (I.E., ABOUT THE TIME THE NORTHWEST SIBERIAN PIPELINE IS DUE TO BE COMPLETED).

-- A U.S. TEAM IS NOW IN LONDON TO DISCUSS WAYS THAT THE BONNY LNG PROJECT MIGHT BE ACCELERATED.

-- THE COMBINATION OF NIGERIAN AND ALGERIAN SUPPLIES CONTRACTED FOR BY U.S. COMPANIES WOULD REPLACE VIRTUALLY ALL OF THE PROSPECTIVE NORTHWEST SIBERIAN PIPELINE DELIVERIES.

CAMEROON

-- ACCELERATED DEVELOPMENT OF CAMEROON'S RESERVES LEADING TO PRODUCTION OF ABOUT 0.2 TCF/YEAR COULD BE ACCOM-

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 03 OF 04 SECSTATE WASHDC 2024 DTG: 030013Z NOV 81 PSN: 053256

PLISHED BY THE LATE 1980S OR EARLY 1990S. THE GOVERNMENT OF CAMEROON IS FAVORABLY DISPOSED TOWARD NEGOTIATIONS WITH FOREIGN COMPANIES FOR THE DEVELOPMENT AND EXPORT OF GAS.

TRINIDAD

-- IN 1980, THE GOVERNMENT ALLOCATED OVER 0.4 TCF OF NATURAL GAS TO AN LNG PROJECT. THE ALLOCATION WAS APPROPRIATE FOR THE PLANNED FACILITY WITH A NOMINAL CAPACITY OF 0.2 TCF/YEAR TO WHICH AN ADDITIONAL 0.1 TCF/YEAR COULD BE ADDED IF LOCAL GAS RESERVES AND MARKET POTENTIAL COULD SUPPORT INCREASED CAPACITY. THE PLANT COULD BE COMPLETED BY THE LATE 1980S.

-- ALTHOUGH THE U.S. IS THE LOGICAL EXPORT MARKET FOR THIS GAS DUE TO LOGISTICAL CONSIDERATIONS, IT IS QUESTIONABLE WHETHER WE WILL NEED IT.

QATAR

-- THE DEVELOPMENT OF QATAR'S HUGE OFFSHORE NORTH DOME FIELD (100-200 TCF OF RECOVERABLE RESERVES) COULD PROVIDE EUROPE AND JAPAN WITH LNG SUPPLIES BY THE LATE 1980S. THE GOVERNMENT OF QATAR IS CURRENTLY EVALUATING COMPETITIVE BIDS FOR THE DEVELOPMENT OF AN 0.4 TCF/YEAR LNG EXPORT

PROJECT WHICH WOULD BE SHARED EQUALLY BETWEEN EUROPEAN AND JAPANESE MARKETS.

NORWEGIAN GAS

-- NORWAY HAS THE POTENTIAL TO BECOME AN INCREASINGLY IMPORTANT GAS SUPPLIER TO CONTINENTAL EUROPE IN THE 1990S.

-- NORWAY'S RECENT DECISION TO GO AHEAD WITH DEVELOPMENT OF STATFJORD AND OTHER GAS FIELDS WILL HELP OFFSET PRE-MATURE PRODUCTION DECLINES FROM THE EKOFISK GAS FIELD AND WILL INCREASE CURRENT EXPORTS FROM 0.9 TO 1.1 TCF BY 1985-86. THE DEVELOPMENT OF THE GIANT BLOC 31/2 FIELD (1-2 TCF/YEAR) INVOLVES FURTHER DELINEATION OF ADJACENT UNLEASHED BLOCS, PRODUCTION OF LIQUIDS BEFORE THE GAS IS DEVELOPED, A LEAD TIME OF 10 YEARS, AND PROBABLE DEVELOPMENT/TRANSMISSION COSTS OF \$5-7 PER MILLION BTU IN CURRENT DOLLARS.

-- ON BALANCE, NORWAY'S BLOC 31/2 AS WELL AS OTHER UNDEVELOPED FIELDS OFFER WESTERN EUROPE THE POST-1995 POTENTIAL TO OFFSET THE PHASING OUT OF 1.8 TCF/YEAR OF DUTCH GAS, AND THEREBY CONTRIBUTE TO REDUCING DEPENDENCE ON SOVIET GAS. TRANSLATING NORWEGIAN RESOURCE POTENTIAL INTO MARKET REALITY, HOWEVER, REQUIRES: (1) ACCELERATED DEVELOPMENT OF STRUCTURES SUCH AS BLOC 31/2, AND (2) NORWEGIAN GOVERNMENT PREFERENCE TO EXPAND GAS RATHER THAN OIL OUTPUT WITHIN THE PRESENT 1.8 MILLION B/D HYDROCARBON PRODUCTION CEILING.

-- PRODUCTION FROM FIELD 31/2 WOULD BE INSUFFICIENT BY ITSELF TO OFFSET SOVIET GAS SUPPLIES IN LIGHT OF THE DUTCH DECISION TO REDUCE EXPORTS. HOWEVER, AN ACCELERATION OF THE PRODUCTION SCHEDULE WOULD HAVE IMPORTANT PSYCHOLOGICAL BENEFITS.

5. TOPIC E: U.S. ENERGY POLICY

-- THE UNITED STATES HAS TAKEN AND WILL CONTINUE TO IMPLEMENT A NUMBER OF STEPS WHICH WILL INCREASE THE AVAILABILITY OF OIL AS WELL AS GAS ON THE WORLD MARKET. WE HAVE ALREADY DECONTROLLED OIL PRICES IN AN EFFORT TO

ENCOURAGE DOMESTIC PRODUCTION AND REDUCE WASTEFUL USE. STEPS ARE ALSO BEING TAKEN TO INCREASE LEASING OF FEDERAL LAND INCLUDING THE OUTER CONTINENTAL SHELF IN ORDER TO HELP STIMULATE HERETOFORE LOCKED IN DOMESTIC ENERGY WEALTH.

-- THE ADMINISTRATION IS CURRENTLY REVIEWING PROPOSALS FOR ACCELERATED GAS PRICE DEREGULATION. BUT, EVEN IF THE DEREGULATION PROCESS CANNOT BE ACCELERATED, PRICE CONTROLS ON MOST DOMESTIC GAS WILL BE REMOVED BY THE TIME THAT THE SIBERIAN PIPELINE IS COMPLETED. ACCELERATED GAS PRICE DEREGULATION WILL HELP STIMULATE DOMESTIC PRODUCTION AND ENABLE THE U.S. TO DECREASE ITS NEED FOR OIL AND GAS IMPORTS.

-- AS GAS PRICE DEREGULATION PROCEEDS, GAS USE WILL BECOME MORE EFFICIENT AND SUPPLIES MORE PLENTIFUL. TO THE EXTENT THE U.S. WILL STILL REQUIRE IMPORTED GAS, MARKET FORCES WILL FAVOR IMPORTS FROM CANADA AND MEXICO AND POSSIBLY OTHER WESTERN HEMISPHERE SOURCES RATHER THAN LONG-HAUL LIQUIFIED NATURAL GAS (LNG). EVEN UNDER OUR CURRENT COMPETITIVE FUELS TEST FOR THE PRICE OF GAS IMPORTS, LONG-HAUL LNG WILL HAVE DIFFICULTY FINDING A PLACE IN THE U.S. MARKET.

6. TOPIC F: FUTURE CONSULTATIONS

TALKING POINTS

-- ALTHOUGH WE HAVE IDENTIFIED SEVERAL AREAS WHERE OUR PERCEPTIONS AND ASSESSMENTS DIFFER, WE AGREE ON THE VITAL IMPORTANCE OF ADEQUATE ENERGY SECURITY TO OUR COMMON ECONOMIC WELL-BEING.

-- GIVEN THE IMPORTANCE OF THE ISSUES AT STAKE, WE PROPOSE THAT CERTAIN BASIC DECISIONS ON THE PIPELINE PROJECT BE DEFERRED FOR A FEW MONTHS WITHOUT PREJUDICE. THIS WOULD ALLOW AN URGENT JOINT EXAMINATION OF THE ENERGY OUTLOOK AND CONSIDERATION OF THE ALTERNATIVES.

-- SOME OF OUR DIFFERENCES STEM FROM DIFFERING EXPECTATIONS AS TO FUTURE ENERGY SUPPLY AND DEMAND. IT MAY BE APPROPRIATE, THEREFORE, FOR THE IEA AND THE EC TO RE-EXAMINE AND REFINER, ON AN URGENT BASIS, A CURRENT ANALYSIS OF THE FUTURE OF ENERGY MARKETS. HIGH LEVEL ATTENTION CAN IMPROVE THE QUALITY AND TIMELINESS OF SUCH AN EXAMINATION.

-- AS YOU ARE AWARE, WE BELIEVE THERE ARE SIGNIFICANT AND REALISTIC ALTERNATIVES TO INCREASED DEPENDENCE ON SOVIET GAS. CERTAINLY THE ALTERNATIVES WE HAVE DESCRIBED TODAY, (AND OTHERS, IF APPROPRIATE) SHOULD BE EXAMINED CAREFULLY IN LIGHT OF COMMON CONCERNS AND SHARED ENERGY PROJECTIONS.

-- OUR DISCUSSIONS ALSO HAVE POINTED OUT THE FACT THAT, REGARDLESS OF SOURCE, THE USE OF NATURAL GAS POSES NE. CHALLENGES TO ENERGY SECURITY BY ITS VERY NATURE. IN COMPARISON TO OIL, GAS IS LESS SUSCEPTIBLE TO JOINT ACTION IN CASE OF INTERRUPTION, SINCE GAS REQUIRES A VERY LARGE, RIGID INFRASTRUCTURE. FURTHERMORE, THE USE OF OIL AS A BACKUP TO GAS MUST ITSELF BE FACTORED INTO OIL RESERVE PLANNING.

-- TO EXAMINE ALL THESE ISSUES, WE SHOULD SET UP A SPECIAL HIGH LEVEL WORKING GROUP. IT SHOULD WORK QUICKLY, KEEP OUT OF THE PUBLIC EYE, AND SHOULD REPORT TO GOVERNMENTS BY FEBRUARY 1. THE PURPOSE OF THESE CONSULTATIONS WOULD BE TO REACH A COMMON UNDERSTANDING OF: (A) FUTURE ENERGY MARKETS, (B) ENERGY ALTERNATIVES, INCLUDING THE U.S. ROLE IN ASSISTING THEIR DEVELOPMENT, AND (C)

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

14

NATIONAL SECURITY COUNCIL MESSAGE CENTER

PAGE 04 OF 04 SECSTATE WASHDC 2024 DTG: 030013Z NOV 81 PSN: 053256

MEANS TO REDUCE VULNERABILITY TO GAS SUPPLY DISRUPTIONS IF THE PIPELINE PROCEEDS.

-- WE BELIEVE SUCH A HIGH LEVEL WORKING GROUP WOULD BE MOST EFFECTIVE IF ORGANIZED ON AN AD HOC, MULTILATERAL BASIS, TO INCLUDE FRANCE, GERMANY, ITALY, BELGIUM AND THE EUROPEAN COMMISSION; WE ALSO WOULD BE PREPARED TO CONSULT ON A BILATERAL BASIS. IF, ON THE BASIS OF THESE DISCUSSIONS, EUROPEAN GOVERNMENTS DECIDE TO GO AHEAD WITH THE PIPELINE PROJECT, THE DELAY MAY WELL HOLD NEGOTIATING ADVANTAGES. AND, IN ANY CASE, IT WOULD OFFER AN OPPORTUNITY TO FURTHER EXAMINE APPROPRIATE "SAFETY NET" PRECAUTIONS AGAINST SUPPLY INTERRUPTIONS.

-- (IF THE EUROPEANS REFUSE TO DELAY THE PIPELINE) WE STILL URGENTLY NEED HIGH LEVEL CONSULTATIONS ON ENERGY SECURITY, INCLUDING: (A) FUTURE ENERGY MARKETS: (B) ENERGY ALTERNATIVES AND (C) SAFETY NET PREPARATIONS.

7. LIKELY EUROPEAN REACTIONS: POINT COUNTERPOINT

POINT: PROJECTED LEVELS OF EUROPEAN DEPENDENCE ON SOVIET GAS ARE SMALL. DEPENDENCE ON SOVIET ENERGY WILL BE 5 PERCENT OR LESS OF TOTAL ENERGY CONSUMPTION IN ALL COUNTRIES EXCEPT AUSTRIA. THE SOVIETS, THEREFORE, WOULD NOT GAIN ANY REAL LEVERAGE AS A RESULT OF THIS PIPELINE.

COUNTER POINT:

-- THE VOLUME OF SOVIET GAS AS A PERCENTAGE OF TOTAL EUROPEAN ENERGY CONSUMPTION IS NOT A SUFFICIENT INDICATOR OF ECONOMIC AND POLITICAL VULNERABILITY.

-- GAS IS A DIFFICULT FUEL TO REPLACE ON SHORT NOTICE-- THERE IS NO SPOT MARKET. IN THE EVENT OF A SLOWDOWN OR INTERRUPTION, SOVIET GAS COULD NOT BE READILY REPLACED UNLESS THERE WERE EXCESS CAPACITY IN OTHER PARTS OF THE EUROPEAN ENERGY GRID.

-- LARGE STRATEGIC STOCKS OF GAS ARE MUCH MORE EXPENSIVE AND TECHNICALLY CHALLENGING TO HOLD THAN STOCKS OF OIL.

-- CERTAIN REGIONS WILL BE VERY HEAVILY DEPENDENT ON SOVIET GAS AND MIGHT APPLY STRONG PRESSURE ON NATIONAL GOVERNMENTS TO AVOID ACTIONS WHICH COULD RESULT IN AN INTERRUPTION.

-- IN SOME COUNTRIES (NOT INCLUDING FRANCE), RESIDENTIAL AND COMMERCIAL CONSUMERS ARE PARTICULARLY DEPENDENT ON GAS. OVERALL, THIRTY PERCENT OF GAS FROM THE PIPELINE IS EARMARKED FOR RESIDENTIAL USE. SUCH USERS HAVE LIMITED CAPACITY TO SWITCH EASILY TO ANOTHER FUEL. GAS PRICES WOULD PROBABLY RISE PRECIPITOUSLY IN THE WAKE OF A SOVIET EMBARGO OR THREAT OF A SLOWDOWN IN DELIVERY AND THUS PLACE A HARSH FINANCIAL BURDEN ON HOMEOWNERS AND COMMERCIAL BUSINESSES, WHICH, IN TURN, WOULD CREATE DOMESTIC POLITICAL PRESSURE LIMITING THE FREEDOM OF MANEUVER OF SOME EUROPEAN GOVERNMENTS.

POINT: SOVIET GAS IS A NECESSARY PART OF EUROPEAN STRATEGY TO REDUCE OIL CONSUMPTION AND DIVERSIFY SOURCES OF ENERGY. THE SOVIET UNION IS A RELIABLE SUPPLIER AND HAS NEVER IN THE PAST SHUT OFF ENERGY SHIPMENTS TO WEST EUROPEAN COUNTRIES FOR POLITICAL REASONS BUT MIDDLE EASTERN SUPPLIERS HAVE.

COUNTER POINT:

-- IT IS IMPORTANT TO NOTE THAT IN THE PAST THE SOVIET UNION HAS USED ENERGY EXPORTS AS A POLITICAL LEVER.

-- HISTORICALLY, SUPPLIES TO YUGOSLAVIA, ISRAEL, AND CHINA, AMONG OTHERS, HAVE BEEN INTERRUPTED.

-- IN ADDITION, TECHNICAL OR SEASONAL DIFFICULTIES, PERHAPS COMPLICATED BY THE NEED TO DIVERT GAS FROM EXPORT TO DOMESTIC USE TO MAKE UP FOR REDUCED DELIVERIES OF IRANIAN GAS, FORCED THE SOVIETS TO SLOW SOME GAS SHIPMENTS TO THE WEST LAST WINTER AND SPRING.

-- THE PROBABILITY OF FURTHER TECHNICAL OR SEASONAL INTERRUPTIONS MAY INCREASE AS THE SOVIETS TRY TO SHIP MORE GAS FROM OUTLYING AND MORE RISKY SIBERIAN PROVINCES.

-- EVEN IN THE CURRENT BARGAINING STAGE, AND DESPITE SOFT ENERGY MARKETS, THE SOVIETS HAVE EFFECTIVELY USED THEIR LEVERAGE TO SECURE MOST GENEROUS FINANCING (BILLIONS OF DOLLARS IN GOVERNMENT CREDITS AT AN AVERAGE OF LESS THAN 8%). THE SOVIETS HAVE SUCCEEDED IN GETTING THE EUROPEANS TO UNDERWRITE MUCH OF THE RISK.

POINT: EXPANDED PURCHASES OF SOVIET GAS WILL GENERATE MAJOR NEW ORDERS AND JOBS FOR THE EUROPEAN STEEL AND MACHINERY INDUSTRIES IN PARTICULAR.

COUNTER POINT:

-- GIVEN THE HIGHLY FAVORABLE EXPORT CREDIT RATES FOR PIPELINE EQUIPMENT WHICH THE EUROPEANS HAVE ACCORDED THE SOVIETS, WESTERN EUROPEAN DOMESTIC EMPLOYMENT AND EXPORTS TO THE USSR ARE, IN EFFECT, BEING SUBSIDIZED BY THE EUROPEAN GOVERNMENTS. IF FUNDS OF COMPARABLE MAGNITUDE WERE MADE AVAILABLE FOR OTHER DOMESTIC PROJECTS, EMPLOYMENT WOULD BE SIMILARLY GENERATED WITHOUT THE ACCOMPANYING STRATEGIC VULNERABILITY.

-- MOREOVER, IF ALTERNATIVE GAS SUPPLY PROJECTS (NORWAY, NIGERIA) ARE UNDERTAKEN, CONSIDERABLE EMPLOYMENT WILL BE CREATED IN WESTERN EUROPE IN THE MANUFACTURE AND EXPORT OF NECESSARY EQUIPMENT.

-- ONE CAN ALSO ARGUE THAT IF A LARGE NUMBER OF JOBS IN THE ECONOMY ARE CREATED BY AND DEPENDENT ON THE CONTRACTS FOR THE PIPELINE, THE DOMESTIC ECONOMY BECOMES A HOSTAGE TO A WIDE VARIETY OF SOVIET ACTIONS, RANGING FROM SUBTLE PRESSURE TO OUTRIGHT EMBARGO.

POINT: EXPANDING EAST-WEST COMMERCE BUILDS POLITICAL TIES AND MODERATES SOVIET BEHAVIOR IN THE LONG RUN.

COUNTER POINT:

-- EAST/WEST TRADE CAN CONTINUE TO GROW IN AREAS WHICH DO NOT CARRY POTENTIAL FOR INCREASING WESTERN VULNERABILITY.

-- NOT ALL EAST/WEST COMMERCE IS OF EQUAL MERIT. INDIVIDUAL TRANSACTIONS MUST BE JUDGED ON THE PARTICULAR ECONOMIC AND STRATEGIC MERITS OF EACH.

-- THE EXISTENCE OF A POSSIBLE PRESSURE POINT ON WESTERN EUROPE MIGHT EMBOLDEN THE SOVIETS TO PRESSURE WESTERN EUROPEAN GOVERNMENTS ON A VARIETY OF ISSUES. HAIG
BT

~~CONFIDENTIAL~~

OFFICE OF TECHNOLOGY ASSESSMENT

TECHNOLOGY
ASSESSMENT
BOARDTED STEVENS, ALASKA,
CHAIRMANMORRIS K. UDALL, ARIZ.,
VICE CHAIRMANORRIN G. HATCH, UTAH
CHARLES McC. MATHIAS, JR., MD.
EDWARD M. KENNEDY, MASS.
ERNEST F. HOLLINGS, S.C.
HOWARD W. CANNON, NEV.GEORGE E. BROWN, JR., CALIF.
JOHN D. DINGELL, MICH.
LARRY WINN, JR., KANS.
CLARENCE E. MILLER, OHIO
COOPER EVANS, IOWAJOHN H. GIBBONS
Director

JOHN H. GIBBONS

NOTE TO EDITORS: OTA's testimony on the West Siberian Gas Export Pipeline before the Senate Committee on Banking, Housing, and Urban Affairs on Thursday, Nov. 12, did not constitute release of this report.

EMBARGOED: For Release A.M.'s
Tuesday, Nov. 17, 1981

Contact: Jean McDonald
(202) 226-2115

OTA SAYS U.S. CAN'T AFFECT SOVIET ENERGY AVAILABILITY IN THIS DECADE

A U.S. policy to restrict Soviet access to energy technology is not likely to succeed without the participation of U.S. allies, according to the Congressional Office of Technology Assessment (OTA).

Soviet economic growth in the 1980's hinges on a continued increase in Soviet energy production. Since oil production is leveling off and coal production is falling, the Soviets are counting on a huge increase in natural gas production both for domestic use and for export.

While Western technology will play an important role in this gas production, the Soviets expect to obtain most of what they need from sources outside the United States. From the perspective of Japan and Western Europe, Soviet energy industries are important customers for technology and equipment, and a source of energy supply as well.

A U.S. policy to bolster Soviet energy production would not succeed, OTA says, without significant changes in Soviet economic policy. The rigid, centralized nature of the Soviet economic system not only makes domestic solutions to its energy problems more difficult, but also limits the extent to which the U.S.S.R. is willing or able to turn to the West for assistance.

(MORE)

The OTA study, "Technology and Soviet Energy Availability," was released today at a press conference called by Representative Albert Gore, Jr. (D-Tenn.), Chairman of the Subcommittee on Investigation and Oversight, Science and Technology Committee. Representative Gore has announced hearings on the report for Dec. 10, 1981.

"Because the theoretical issues surrounding East-West trade have been laid out at length, this report represents an important step forward in gaining a much-needed set of facts on the matter," Gore said. "This kind of empirical data is essential to the formulation of a realistic trade policy that will benefit the United States and its allies."

Senator Ted Stevens (R-Alaska), Chairman of OTA's Congressional Board, said: "This report gives graphic examples of the high priority which the Soviet Union places on energy development -- especially natural gas. The U.S.S.R. has laid roughly 6,000 miles of 56-inch pipe for frontier gas delivery, with 10,000 additional miles planned. In contrast, the United States has pondered for five years the construction of 4,800 miles of pipeline to deliver natural gas from the Arctic. There is a lesson here -- I hope it is not missed."

The OTA study examines how much the United States itself or in concert with its Western Allies could affect -- one way or the other -- the energy future of the Soviet Union in the current decade. It discusses the Soviets' primary energy industries; the extent to which the United States is the sole or preferred supplier of equipment and technology; and the implications for both the entire Soviet bloc and the Western alliance of either providing or withholding Western equipment and technology.

OTA found that the majority of the U.S.S.R.'s energy-related imports are used in its oil and natural gas industries. The most vital area for Western assistance is equipment for construction of large diameter pipelines. The only area in which Soviet energy-related imports might be described as "massive" is purchase of this 56-inch pipe -- a size which the United States doesn't produce.

There are a few energy technologies available only from the United States and a few instances in which U.S. equipment is preferred. However, except for advanced

(MORE)

computers used primarily in oil exploration, the U.S.S.R. is either not purchasing these items, is on the way to acquiring domestic production capabilities, or has demonstrated that such imports are not essential.

Contrary to common belief, oil is not the key to Soviet energy performance in this decade. According to OTA, the relevant question is how much energy the U.S.S.R. can produce by 1990. Gains in total energy production will have to come from natural gas, to which Soviet planners have accorded a high investment priority.

"Proven Soviet gas reserves are tremendous and may be likened to the oil reserves of Saudi Arabia," says OTA.

OTA points out that the rate of construction of new pipelines, both for domestic use and for export, is the most important determinant of the extent to which Soviet gas can be utilized.

Gains in natural gas output could more than compensate -- both in energy value and in hard currency earnings -- for slowing growth in oil production. It is therefore highly unlikely that the Soviet Union itself or the Soviet bloc as a whole will become a net energy importer in the 1980's.

Although projections of Soviet oil production span an enormous range, OTA finds that the Soviet's own target of a small rise in oil output by 1985 is reasonable. Prospects for the Soviet coal industry are poor and even their relatively modest 1985 targets are excessively optimistic.

Soviet targets for nuclear power, says OTA, are overly optimistic -- not because of lack-of-know-how -- but because of shortcomings in the efficiency and capacity of producing the required equipment and constructing power stations. OTA found also that potentially large savings through energy conservation are not likely to be achieved. This is in part due to the rigidities in the Soviet political and economic structure.

Senator Jake Garn (R-Utah), Chairman of the Committee on Banking, Housing, and Urban Affairs, commented: "This is a thoroughly researched and well put-together study, one which shows the utility of congressional research agencies such as OTA."

OTA is a nonpartisan analytic support agency which serves the U.S. Congress. Its

(MORE)

purpose is to help Congress deal with the complex and often highly technical issues that increasingly confront our society.

The OTA report, "Technology and Soviet Energy Availability," is available at the U.S. Government Printing Office (GPO), Superintendent of Documents, Washington, D.C. 20052. The GPO stock number is 052-003-00858-1; the price is \$10.

###



PUBLICATION BRIEF

Technology and Soviet Energy Availability

No U.S. policy of restricting Soviet access to energy technology is likely to succeed unless U.S. allies change their present views of their interests in this matter. A policy intended to bolster Soviet energy production would not succeed without significant changes in Soviet economic policy. A course of action seeking maximum commercial advantage for the United States in energy equipment sales would be aided by making the export licensing process more predictable.

The vast majority of the U.S.S.R.'s energy-related imports of technology are destined for its oil and natural gas industries, but **it obtains most of these from sources outside the United States.** There are a few energy technologies solely available from the United States, and a few instances in which U.S. equipment is preferred. But except for advanced computers, **the U.S.S.R. is either not purchasing these items, is on the way to acquiring domestic production capabilities, or has demonstrated that such imports are not essential.** Moreover, **the United States does not produce the large diameter pipe that constitutes the U.S.S.R.'s single most important energy-related import.**

Western technology has been and will continue to be important to Soviet energy development. In the long term, Western exploration technology and equipment may be crucial to the oil industry. But **the most vital area for such Western assistance is equipment for the construction of large diameter gas pipelines.** This is the only area in which Soviet energy-related imports might be described as "massive."

Contrary to common belief, oil is not the key to Soviet energy performance in this decade. The relevant question is not how much oil the U.S.S.R. can produce by 1990, but how much energy. Predicting future Soviet energy production is a tenuous exercise, but to the extent that plausible outcomes can be identified, **the Soviet's own goal of a small rise in oil output by 1985 is reasonable.** On the other hand, prospects for the Soviet coal industry are poor; even the relatively modest 1985 targets are excessively optimistic. Soviet targets for nuclear power are overly optimistic—not because of lack of know-how—but because of shortcomings in the efficiency and capacity of producing the required equipment and constructing power stations. OTA also found that potentially large savings through energy conservation are not likely to be achieved.

Gains in total energy production will therefore have to come from gas. **Proven Soviet gas reserves may be likened to the oil reserves of Saudi Arabia.** This is the energy sector with the best prospects and performance record, and Soviet planners have accorded it high investment priority.

Gains in gas output could more than compensate—both in energy value and in hard currency earnings—for slowing growth in oil production. **It is therefore highly unlikely that the Soviet Union itself or the Soviet bloc as a whole will become a net energy importer in the 1980's.**

The extent to which the U.S.S.R. can capitalize on its tremendous gas potential will depend on its ability to substitute gas for oil, i.e., to convert to gas in boiler and industrial applications, and to add to the gas pipeline network. **The rate of construction of new pipelines, both for domestic use and for export, is the most important determinant of the extent to which Soviet gas can be utilized.**

Energy availability is a critical factor in the growth of the Soviet Union's domestic economy; energy exports provide over half of Soviet hard currency receipts; and subsidized energy sales to Eastern Europe are vital tools of Soviet influence in that region. From the perspective of Japan and some countries in Western Europe, Soviet energy industries are important customers for equipment and technology and a source of energy supplies.

Copies of the full OTA report, "Technology and Soviet Energy Availability," are available from the U.S. Government Printing Office. The GPO stock number is 052-003-00858-1; the price is \$10.00. Copies of the full report for **congressional use** are available by calling 4-8996. Summary copies are available at no charge from the Office of Technology Assessment.

~~CONFIDENTIAL~~

GAS P.

26

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

10747

PAGE 01 ROME 8220 DTG: 041657Z DEC 81 PSN: 038227
EOB088 AN008033 TOR: 339/1043Z CSN: HCE142

DISTRIBUTION: BALLY-01 FEIT-01 KEMP-01 LENZ-01 NAU-01 PIPE-01
RENT-01 TANT-01 /008 A3

PRODUCED NOT ONLY MORE NON-SOVIET GAS BUT ALSO A
BETTER WESTERN-ALGERIAN RELATIONSHIP. ON THE OTHER
HAND, THE U.S. HAS ALWAYS ARGUED THAT A HIGHER PRICE
FOR ALGERIAN GAS IS UNDESIRABLE BECAUSE OF THE BOOST
IT WOULD GIVE TO OTHER FUEL PRICES. IF FOR SOME
REASON THIS IS NOT SO, THERE WOULD BE THE PROBLEM
OF SUBSIDIZING IN SOME SENSE THE DIFFERENTIAL COST
OF ALGERIAN GAS. WHO SHOULD BEAR THIS BURDEN?
WE RAISE THESE QUESTIONS BECAUSE THEY STRIKE US AS
ONES WE WILL HAVE TO HAVE ANSWERS TO IF WE WISH TO
PURSUE SERIOUSLY THE OBJECTIVE OF DIMINISHING
RELATIVE DEPENDENCE ON SOVIET GAS. RABB
BT

EXDIS

WHTS ASSIGNED DISTRIBUTION:

SIT:

EOB:

ROUTINE
STU3410
DE RUEHRO #8220 3381657
R 041657Z DEC 81
FM AMEMBASSY ROME

TO SECSTATE WASHDC 0648

~~CONFIDENTIAL~~ ROME 28220

EXDIS

EXDIS
E.O. 12065: RDS-3 12/4/01 (BRIDGES, PETER S.) OR-M
TAGS: ENRG, IT VIET GAS
SUBJECT: ALGERIAN GAS AS ALTERNATIVE TO SOVIET GAS
REF: ROME 28037

EXDIS

1. (C) THE EMBASSY WISHES TO ELABORATE ON ANDREOTTI'S
STATEMENTS REGARDING THE ALGERIAN GAS PIPELINE
(PARA 5 OF REFTTEL), WHICH ARE SIGNIFICANT IN THE
CONTEXT OF AN EFFORT TO STIMULATE EUROPEAN INTEREST
IN ALTERNATIVES TO SOVIET GAS.

EXDIS

2. (C) THE TRANS-MEDITERRANEAN PIPELINE (ACTUALLY
BUILT BY THE ITALIAN STATE ENERGY FIRM ENI, NOT BY
THE ALGERIANS) WILL AT PEAK CAPACITY SUPPLY ONLY
SLIGHTLY MORE THAN ITALY'S TOTAL REQUIREMENTS FOR
IMPORTED GAS, AND WHILE ITALIANS HAVE TALKED ABOUT
EXPORTING SOME OF THIS GAS TO NORTHERN EUROPEAN
COUNTRIES, THE AMOUNT WILL NOT PROVIDE A MAJOR
ALTERNATIVE TO THE SOVIET GAS PIPELINE.

3. (C) AS FAR AS WE KNOW, PRELIMINARY DISCUSSIONS
FOR A SECOND PIPELINE ENVISAGE USING THE SAME ROUTE,
NOT A ROUTE FROM ALGERIA THROUGH MOROCCO AND SPAIN
TO FRANCE.

4. (C) ANDREOTTI IS CORRECT IN NOTING THAT THE
PIPELINE IS NOT IN USE BECAUSE THE ALGERIANS ARE
DEMANDING TOO HIGH A PRICE. AN ITALIAN NEGOTIATING
TEAM JUST RETURNED FROM ALGIERS WITH NO PROGRESS ON
THE PRICING TALKS, AND THE ITALIANS SAY THEY ARE
PREPARED TO WAIT A LONG TIME IN ORDER TO ACHIEVE A
PRICE AGREEMENT ACCEPTABLE TO THEM. AS FRANCE HAS
SIMILAR PRICING CONFLICTS WITH ALGERIA (POSSIBLY
RESOLVED BY MITTERAND), IT APPEARS UNLIKELY THAT
EITHER COUNTRY WOULD UNDERTAKE THE SIZABLE INVESTMENTS
NECESSARY TO CONSTRUCT A SECOND PIPELINE AT THIS TIME.

5. (C) THESE CAVEATS NOTWITHSTANDING (AND
DISREGARDING ANDREOTTI'S CURIOUS IDEA ABOUT BRINGING
MOROCCO AND ALGERIA TOGETHER), A SECOND ALGERIAN
PIPELINE IS ONE OF THE REAL AND ACCESSIBLE
ALTERNATIVES TO SOVIET GAS (ALTERNATIVE, BE IT NOTED,
IN THE SENSE OF AN ADDITIONAL SUPPLY; THERE SEEMS
LITTLE CHANCE NOW OF ABORTING THE SIBERIAN PIPELINE).
THE PROBLEM IS, AS WE SEE IT, THAT THE ALGERIANS
WILL DEMAND A HIGH PRICE FOR THEIR GAS. IT COULD BE
ARGUED THAT THIS IS A PRICE WORTH PAYING IF IT

DECLASSIFIED

NLRR F06-114/9-#10747

BY KML NARA DATE 4/1/2011

~~CONFIDENTIAL~~

Pipeline

21

NATIONAL SECURITY COUNCIL

December 29, 1981

TO:

Henry Nau
Gus Weiss
Dick Pipes
Dennis Blair
Chris Shoemaker
Don Gregg

FROM:

Norman Bailey

10748

+++EXCLUSIVE+++

DEPARTMENT OF DEFENSE
JOINT CHIEFS OF STAFF MESSAGE CENTER

OTTCZYUW RUEHROA9673 3581319
IMMEDIATE
O 241005Z DEC 81

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 1356

INFO ALL EC CAPITALS AMEMBASSY ALGIERS 0875
AMEMBASSY MOSCOW 0057 AMEMBASSY WARSAW 1672
BT

~~CONFIDENTIAL~~ SPECAT ROME 29673

EXDIS

FOR THE SECRETARY FROM THE AMBASSADOR

E.O. 12065: RDS-3, 12/24/01 (RABB, MAXWELL M.) OR-M
TAGS: PEPR, ENRG, EEW, IT
SUBJECT: THE POLISH CRISIS AND THE SIBERIAN PIPELINE

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT.
2. IN THE DECEMBER 22 MEETING ON POLAND OF THE SECRETARIES OF THE FIVE PARTIES OF THE GOVERNING COALITION, LONGO, THE PSDI LEADER, ARGUED FOR THE SUSPENSION OF NEGOTIATIONS WITH THE SOVIET UNION REGARDING THE SIBERIAN GAS PIPELINE. THE PRESS NOTES THAT THE FINAL COMMUNIQUE OF THE FIVE-PARTY MEETING DIDN'T REFER TO THE PIPELINE. WE HAVE BEEN INFORMED, HOWEVER, BY THE OFFICE OF MFA SECRETARY GENERAL MALFATTI, THAT CRAXI, THE PSI LEADER, JOINED FORCES WITH LONGO IN PRESSING FOR A SLOWDOWN ON THE PIPELINE, AND THAT PRIME MINISTER SPADOLINI AGREED.
3. MY JUDGMENT IS THAT WE NOW HAVE AN OPPORTUNITY, GIVEN BY THE POLISH CRISIS, TO DERAIL THE PIPELINE DEAL. HERE, OVER THE LAST FEW DAYS, THE MEDIA HAVE BEEN FILLED WITH STORIES NOT ONLY OF THE REVERSION TO REPRESSION IN POLAND, BUT ALSO REGARDING THE DIRE ECONOMIC STRAITS IN WHICH THE USSR FINDS ITSELF. JUDGING FROM WHAT WE SEE, THE SAME TWIN THEMES ARE BEING DEVELOPED ELSEWHERE IN WESTERN EUROPE. AND HERE, AT ANY RATE, SIGNIFICANT POLITICAL FORCES ARE MAKING A CONNECTION BETWEEN THE TWO: WHY, THEY'RE SAYING, MAKE THE USSR A GIFT THAT WILL RELIEVE ITS ECONOMIC DIFFICULTIES, JUST WHEN ITS AGENTS ARE CLAMPING DOWN ON FREEDOM IN POLAND.
4. BUT THIS OPPORTUNITY NEEDS TO BE ACTED ON. GIVEN ENOUGH TIME, WESTERN EUROPEANS WILL SLIDE BACK INTO DOING BUSINESS AS USUAL WITH THE USSR.
5. THERE ARE ALTERNATIVES TO SIBERIAN GAS, AND EVEN TO THE CONTRACTS AND JOBS INVOLVED IN BUILDING THE YAMAL PIPELINE. YOU ARE FAMILIAR WITH PROPOSALS FOR INCREASED NORTH SEA GAS PRODUCTION, BY BOTH THE UK AND NORWAY. DOUBLING OF THE ALGERIA-ITALY PIPELINE AND EXPLOITATION OF THE WASTED GAS RESOURCES OF THE PERSIAN GULF (E.G., QATAR) ARE FRESHER ALTERNATIVES. THE SAME SUBSIDIZED CREDIT MARSHALLED FOR THE SIBERIAN PIPELINE COULD BE USED TO BUILD LNG FACILITIES AND FEEDER PIPELINES THROUGH ITALY TO GERMANY, FRANCE, AND THE REST OF NORTHERN EUROPE, CREATING THE SAME WORK FOR WESTERN EUROPEAN STEELMAKERS AND EQUIPMENT MANUFACTURERS AS THE SIBERIAN PIPELINE, AND PROVIDING EMPLOYMENT TO WESTERN EUROPEAN CONSTRUCTION WORKERS.
6. ALL OF THESE POSSIBILITIES HAVE PROBLEMS ATTACHED, POLITICAL, ECONOMIC, SOMETIMES PHYSICAL. BUT THE ESSENTIAL REASON WHY THE SIBERIAN PROJECT HAS BEEN MOVING

AHEAD IS THAT THE RUSSIANS HAVE COME UP WITH A REAL PROPOSAL. A SECOND REASON HAS BEEN THAT UNDEREMPLOYED WESTERN EUROPEAN INDUSTRY -- FROM THE GERMAN PIPEMAKERS ON DOWN -- HAS SEEN THE PIPELINE PROJECT AS MONEY, IF NOT FROM HEAVEN, AT LEAST FROM OTHER WISE TIGHTFISTED TREASURIES AND BANKS. WHAT THE U.S. NEEDS TO DO IS TO MATCH THE SOVIET UNION, BY DEVELOPING, THROUGH DIPLOMACY AND ORGANIZATION, AN ALTERNATIVE TO THE SOVIET PIPELINE THAT SATISFIES THE SAME EUROPEAN NEEDS -- FOR ENERGY AND FOR WORK -- THE SOVIET PIPELINE MEETS. THERE COULD BE DIRECT COMMERCIAL BENEFITS TO THE U.S., SINCE INCREASED USE OF AMERICAN COAL (PERHAPS AT THE COST OF U.S. ASSISTANCE IN DEVELOPING PORTS AND OTHER INFRASTRUCTURE) COULD REDUCE TO SOME DEGREE EUROPE'S APPETITE FOR NATURAL GAS. THERE ARE ALSO BURDENS INVOLVED IN A REAL AMERICAN EFFORT, BUT THESE ARE THE PRICE OF LEADERSHIP.

7. TO CONCLUDE, I THINK WE ARE BEING GIVEN AN OPPORTUNITY. WE, AS A GOVERNMENT, WOULD BE REMISS IF WE DO NOT TRY TO EXPLOIT IT. RABB
BT

*Send copies
to
New
Weiss
Pipes
Blair
Shoemaker
Gregg
File S-W T.*

ACTION (R.M)
INFO CJCS:(1) CJCS(3) J3(1) J3:NMCC(1) J5(1)
SECDEF:(1) SECDEF(7) USDP(9) ASD:MRAL(1) ASD:PA(1)
DI-1(1) DI-5(1) JSO-1(1) RSS(1) SWS(1) AT-X(1) VP(1)
DIO(1) DE(1) DB(4) DT(1) DIA(1)
+CSA WASHINGTON DC
+CNO WASHINGTON DC
+CSAF WASHINGTON DC
+CMC CC WASHINGTON DC

+++EXCLUSIVE+++

MCN=81358/01696 TOR=81358/1319Z TAD=81358/1322Z CDSN=MAJ926

+++EXDIS++++

~~CONFIDENTIAL~~ SPECAT

PAGE 1 OF 1
241005Z DEC 81

DECLASSIFIED
NLRR Feb-11/9 #10748
BY KML NARA DATE 4/7/2011

European Dependence and Soviet Leverage: the Yamal Pipeline

THOMAS BLAU AND JOSEPH KIRCHHEIMER

Differences among the Western allies over economic relations with the Soviet Union emerged sharply in the aftermath of the Soviet invasion of Afghanistan and continued to be present through the recent Ottawa Summit. These differences have recently focused on the proposed Yamal natural gas pipeline from the Soviet Union, to be financed by the Western nations with Soviet gas supplies providing ultimate repayment. There are strong arguments both for and against: it could reduce Europe's dependence on energy sources in the volatile Persian Gulf, but it might also give the Soviet Union additional leverage over Western Europe. The authors urge caution about the project and others like it. Especially in the current environment of increasing concern over the East-West balance in Europe, they see strategic issues raised by very large and long-term West European commitments to reliance on the USSR for energy, and by the potential impact of massive hard currency transfers to the East. More generally, Europe may have more energy alternatives than discussion of the Yamal project has implied.

Western European nations, led by the Federal Republic of Germany, have been negotiating to import extensive new gas supplies from the Yamal Peninsula in Western Siberia. The proposed project would develop frontier Yamal fields and build a pipeline to bring 40 BCM (billion cubic metres) of gas per year to Western Europe before the end of the century. At least 12 BCM per year would go to the Federal Republic and eight to France; the rest will be available to Italy, Holland, Spain, Austria, Belgium and Sweden. The Soviet Union could begin deliveries as early as the mid-80s by using 'old' Ukrainian or central Asian gas and by 1988 she would have extended the line into North Siberian fields. The costs of the project to Western Europe, mainly for construction of up to 3,600 miles of pipeline (the longest in the world) would be between \$10 and \$15 billion. Financing would be undertaken by the Western European countries involved and Japan at low, subsidized rates.

It will be the Western nations that bear the economic risk and the front-end costs, principally financing. Construction would be mainly in the Soviet Union. When the project is completed, in

perhaps five to ten years, the West would receive its stream of gas as repayment for perhaps nine years, after which it would buy gas for another 11 years at a price yet to be determined. The actual payment for pipe, equipment and services will be made to Western industry by the European utilities receiving the gas and selling it in their domestic markets.

The future of the project is uncertain; the Western countries and the Soviet Union have

Thomas Blau, formerly with the US Department of Energy, is with Jeffrey Cooper Associates; Joseph Kirchheimer has been a consultant to several US government agencies.

been unable to agree on terms, and the Polish crisis hangs over the negotiations. Nevertheless, the project will be a precedent for future arrangements, but there has been too little discussion of its implications, either within Western Europe or in the Western Alliance. However, critics, particularly in the US, worry that greater dependence on Soviet energy will confer additional Soviet influence in Western Europe and will affect Europe's view of its interest in Soviet-American competition, especially at a time of weakness in the Western Alliance. Supporters argue that Europe's current dependence on Middle East oil is dangerous and should be reduced, even if that means somewhat greater dependence on Soviet supplies. Europe's energy dilemma will remain severe, but other energy sources, especially the Norwegian North Sea, may offer Europe more alternatives than discussion of the Yamal project has implied.

Europe's Needs and Soviet Resources

Consumers and producers in Western Europe are faced with unpromising energy prospects, including declining output of gas from within Western Europe, and heavy dependence on imported oil from unreliable sources. They have prospects of relief from increasing Soviet gas imports, which also benefit Western interests in selling manufactured goods to the big, unexploited Soviet market; increasing Norwegian gas imports, circa 1990; working out a *modus vivendi* for Algerian gas (or other liquefied natural gas (LNG)); substituting, wherever possible, gas for oil, the resource of greatest dependence; potential coal imports from the US; new, non-Persian Gulf sources of oil and gas; and nuclear power.

Europe prudently has sought to diversify its energy sources away from the Middle East. It has been spurred, not stymied, by the thought

YAMAL PIPELINE ... Continued

that no single alternative source can by itself 'cure' dependence which is based on a need to import net, 650 million metric tons of oil equivalent (TOE) per year (1 TOE = c. 1,200 cubic metres of gas). Yet Europe remains much more dependent than America on imported oil for its energy supplies (about 45 per cent vs. about 20 per cent), particularly oil from unstable and vulnerable sources in the Middle East. Three fifths of German, two thirds of French, and three quarters of Italian oil imports come from members of the Organization of Arab Petroleum Exporting Countries.¹ Oil imports from the USSR to Western Europe have also been rising (see Table 1).

Western European planners see gas as increasingly important to Western Europe, supplying about a third of total energy consumption by the late 1990s, replacing potential increases in oil consumption. Gas has risen steadily in the European energy picture in a decade and a half, from 3 per cent in 1967 to 10 per cent in 1973, to 16 per cent in 1979, according to the Shell Company.

However, according to current planning there may be a Western European deficit of gas at foreseeable prices in the mid-1990s, in the order of 30-35 per cent, even with new sources projected at this time. Indigenous Western European gas fields, such as those in Germany and even Groningen in Holland, are running down. Remaining reserves in the two largest markets are in the order of a 12-year supply in France and nine years in West Germany.

This bleak outlook may be softened since recent demand estimates have tended to be lowered as target dates come more clearly into view.² *Ruhrgas*, for example, the leading proponent of the Yamal project, lowered its gas demand projection for 1981 by 4 per cent in the middle of 1981.³ British Petroleum and consultants Petroleum Economics have also been reported to have lowered estimates of gas demand in the early 1980s.⁴

Table 1: Imports of Soviet Oil to Some West European Countries
(Million Metric Tons, Rounded)

	1971	1979	Difference
FRG	6	10	+4
Italy	9.5	7	-2.5
France	4	7	+3
Finland	9	11	+2
Netherlands	0.8	3	+2.2
Sweden	5	4.5	-0.5
Total	34.3	42.5	+8.2

Source: Based on CIA *International Energy Statistical Review*. See Note 1.

Norwegian North Sea energy resources may also sharply alter the bleak picture, but how soon remains uncertain. Those resources are very large; the government believes that the reserves south of 62° N could amount to 4,000-5,000 million TOE, of which about 55 per cent might be gas.⁵ In June, the Norwegian Parliament initiated several projects that could begin to pay-off by 1985-6. £5.2 billion was appropriated for the development of the Statfjord and Heindal gas/oil fields and an 843 km gas pipeline to connect the two fields to the Ekofisk field complex and thence to West Germany at Emden. The line will initially feed 6.5 BCM per year into the system. Today, Norway supplies up to 18 BCM per year to the Continent, half of which goes to West Germany. The capacity of the new trunk line could add another 15 BCM to Norway's European sales.⁶

European dependence on Soviet energy supplies is bound to increase in any case. For example, Soviet gas exports to Western Europe have been rising steadily (see Table 2). With Yamal in place, Soviet exports to Western Europe might double in five years.

The West German utilities, such as *Ruhrgas*, want Soviet gas, even at about \$6 per thousand cubic feet. The Yamal project could make West Germany dependent on the Soviet Union for 30 per cent of her gas supplies. In addition, the Soviet Union exported to West Germany over 180 thousand barrels per day (b/d) of oil in 1979, or 6 per cent of German imports (the 1980 figures are lower).

The Soviet Union has discovered enormous gas resources in recent years and claims to have identified reserves of at least 26 trillion cubic metres (TCM). Although there are problems proving that such vast resources are commercially extractable, her main problem is developing these huge fields and getting her gas to market either in Europe or the Western Soviet Union. The big gas fields were only discovered within the last 15 years and their location - near or above the Arctic Circle - made them a logistical problem. Nevertheless, by the 1990s the Soviet

YAMAL PIPELINE...Pg. 7-F

Table 2: Soviet Exports of Natural Gas to some West European Countries
BCM (1970-90)

	1970	1975	1978	1980	1990
Austria	1.0	1.9	3.0	4.0	6.0-7.2
FRG	—	3.1	6.0	9.5-10.0	25.2-27.2
Italy	—	2.3	5.5	7.0	7.0-10.0
France	—	—	2.0	4.0	10.7-13.6
Finland	—	0.7	1.0	1.4	5.6-7.4
Total	1.0	8.0	17.5	25.9-26.5	54.5-65.4

Source: Jonathan Stern, *Soviet Natural Gas Development to 1990* (Lexington, Massachusetts: D. C. Heath, 1980). CIA figures are higher. See Note 1.

YAMAL PIPELINE...Continued

Union will probably be the largest producer, consumer and exporter of natural gas, assuming ready access to Western technology. West Siberian gas production as well as Soviet gas exports increased by a factor of 11 and 14 respectively in the 1970s.⁷ During the next two decades, Western Europe may come to import more energy from the Soviet Union than from the Middle East, again depending on Soviet access to Western technology.

If the Soviet Union falls far short of her targets, it will have more to do with logistics than with intrinsic gas supplies. Western experts believe that the Yamal pipeline cannot be built without Western technology. The USSR contends

that she could build the line herself, but 'it's up to the receivers to supply the equipment, when a pipeline is intended only to deliver gas to the West.'⁸

Leverage

Despite the potential for mutual benefits, the Yamal project raises serious issues of Soviet leverage; the project could enable the Soviet Union to achieve political concessions as well as economic benefits. Even at the negotiating stage, the political and economic issues raised bear both on relations within Europe and on the Western Alliance more broadly. The \$10 to \$15 billion European share, for example, may well seriously affect European capital shortages and balance-of-payments, lately a contentious issue in the Alliance. Europe's compensation, future gas deliveries, are of uncertain value since they reach into the next century. By then, even the economically questionable but technically feasible project of today, such as conversion of coal to gas, may actually start to pay off. A decade after we have over-invested, 'syngas' may be relatively cheap.

Why should those bearing all the risk compete to help subsidize this project at rates far below the market, thereby taking on additional political and economic risks? In 1980, the French and German governments competed sharply to lend billions of dollars to the Soviet Union at under 8 per cent interest. The extent to which Soviet pressures prevented a united European front is unclear. What is clear is that Europe may be strategically disadvantaged in bargaining on a regional basis with the Soviet Union. In the case of the Yamal project, it would make more sense for the Europeans to participate less in the building risks and the financing. A Soviet request for a multi-year grace period for repayment at the outset makes even less sense for the Europeans.

As Juergen Eick has commented in the *Frankfurter Allgemeine*, 'This is a rather strange deal: the suppliers of the pipes also have to supply the Russians with the money so that they will be in a position to pay for what they have

bought.'⁹ The Soviet hard currency 'shortage' is often discussed as a regrettable fact of nature. It results, however, from Soviet policies, including restricted gold sales, failure to produce marketable products, and large military expenditures. Indeed, one benefit to the Soviet Union of a Yamal project is that the large financial and technological commitment would help her to avoid internal reform and sectoral re-allocation of scarce resources. It is not clear that such help is in the West's interest, nor that it should be offered cheaply even if it were.

The financial arrangements include an implicit guarantee from the German government, for example, to underwrite the immense financial risks, which highlights and perhaps increases vulnerability to German domestic, as well as to Soviet pressure not to disturb this project. West European banks, for example would expect protection of their investment in Yamal by their governments, but the extent of general Western financing of Eastern debt makes any claim that arises out of this project likely to be one among many. J. Fred Bucy has recently noted that the size of Eastern debt already 'suggests that a default by Eastern nations would seriously disrupt the Western financial structure.'¹⁰

It has been said that if a loan becomes big enough, the debtor to a bank becomes its partner. The Yamal project may be a case in point, with the Soviet Union as borrower and Western Europe as the bank. West German banks already hold a third of Poland's \$24 billion foreign debt, a factor in the Federal Republic's approach to the Polish crisis. The Eastern bloc also accounts for a quarter of West Germany's foreign trade, almost equal to the US share, after a four-fold increase during the 1970s.

The project has a constituency in West European heavy industries which will act as pressure groups for such projects in the future.

The industrial sectors suffering from the current international recession . . . chemical, steel, and automotive industries . . . the West German industrial giant, Mannesman AG . . . (has had) a 70 per cent drop in production of its profitable large diameter pipe. Mannesman has been the primary source of this pipe for Soviet natural gas pipelines in the past and the 3,000 mile Yamal project would lead to billions of dollars of large diameter pipe sales for the company over the next five years.¹¹

In general, the growing corps of supporters in European governments and industries committed to the project will not look eagerly for alternatives. It would be prudent for Europeans to take steps now to ensure that new energy sources will have access to financing in the coming years. More of an arm's-length relationship between the governments and the private sector might reduce the potential for Soviet leverage in the project. It would compel firms to take greater

YAMAL PIPELINE ... Continued

responsibility for their own risk assessment and allow the private sector to evaluate the cost of funds for the project, based on economic considerations alone.

Could the need for European industry in the deal create a Soviet counter-dependence on the West? That is unlikely. As the deal progressed, Western Europe, not the Soviet Union, would have more invested in its success. At worst, whatever the Europeans might leave behind could be used domestically by the Soviet Union. European pressures to continue would be justified by what already had been spent. While sunk costs are gone forever, to political and bureaucratic organizations as well as to the holders of the debts, sunk costs tend to 'justify' going in further. By providing both financing and technology, the West would allow the Soviet Union to minimize the burden of the project on her heavy industry, left alone for the one task at which it excels, military work. Critics might ask if this project would subsidize the construction of the missiles and tanks pointed at Western Europe and China.

Resources such as gas have obvious domestic importance. Of course foreign assistance in developing the gas fields can be paid for eventually with a raw product requiring a minimum of Soviet scarce factor inputs. Yet large projects take the Yamal pipeline support Soviet internal development. Once the pipeline is installed, additional development into new fields is far easier. The West in effect buys the Soviet Union the key element in such development, the Soviet version of the 'right of way'. The hard currency earnings of Soviet gas exports should, if plans stay on track, equal in the mid-1980s those of gas and oil exports together at the start of the decade. Is it in the Western interest to help Soviet energy development? The answer is not easy. The negative argument is that Western assistance may help the Soviet Union to avoid facing the costs of her system, including unabated military spending. More than ever, the West needs to evaluate its interest in furthering Soviet energy autarky and the national security implications of oil and gas technology sales to the East.

Finally, the most obvious Soviet leverage in the pipeline would be the ever-present potential of a cut-off. Recently Soviet oil prices have been raised and gas supplies interrupted, supposedly by technical problems, perhaps by quiet diversion of supplies to help in domestic and East European shortages. These interruptions have occurred when they should be least likely - during an intense Soviet courtship of the West to conclude the Yamal deal. At the same time, a Soviet trade official in Western Germany overtly threatened in Autumn 1980 to stop existing gas shipments unless the Federal Republic was 'co-operative' and opposed trade

sanctions against the Soviet Union after the invasion of Afghanistan, thus highlighting the future possibilities of Soviet leverage.¹²

Perhaps the Soviet Union will speak rudely but continue to sell and reap the profits during a crisis, as she did during the 1973 embargo. However, if the price increases sharply, a seller may feel less need, and a buyer may be less able to translate the entire increase into money. Political favours may then be demanded and given.

Energy Alternatives

Whether or not the Yamal pipeline is built, alternative sources of new energy will be important in minimizing Soviet influence over Western Europe. While a 'big new gas strike', for example, probably would not make Europe forego the Yamal deal, several new energy projects could reduce the need for Soviet supplies and thus the potential for energy leverage. For the 1990s, American coal, either to be burned directly or gasified, is a major supplementary option, although coal development has been slow on both sides of the Atlantic.

A number of significant new areas of gas potential exist which could be developed in about the same time as the Soviet pipeline. Perhaps the most important is the area of the Norwegian 3 1/2 block in the North Sea. While its exploitation will be difficult and expensive, it should not exceed the costs of the Yamal pipeline, especially considering the subsidized financing and the economic, political and security risks of the latter. First, however, Norway may need to modify her economic and environmental conservatism towards North Sea development in favour of her interest in the independence of her Allies. Also, North Sea gas development would be helped by a single integrated gas-gathering system for the region. The nationalism that stands in the way of the North Sea countries doing that indirectly contributes to the demand for the Yamal pipeline.

In general, the world gas picture is evolving quickly, driven by the rising price of oil. Gathering and transporting gas from new areas of production is enormously expensive, whether by pipeline or by LNG in container ships. An LNG ship can cost \$200 million; associated gasification plants cost twice as much. There is, however, a lot of gas to be developed. Known gas reserves are about two-thirds of known oil reserves on an energy equivalent basis. Annual gas consumption, however, is less than half of oil production, and international shipments are only about 5 per cent of world petroleum trade.¹³

There is much less experience in evaluating and dealing with gas and LNG than with oil. Hence, 'growing pains' constrain the industry.

YAMAL PIPELINE...Continued

There are major pricing disputes, for example, between the US and Algeria, and not all energy planners take gas seriously. The Carter Administration repeatedly slighted gas, as in its dealings with Mexico and the Soviet Union in 1977¹⁴ and with Nigeria in 1979.¹⁵ The Nigerians are now at work on major gas production efforts,¹⁶ as in much of West Africa.¹⁷ *The Economist*, however, reported in July that Nigeria's projects had 'been shelved. The need for Russian gas in the 1990s will depend partly on whether plans for them are revived before then.'¹⁸ Still, European efforts to develop LNG from West Africa and gas from the North Sea should take priority over the Yamal deal. If these other efforts are successful, then the Yamal pipeline, if completed, might actually serve as insurance against price gouging and leverage by LNG and oil shippers.

Energy security, with or without the Yamal pipeline, also can be enhanced by energy storage, strategic reserves, nuclear power, increased dual capacity to use gas and coal by consumers and overlapping, versatile energy distribution systems in Europe. It is true that many alternatives produce only 'small' amounts of new energy while presenting organizational and political problems. In combination, however, their energy security benefits can be significant.

To the extent that the Yamal pipeline is given a critical role in Western European energy planning, and to which Europe allows domestic institutional and political commitment to it, as well, may seriously affect European independence. The project's dangers would be reduced by developing all other energy opportunities; evaluating the project strictly for its energy-economic merits; and bargaining by the Europeans that is as tough as that of the Soviet Union. This bargaining should oppose domestic dependence, and push for a significant Soviet role in the financing. It is not a problem for France to be dependent on Holland; it could be a problem, a very serious one, when France is dependent on the Soviet Union.

Europeans may have good reason to sustain negotiations with the Soviet Union, regardless of the outcome on this project. Given advantageous terms and manageable contingency planning, an energy relationship with Moscow could complement alternative suppliers and help moderate their price demands. To the extent, however, that the terms are not advantageous and the potential contingencies not manageable, Western Europe will face increased problems in the trans-Atlantic relationship, and especially in how the relationship conducts security planning.

NOTES

¹ US Central Intelligence Agency, National Foreign Assessments Center, *International Energy Statistical Review*, ERIESR81-003 (Washington DC: 31 March 1981), pp. 7-8. Other major data sources include: OECD, *Outlook for the Eighties* (Paris, 1980); Shell International Petroleum Company, Limited, *Information Handbook: 1980-81* (London, n.d.); Jonathan Stern, *Soviet Natural Gas Development to 1990* (Lexington, Mass.: D.C. Heath, 1980).

² See, for example, Organization for Economic Co-operation and Development, *Energy Policies and Programs of IEA Countries, 1979 Review* (Paris, 1980), p. 28.

³ Shell, *op. cit.* in note 1.

⁴ OECD, *op. cit.* in note 2.

⁵ Martin Quinlan, 'North Sea: Major Boost to Exploration', *Petroleum Economist* April 1981, p. 156.

⁶ 'European gas: Putting Siberia on ice?', *The Economist*, 25-31 July 1981, p. 64.

⁷ 'Soviets look to natural gas for energy production gains', *Oil and Gas Journal* 30 March 1981, p. 32; CIA, *ibid.*, p. 26.

⁸ David Brand, 'Soviet-Slip-up: Russia's Bargainers Made a Costly Blunder in Pipeline Loan Talks', *The Wall Street Journal*, 23 January 1981.

⁹ Juergen Eick, 'The Other Side of Security', *Frankfurter Allgemeine*, 21 November 1980, p. 1; Also, see 'USSR Offers Italy Energy It Lacks', *L'Unita* (Milan) 24 June 1980, p. 2; (trans.) US Department of State Foreign

Broadcast Information Service - Western Europe.

¹⁰ J. Fred Bucy, 'Technology Transfer and East-West Trade: A Reappraisal', *International Security* 5 (Winter 1980/81), p. 143.

¹¹ Miles Costick and Marc Dean Millot, 'The Soviet Gas Deal and Its Threat to the West', *Current Analysis* (Washington Institute on Strategic Trade), 31 December 1980, p. 16.

¹² Alexander Taylor, 'A Soviet Pipeline to the West', *Time*, 16 February 1981.

¹³ Ministry of Petroleum and Energy of Norway, Storting Report No. 53, *Concerning the Activities on the Norwegian Continental Shelf (1979-80)* (Oslo: 1980), p. 167.

¹⁴ US Central Intelligence Agency, *Prospects for Soviet Oil Production* (Washington, DC: April 1977).

¹⁵ US Department of Energy and US Geological Survey, *Report on the Petroleum Resources of the Federal Republic of Nigeria* (Washington, DC: October 1979).

¹⁶ A US inventory (*ibid.*) of Nigeria's energy prospects said little about gas except that Nigeria 'flared' (burned off as waste) almost all her enormous gas production. (3/4 tcf) during oil operations. Shortly after publication of this study, Nigerian policy shifted towards controlling flaring.

¹⁷ See 'West Africa, Special Report', *Oil and Gas Journal* 12 January 1980, pp. 47-70.

¹⁸ *The Economist*, *op. cit.* in note 6.

Joseph Kraft

When Friends Turn Nasty

Unkind cuts from friends all over the world confronted the Reagan administration as it returned to work this week. West Germany, Israel, Saudi Arabia and China have all challenged the United States in recent days.

Harsh rebuffs are tempting. But the wiser course is to avoid showdowns now, while the administration, with a new National Security team at the White House, organizes a strategy for dealing with a world that is slipping out of control.

The meanest shot came from Chancellor Helmut Schmidt, who was vacationing in Florida prior to a meeting with the president. In an interview with James Reston of *The New York Times*, the German leader picked a public fight with the United States on half a dozen touchy issues thrown up by the military crackdown in Poland.

He refused to go along with the United States in sanctions against Russia. He insisted that the Polish strongman, Gen. Wojciech Jaruzelski, was primarily a patriot. He scoffed at warnings the United States might feel constrained to pull troops from Europe. He said economic difficulties were at least as important as the Polish crisis, and laid the blame for them on Washington.

Menaschem Begin started the latest spate of trouble in the Middle East. He unilaterally annexed the Golan Heights, a piece of territory occupied by Israeli troops, but considered by the United States and all Arab countries as due for return to Syria under any peace settlement. The United States slapped Begin on the wrist by suspending a recent Memorandum of Understanding that established a "strategic" relationship between the two countries.

Begin then denounced the administration in savage terms that intimated it was anti-Semitic and untrustworthy.

The Saudis, up to that point, had been working with Washington to advance the so-called Fahd plan as a vehicle for negotiations between Israel and the Arab world after the Camp David Accords run their course with the return of the Sinai desert to Egypt in April. At a summit meeting in Morocco on Nov. 25, the Fahd plan met opposition from the group of radical Arabs led by Syria, and including Iraq, Libya and the Palestine Liberation Organization. The Saudis, with support from the monarchs of Morocco and Jordan, vowed to keep on trying, and arrangements were made for a visit to Washington by Crown Prince Fahd.

But after Begin erupted on Golan, the Saudis moved with unwonted swiftness to take distance from Washington and restore their standing with the radical Arabs. On Dec. 22, Crown Prince Fahd received the Syrian leader, Presi-

ITALY

Manhunt

Search for U.S. General Dozier

Wearing bulletproof vests and carrying machine guns, a 2,000-man Italian force combed northern Italy last week as the massive manhunt continued for kidnaped U.S. Brigadier General James Dozier. Acting on a tip, scores of officers swarmed over tiny Ponte Alto (pop. 91), searching dozens of houses and stopping cars on snowy roads, but they found no trace of the 50-year-old Army general who was abducted from his apartment in Verona on Dec. 17. The Italian government sent hundreds of reinforcements and alpine troops to join the search. At a roadblock near Padua, four suspected terrorists were arrested at gunpoint and held for interrogation, though any connection with the abduction of the American general was not revealed.

The Italian government, with U.S. support, restated its policy of "inflexible firmness" in refusing to negotiate with the terrorists for the return of Dozier, the deputy chief of staff for logistics and administration at NATO's southern Europe land forces headquarters in Verona. However, police authorities in Verona offered a substantial reward, reportedly up to \$167,000, for valuable information on the case. Moreover, by week's end a group of Dozier's friends had put up a \$1.6 million reward for information leading to the general's release.

Italy's Prime Minister, Giovanni Spadolini, called the Red Brigades' action "a quantum leap in which the terrorists are trying to transform their armed movement into an armed party." He said that the Italian secret service was investigating possible ties between the Red Brigades and West Germany's Red Army Faction, a band of left-wing terrorists mentioned as potential allies by Dozier's captors. The West German group has been linked by authorities to the September attempt near Heidelberg on the life of

General Frederick Kroesen, commander of U.S. Army forces in Europe. Said Spadolini: "The explicit attack on NATO, the connection with the attack in Germany, demonstrates that in the new strategy of terrorism there is a prevailing international objective."

Meanwhile, police experts were analyzing copies of a photograph distributed by the Red Brigades showing Dozier with a bruise under his left eye and holding a placard inscribed with leftist slogans. It read, in part: "The crisis of capitalism generates an imperialist war. Only an anti-imperialist civil war can end the war." A communiqué, the second that authorities have received from Dozier's captors, and a separate 188-page document accompanied the photo. The rambling tract, titled "Strategic Directives December 1981," was the first discussion of the Red Brigades' new policy of violent confrontation with NATO. It also called on other left-wing terrorist groups to unite in the struggle and implied that efforts had been made to infiltrate the pacifist movement in Italy.

Ominously, the communiqué said that the "trial of swine Dozier has begun." Because the message contained no demands or conditions for Dozier's release, investigators speculated that the general had already been sentenced to death. There was no indication that any sensitive NATO information had been forced from the general. Said a U.S. official who knows Dozier: "What we're in is a prisoner-of-war situation. Name, rank and serial number—that's all they're going to get. Dozier's not going to make it easy for them."

While the search went on, Dozier's wife Judith received messages of sympathy from both President Reagan and Secretary of State Alexander Haig. Maintaining a vigil at her home in Verona with her two children, Mrs. Dozier appeared for a second time on TV to thank the Italian people for their support. Said she: "Please continue to pray. You are in all our hearts, and we know we are in your hearts." —By Russ Hoyle. Reported by Walter Galling/Rome

it was canceling the projected Fahd visit to Washington. On Dec. 26, the Saudis settled a long-standing border dispute with Iraq. On Dec. 31, they resumed diplomatic relations with Libya.

Over last weekend, Saudi officials put it to the United States. They said they were ready to continue with the Fahd plan, but only if the United States first slapped down Israel—presumably at a session of the U.N. Security Council on Golan scheduled for this week. "If there is no change in U.S. policy," Foreign Minister Saud al-Faisal warned in an interview, "all directions lead to conflict in this area."

As for the Chinese, contention arose from a campaign promise by candidate Ronald Reagan to give military support to Taiwan. That commitment has been watered down to a proposal to make available spare parts for weapons the

even such mild support would put the whole U.S.-China connection at risk. "If the U.S. desires to preserve and develop its relations with China," the official Peoples Daily put it, "it must seek, on the basis of genuine respect for Chinese sovereignty, a solution to the issue of selling arms to Taiwan."

American responses to such pressures are clearly in order. In the long run, this country is probably going to be obliged to come down very hard on Schmidt and Begin, and to let the Saudis, and Chinese know they cannot dictate American policy.

But first Washington needs to work out a concerted course of action for dealing with its worldwide problems. So for the time being, it makes sense to let the slings and arrows bounce off. Indeed, when friends turn nasty, a good way to show how much this country counts is to put the world on hold for a spell.

ANNEX NIGERIAN GAS FOR WESTERN EUROPE

[C] Nigerian natural gas from the Bonny LNG Project represents a partial mid-term energy supply alternative to the Soviet Yamal pipeline project. Bonny LNG could supply West European energy markets with up to 0.6 trillion cubic feet per year of gas by the late 1980's. This supply volume represents approximately 60 percent of the anticipated output from the first Yamal pipeline.

[C] The Federal Government of Nigeria (FGN) has a strong economic interest, given declining crude oil exports and a finite oil resource base, to implement the Bonny LNG Project. The Nigerians appear to recognize the pricing and policy problems in marketing half of the project output (0.3 tcf/year) in the U.S. and appear to be concentrating their efforts on the European market. The Europeans appear interested in obtaining the full project volumes but find the Bonny price high and have concerns about of Nigeria's ability to implement this project.

[C] The U.S. strategic interest in energy alternatives to the Siberian pipeline and Nigeria's economic need to develop the Bonny LNG project suggest a basis for developing alternate gas supplies for Western Europe. A high level USG approach to the FGN combined with offers of tangible U.S. assistance in facilitating Bonny LNG could convince the Nigerians to expedite full development of the project for the European gas market. The elements of a U.S. offer could include:

- o The USG could urge the Royal Dutch/Shell Group to assume a lead role as technical operator of the proposed liquefaction plant, thereby providing management skills and technical expertise to replace Philips Petroleum who recently withdrew from the project.
- o The USG could facilitate, if appropriate, export of energy equipment and technology for this project.
- o The USG could indicate a favorable posture towards Eximbank financing, to assist the FGN in implementing the project.
- o The USG could quietly indicate to the Europeans at the IEA, and the Economic Summit preparations and bilaterally the merits of the diversification of world gas trade. We would urge the Europeans on a sustained basis to give favorable consideration to Nigerian LNG as a major gas supply source.
- o The U.S. could maintain the technical capability to receive spot shipments of Nigerian LNG in the event of temporary gas shortages. U.S. capability to purchase spot cargoes could help to rationalize seasonal Nigerian LNG production and European purchase patterns.

[C] While the U.S. offer represents a first step, the Europeans are likely to remain somewhat skeptical until the Nigerians fulfill several conditions:

DECLASSIFIED

~~CONFIDENTIAL~~

NLRR F06-114/9 #10742

BY RW NARA DATE 11/17/09

- o Nigerian officials must obtain project financing and begin project implementation during the coming year or soon thereafter.
- o The Nigerians must reduce their price demands on the Europeans to the point that Bonny LNG is competitive with the Yamal project.

Next Step

Senior USG officials should seriously consider making a high level approach to the FGN to ascertain the prospects for energy cooperation that would result in the marketing of Bonny LNG in Europe.

Prepared by DOE

DECLASSIFIED

10744

PIPELINE

30

~~SECRET~~

NLRRF06-114/9*10744

(Deception) -

2/8/82

BY KML NARA DATE 4/7/2011

Draft Strategy Paper for the High-Level Mission to Europe on
Oil and Gas Equipment Trade Controls and Credit Limitation

Ultimate Objective

Denial of resources to the Soviet Union and the Soviet Bloc in order to limit the ability of the Soviet Bloc to build up its military forces and engage in external expansion. Additionally, the lightening of the necessity for an increasing diversion of Western resources to counter the Soviet military buildup and external initiatives.

Intermediate Objectives

Several policy initiatives can be and have been adopted and considered in order to help achieve the ultimate objective. This mission will concentrate on two: (1) the creation of delay and uncertainty over the ultimate completion or at least the date of coming on stream of the Siberian gas pipeline, (2) denial, restriction and/or the raising of the cost of Western transfer of resources to the Soviet Bloc in the form of medium- and long-term official and officially guaranteed credits.

Cost/Benefit Calculus

The benefit sought for in the form of the ultimate objective is long-term. Therefore peripheral short-term benefits should be foregone where essential, and short-term costs of substantial magnitude accepted to maximize the likelihood of achievement of the ultimate objective.

Strategies

The strategies to be applied to the intermediate objectives include: (1) Tradeoffs, especially short-term benefits and costs, for long-term benefits. (2) Delays. Any substantial delays in the completion of the pipeline will maximize costs to the Soviet Bloc, minimize eventual gains of the Soviet Bloc and damage Soviet Bloc creditworthiness. (3) Anxiety. Any increase in the anxiety level of Western governments, banks and industry concerning lending to or trading with the Soviet Bloc will tend to facilitate achievement of the intermediate objectives.

Constraints

Negotiating positions and tactics will be constrained by the following factors:

- The European environment, especially economic conditions, fear of the Soviet Union and resentment of the U.S. position of using the Polish crisis to attack the overall credit and trade climate with the Soviet Union.

~~SECRET~~

Review February 8, 1988

- Internal pressures, especially from the natural allies of the Administration and the labor unions.
- Resources, including availability and the will to apply them.

Initial Negotiating Positions

-- That the countries visited themselves place export controls on our subsidiaries and licensees.

-- That we jointly restrict official and officially-guaranteed credits to the Soviet Union and the Soviet Bloc based on some formula or ceiling and raise interest costs on any additional credits to a uniform level of ____% per annum over LIBOR.

Negotiating Tactics

-- Offers (to be used as necessary)

- Release G.E. rotors already in Europe (verify that there are only 22).
- Promise to promote use of embargoed equipment on the Alaska pipeline (check likely construction schedule for the Alaska line).
- Offer compensation for additional storage costs, if any (estimate possible costs).
- Offer additional defense procurement, especially to Rolls Royce (estimate value).
- Offer energy alternatives package.

-- Threats (to be used explicitly or implicitly as necessary)

- Reduced purchases from Rolls Royce.
- Reprisals against subsidiaries and licensees violating our controls if we must impose them unilaterally.
- Use trip to propose consultations on mutual help in case of partial or bloc-wide default (implicit threat).

Resources Required

- Money (estimate possible amount required).
- Presidential authorization.

-- Will. That is, the firm decision to impose the extended controls if the trip is unsuccessful.

Alternate Outcomes

-- Maximal (probability low)

- Export controls placed on U.S. subsidiaries and licensees by the European countries.

- Credit restrictions and/or substantial increase in interest charges.

-- Optimal likely (unilateral controls not triggered)

- Certain exports controlled (at least Dresser subsidiary and General Electric licensees)

- Credits made substantially more expensive

-- Minimal acceptable as a result of the trip but unilateral imposition of extended controls triggered

- Exports delayed through unilateral U.S. action but without giving the Allies the facile excuse that they were not effectively consulted and asked to cooperate in the only effective way in not undercutting our sanctions.

- Credit availability to the Soviet Bloc lessened through uncertainty and anxiety on the part of governments and banks.

Timing and Itinerary

Although speed is important, it is equally important to have the trip as well-prepared as possible, since this will be the last diplomatic effort before it may be necessary to take certain unilateral measures.

I would suggest visiting Rome first, since Italy is likely to be the most cooperative, and thus the trip might build up a certain "momentum of success."

In light of the above, I recommend the following itinerary: Leave Wednesday evening, February 17, 1982 for Rome, 18th in Rome; leave evening, February 18, for Bonn, 19th in Bonn; leave evening February 19, for Paris, 20th in Paris. Sunday, February 21 in Paris or London to assess the results of the Italian, German and French meetings and adjust negotiating techniques, if necessary. Monday, February 22 in London. Leave evening, February 22, for Washington.

33

So as not to be dependent on commercial schedules, but more importantly to add emphasis to the importance of the trip, it is recommended that an official aircraft be used.

Miscellaneous

Embassy Tokyo must be kept fully informed of the purpose, progress and results of the trip in order to be able to make subsequent representations along the same lines to the Japanese government.

February 22, 1982

Terms of Reference for High-Level USG Mission to Europe
on Soviet Sanctions

Rationale for Mission

-- An historic opportunity exists to substantially weaken the Soviet Union by taking advantage of its economic and financial situation through reducing the flow of resources from West to East.

-- Our allies must be given new incentives to induce them to participate in a useful program before the USG is forced to take further unilateral measures with possible negative impact on the alliance.

-- Domestic pressures exist for imposition of a further set of sanctions, alone or preferably in cooperation with our allies.

Assumptions

-- The Siberian pipeline cannot be stopped at this point, by U.S. coercion, without incurring intolerable diplomatic costs. However, by persuasion, working with the Dutch and Norwegians and an alternative energy program, we can lessen the growth of European energy dependence on the Soviet Union.

-- It is in our long-term interest and that of our allies to get them to reduce or cut off new official credits and guarantees to the USSR and to restrain the flow of financial resources to the USSR.

Objectives

To achieve a more consolidated response to the Polish crisis by beginning negotiations to get the allies:

DECLASSIFIED

NLRRF06-114/9 # 10745

BY KML NARA DATE 4/7/2011

-- To cut off, severely limit and/or make more expensive new medium- and long-term official and officially-guaranteed credits to the Soviet Union.

-- To reduce Soviet exports of non-essentials to the West.

-- To limit European dependence on Soviet energy.

-- To define more clearly what we mean by not undercutting our measures.

Means

-- By proposing an agreement to press for an end of repression in Poland by ensuring that no additional medium- or long-term official or officially-guaranteed credits will be granted to the Soviet Union, as well as considering measures to counteract the impact on the financial markets were there to be a partial or bloc-wide default.

-- By telling the Europeans that a minimal interpretation of their promise not to undercut our sanctions in the export control field is to discourage their firms from entering new prime contracts with the Soviet Union where American firms have been forced to withdraw from contract-bidding or contract-performance because of U.S. controls.

-- By convincing our allies to participate with us in a program of raising tariffs, and/or imposing quotas on non-essential Soviet exports, or by other means, to restrict allied imports of these items.

-- By presenting a meaningful package of energy alternatives.

Negotiating Tactics

-- To offer:

- o Increased defense procurement.
- o Cooperation in a program of energy alternatives.
- o Consideration of increased federal expenditures for coal port development, to be reimbursed mainly by user fees.

[o Consideration of support for legislation on simplification of rights of way for coal slurry pipelines.]

N.B. Though this has been rejected by Cabinet Council, we should test whether its importance to Europeans makes it worth reconsideration.

- o willingness to consider requests for moderate changes in our export controls to help relieve European problems (e.g. the 21 rotors now in Europe).

-- To say:

- o A consolidated joint program with the allies will reduce the pressure on the United States to take further unilateral economic steps in the current Polish context.
- o We agree to consider measures to counteract the impact on the financial markets of default by countries in The Soviet bloc.
- o We should all work with the Dutch and Norwegians to help overcome their problems in furnishing increased gas deliveries.

Resources Required

-- Up to \$1,000,000,000 may be required from the defense budget over a period of 3 years.

-- Increased federal expenditures for coal port development to be reimbursed mainly by user fees.

Make-up and Timing of Mission

The mission will be led by Under Secretary of State James Buckley and will include Under Secretary of Defense Fred Ikle, Under Secretary of Commerce Lionel Olmer, Assistant Secretary of the Treasury Marc Leland, Director of Policy Planning of the National Security Council Staff Norman Bailey and a limited number of aides.

At this time, it is proposed that the mission leave in approximately a week to ten days after terms of reference have been approved by the NSC; and visit Rome, Bonn, Paris and London, in that order. The Embassy in Tokyo will be kept fully informed and the Japanese government asked to participate fully in all measures agreed upon.

Prime Achievements to be Sought by the Mission

The beginning of negotiations on a package of consolidated allied economic measures to restrain the flow of financial resources to the Soviet Union and establishment of a tone of cooperation to achieve common aims as opposed to one of threatening unilateral action in the event of failure.

~~SECRET~~

10749

3/1/82

GAS PIPELINE

38

Subject:

Report on Interagency Mission To Europe (Buckley Mission)

As requested in Judge Clark's memorandum of March 1, an interagency team, headed by Under Secretary of State Buckley and consisting of senior officials from the Departments of Defense, Commerce, Treasury and the National Security Council, visited Bonn, Paris, London, Rome and Brussels March 13-20 for talks on developing a new system to restrict significantly the flow of official credits and credit guarantees to the Soviet Union.

The mission proposed that the Allies join together to eliminate official subsidization of credits altogether, to restrict the volume of new official credits and guarantees to the Soviet Union and to establish a mechanism which could monitor the flow of official credits and credit guarantees to the Soviet Union. The mission also proposed that the Allies halt temporarily further credit extensions and guarantees to the Soviet Union pending agreement on a long-term system, and that they exchange the financial data required to design and monitor the restraints agreed upon.

The mission failed to secure agreement to a temporary halt in new credits and guarantees, but did secure agreement to enhanced exchange of information on credits and guarantees. In accordance with the memorandum of March 1, the critical issue -- development of a new system of official credit restraints -- was conveyed as a matter for genuine consultation and discussion, and was treated as such by our European Allies. While it did not thus evoke final or conclusive responses on this issue, the mission did engender a process which is sufficiently promising to warrant further efforts. Key opportunities for the Europeans to discuss the political imperatives of our initiative are the March 22-23 Foreign Ministers meeting and the March 29-30 meeting of European Heads of Government; we will also follow up with bilateral discussions to develop specific areas of agreement. Continued, vigorous US action to promote an early European consensus on the need for credit restraints is warranted, in our judgment; it should be followed by negotiation of a framework for cooperative action for approval at Versailles.

The mission's consultations made clear that we are asking our Allies to adopt a very substantial change in traditional trading practices in which all nations are treated alike, and to agree that the Soviet Union cannot be considered as "just another country" for purposes of foreign trade and export credits. The Germans went to great lengths to describe why they could not restrict credit guarantees to the Soviets. The French claim that an existing protocol with the Soviets would in fact prohibit restraints on official credits and guarantees. Both, in short, emphasized why they felt our specific goals were unworkable, while expressing interest in cooperating on the narrow issue of interest subsidies. The

DECLASSIFIED

NLRR 66-11419 #10749

BY KWL NARA DATE 4/7/2011

~~SECRET~~

~~SECRET~~

-2-

British and the Italians, however, are prepared to work with us in developing a consensus acceptable to all. We found the smaller Allies generally supportive of our efforts. They seem particularly anxious to put an end to what they see as financially ruinous competition among exporters in offering to finance Soviet trade at below market rates. Their concern, however, is that any agreement on credit restraints adequately protect their relative market shares. They emphasized the need to include Japan and all other significant countries. The European Commission offered its active support in building a consensus. President Thorn asked, however, that we understand the problems involved in creating a consensus within the Community and beyond. NATO as an organization, and SYG Luns personally, can also be counted on to be helpful.

At all stops along the itinerary, the mission explained to the Allies the nature of the President's decision regarding the applicability of his December sanctions, as they pertain to exports of oil and gas equipment to the Soviet Union. There can be no Allied doubt regarding his determination to move strongly against the Soviet Union not only because of its action in Poland but as a result of the Soviets' sustained military build-up in the face of past Western restraint. We stressed also the importance the President placed on early action to achieve effective restraint on future official credits and credit guarantees.

We found general agreement in Europe that policies followed by the Western Allies during the last decade in extending huge amounts of credits to Eastern European countries and the Soviet Union were fundamentally misguided. We also found indications that the sort of "reverse leverage" which we had feared does affect our European Allies. Those countries with the greatest exposures in Eastern Europe and the Soviet Union, notably the Federal Republic of Germany and France, are indeed inclined to regard future credits as a means to ensure repayment of past loans. Our greatest leverage on them may be the position that domestic political pressures preclude our cooperation in handling the debt situation in Poland and elsewhere so long as the Europeans refuse to place restraints on additional credits to the Soviets.

The mission was encouraged during its meeting with Belgian Foreign Minister Tindemans on March 20 to learn that he planned to raise our initiative with his EC Ten colleagues on March 22-23, and to recommend, as Chairman of the Foreign Ministerial Council, that the Allies cooperate with us in this effort. Consultations should also begin rapidly within NATO on the strategic aspects of the credits problem. We have raised this problem with Japanese Foreign Minister Sakurauchi during his visit to Washington this week and have been assured of their support of any restraints subscribed to by the Alliance. Canadian support is also important, and mission members plan to visit Ottawa shortly.

~~SECRET~~

~~SECRET~~

-3-

In sum, our initiative is well launched. The obstacles ahead are both substantial and substantive. However, our Allies increasingly share our perception of the strategic danger and financial risk of the continued flow of credits and credit guarantees to the Soviet Union, and the financial collapse of Eastern Europe, which cannot but affect the Soviet Union, is also working to our advantage. It is possible, though not certain, that an agreement can be ready for approval at the Versailles Summit in which the President and the other key Allied leaders will participate June 4-6.

The mission also used its talks in Europe to encourage our Allies to take another look at commitments to purchase Siberian gas in light of recent changes in gas supply/demand projections as well as our concerns over possible dependence on Soviet gas supplies and hard currency flows to the USSR. While current indications are that the Germans and French are determined to go ahead with the project and that the Italians will soon join them, we believe that the actual volume of additional purchases from the USSR will be less than we had anticipated and that some countries may not participate at all.

~~SECRET~~

ITEM RETURNED
TO NSC

SECRETARIAT

IN APRIL 1987

Log # 425505-OPA page iii-8

~~CONFIDENTIAL~~

GAS PIPELINE
10750 42

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01 OF 02 BONN 4971 DTG: 051826Z MAR 82 PSN: 042223
EOB450 AN004402 TOR: 064/2139Z CSN: HCE066

DISTRIBUTION: BALY-01 MYER-01 FEIT-01 NAU-01 PIPE-01 RENT-01
/006 A1

WHTS ASSIGNED DISTRIBUTION:
SIT: PUBS EOB
EOB:

OP IMMED
STU4684
DE RUFHOL #4971/01 0641840
O 051826Z MAR 82
FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 4798

INFO AMEMBASSY LONDON 0686
AMEMBASSY PARIS 2085
AMEMBASSY ROME 7829
AMEMBASSY BRUSSELS 9925
AMEMBASSY THE HAGUE 1961
AMEMBASSY OSLO 4713

DECLASSIFIED

NLRR F06-114/9 #10750

BY KML NARA DATE 4/7/2011

~~CONFIDENTIAL~~ SECTION 01 OF 04 BONN 04971

EXDIS
ALSO FOR USOECD AND USEC
E. O. 12065: RDS 3/5/02 (WOESSNER, WILLIAM M.) OR-M
TAGS: ENRG, SU, XG
SUBJECT: EUROPEAN DEMAND FOR NATURAL GAS TO 2000
REFS: (A) 81 BONN 17549, (B) 81 BONN 14669, (C) STATE
54473, (D) OSLO 1148, (E) PARIS 7145, (F) BRUSSELS 3035.

1. - ENTIRE TEXT.
2. SUMMARY: IN A MEETING WITH ECONMIN AND EMBASSY ENERGY OFFICER ON MARCH 2, A MAJOR INTERNATIONAL OIL COMPANY, ACTIVE IN THE EUROPEAN GAS MARKET, PROVIDED US WITH ITS CONFIDENTIAL FORECASTS OF EUROPEAN NATURAL GAS DEMAND. THESE FORECASTS, PREPARED ONLY LAST WEEK, SHOW A MARKED DROP FROM PREVIOUS PROJECTIONS DUE TO A LOWER STARTING POINT (EUROPEAN GAS CONSUMPTION DECLINED AGAIN IN 1981 AS IT HAD IN 1980), AND THE COMBINED EFFECTS OF THE ECONOMIC DOWNTURN AND ENERGY CONSERVATION. TOTAL EUROPEAN GAS CONSUMPTION FOR 1985 IS EXPECTED TO BE 203 MILLION TONNES OF OIL EQUIVALENT (MTOE). THIS WILL RISE TO 224 MTOE IN 1990, 230 MTOE IN 1995 AND TO 237 MTOE BY 2000. THESE FIGURES ARE WELL BELOW CURRENT GOVERNMENT PROJECTIONS, THOSE OF THE IEA, AND THE FIRM'S OWN FORECASTS OF LAST FALL. ON THE DEMAND SIDE, THE FORECAST PROJECTS A SIGNIFICANT OVERSUPPLY SITUATION (ASSUMING A SOVIET GAS PIPELINE) BEGINNING IN 1985 AND RUNNING THROUGH 1991-2. THE OVERSUPPLY SITUATION IS PARTICULARLY NOTABLE FOR THE FRG BECAUSE OF ITS EXTENSIVE AND FLEXIBLE CONTRACTS WITH THE DUTCH. THE FIRM BELIEVES THE EUROPEANS "TOOK TOO MUCH SOVIET GAS TOO SOON" AND THAT GAS DISTRIBUTION FIRMS WILL HAVE SERIOUS PROBLEMS DISPOSING THESE VOLUMES WITHOUT ENTERING MARKETS WHERE GAS COMPETES WITH HEAVY FUEL OIL. (COMMENT: THIS COINCIDES WITH EARLIER EMBASSY DEMAND FORECASTS FOR THE FRG -- REF A--AND WITH WHAT WE HAVE HEARD FROM OTHER COMMERCIAL CONTACTS. END COMMENT.) THE FIRM'S ANALYSIS OF FUTURE SUPPLY POSSIBILITIES INDICATES THAT DUTCH GAS WILL BE AVAILABLE WELL BEYOND THE CURRENT 198 CONTRACT RENEGOTIATION DATE. (WE NOTE REF C LAMBSBORFF'S SIMILAR STATEMENT TO THE DEPUTY SECRETARY.) THEY BELIEVE THE SOVIETS WILL NOT BE STOPPED BY U. S. SANCTIONS AND REPORT

EXDIS

EXDIS

EXDIS

EXDIS

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 02 OF 02 BONN 4971

DTG: 051826Z MAR 82 PSN: 042223

INDUSTRY "RUMORS" THAT THE SOVIETS ARE ALREADY TRYING TO SELL ADDITIONAL GAS FOR IMMEDIATE DELIVERY THROUGH THE EXISTING PIPELINE SYSTEM. THESE ANALYSTS DOUBT THAT NORWAY CAN PRODUCE SIGNIFICANT NEW VOLUMES OF GAS BEFORE 1990 AT THE EARLIEST, AND BELIEVE THE NORwegIANS MAY HAVE DIFFICULTY SELLING GAS AT A PRICE NECESSARY TO RECOVER THE HEAVY INVESTMENTS REQUIRED.

3. SECURITY CONCERNS:
THE FIRM WHICH PROVIDED THIS BRIEFING IS CONCERNED THAT BOTH THE CONTENT AND THE FACT OF THE BRIEFING NOT BECOME PUBLIC. THEY ARE NOT GENERALLY IN THE BUSINESS OF SUPPLYING INTERNAL PLANNING FORECASTS TO GOVERNMENTS AND BELIEVE THEIR ABILITY TO DO BUSINESS WOULD BE IMPAIRED IF THIS BECAME KNOWN. WE REQUEST ADDRESSES EXERCISE EXTREME CAUTION AS WE HOPE TO OBTAIN SIMILAR INFORMATION FROM THIS FIRM IN THE FUTURE. END SUMMARY.

4. EUROPEAN GAS DEMAND:
THE FIRM HAS REVISED DOWNWARD ITS PROJECTIONS OF EUROPEAN NATURAL GAS DEMAND MADE LAST FALL. A LARGE PORTION OF THE DECLINE IN PROJECTED DEMAND WAS DUE TO THE ABOUT 6 PERCENT DECLINE IN GAS CONSUMPTION IN 1981 FROM 1980 LEVELS. GAS DEMAND HAS DROPPED FOR THE SECOND YEAR IN A ROW, CAUSING A SIGNIFICANT REDUCTION IN THE ORIGIN OF THE DEMAND CURVE. (GOVERNMENT FORECASTS, IN CONTRAST, APPEAR TO BE NEARLY STRAIGHT LINE EXTRAPOLATIONS OF THE SHARPLY-RISING 1970 TO 1978 DEMAND CURVE.) THE FIRM ALSO SEES THE GAS DEMAND CURVE FLATTENING OUT SOMEWHAT DUE TO ENERGY CONSERVATION AND SLUGGISH ECONOMIC GROWTH THROUGH THE MID-80'S, ALTHOUGH WE WERE NOT GIVEN ANY SPECIFIC GROWTH RATE ASSUMPTIONS. GAS AS A SHARE OF TOTAL PRIMARY ENERGY CONSUMPTION IS NOT EXPECTED TO GROW MUCH THROUGH 1995, PARTICULARLY IF OIL PRICES REMAIN WEAK. (THE EFFECT OF CONTRACT INDEXATION TO CRUDE AND PRODUCTS MEANS THAT GAS WILL NOT BACK OUT OIL ON A PRICE BASIS IN EUROPE AND THAT MARKET SHARE GROWTH WILL OCCUR ONLY IN SPECIFIC AREAS SUCH AS RESIDENTIAL/COMMERCIAL, AND SMALL COMMERCIAL BT

EXDIS

EXDIS

EXDIS

EXDIS

~~CONFIDENTIAL~~

44

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01 OF 02 BONN 4971 DTG: 051826Z MAR 82 PSN: 042227
EOB451 AN004403 ✓ TOR: 064/2141Z CSN: HCE067

DISTRIBUTION: BALLY-01 MYER-01 FEIT-01 NAU-01 PIPE-01 RENT-01
/006 A1

WHTS ASSIGNED DISTRIBUTION:
SIT: PUBS EOB
EOB:

OP IMMED
STU4685
DE RUFHOL #4971/02 0641841
O 051826Z MAR 82
FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 4799

INFO AMEMBASSY LONDON 0687
AMEMBASSY PARIS 2086
AMEMBASSY ROME 7830
AMEMBASSY BRUSSELS 9926
AMEMBASSY THE HAGUE 1962
AMEMBASSY OSLO 4714

~~CONFIDENTIAL~~ SECTION 02 OF 04 BONN 04971

EXDIS
BOILERS.)

5. TOTAL EUROPEAN DEMAND IS PROJECTED TO BE 203 MTOE IN 1985; 224 MTOE IN 1990, 230 MTOE IN 1995, AND 237 MTOE IN 2000. OUR BRIEFERS WERE PROFESSIONALLY CAUTIOUS ABOUT BELIEVING THEIR OWN FORECASTS, BUT OPINED THAT THE MAJOR RISK OF FORECAST ERROR, PARTICULARLY WITH THE FIGURES FOR 2000, WAS ON THE UP-SIDE. IF ANYTHING, THEY BELIEVE DEMAND WILL BE LOWER THAN NOW PROJECTED AS NEW ENERGY CONSERVATION TECHNIQUES COME ON LINE. (COMMENT: WE LEARNED SUBSEQUENT TO THIS BRIEFING THAT THESE FIGURES WERE THE HIGHEST OF THREE SEPARATE FORECASTS PRESENTED AT A MARKET STRATEGY MEETING OF MAJOR GERMAN GAS COMPANIES. WE ALSO NOTE THIS ESTIMATE IS EVEN LOWER THAN THAT OF THE EC -- REF F. END COMMENT.)

6. EUROPEAN GAS SUPPLY:
THE FIRM HAS MADE TWO SEPARATE FORECASTS OF GAS SUPPLY FOR EUROPE. COMMON TO BOTH FORECASTS ARE EXISTING CONTRACT VOLUMES (SEE NOTE ON DUTCH CONTRACTS BELOW) AND INDIGENOUS PRODUCTION. BOTH OF THESE SOURCES PEAK IN THE 1988-90 TIME FRAME AND GRADUALLY DECLINE TO 2000. DUTCH CONTRACTS ARE LISTED AT LIKELY DEMAND RATES BECAUSE OF THE FLEXIBILITY ENJOYED BY THE PURCHASERS TO DETERMINE THE VOLUMES THEY WISH TO TAKE, AT LEAST UNTIL THE 1984 RENEGOTIATION PERIOD.

7. HIGH SUPPLY CASE:
THE HIGH SUPPLY CASE ASSUMES TOTAL EUROPEAN TAKE FROM THE NEW SOVIET PIPELINE TO BE ABOUT 40 BILLION CUBIC METERS/YEAR (BCM), OR ABOUT 32 MTOE, AND FULL VOLUME TO BE ACHIEVED WITHIN TWO YEARS FOLLOWING THE START OF DELIVERIES IN OCTOBER, 1984. THE HIGH SUPPLY CASE ALSO INCLUDES SMALL ADDITIONAL QUANTITIES OF NORWEGIAN GAS COMING ON-STREAM ABOUT 1990 AND GROWING TO ABOUT 38 MTOE BY 2000. ONE LNG PROJECT PROVIDING ABOUT 20 MTOE BY 2000 IS INCLUDED, ALTHOUGH NO SPECIFIC SOURCE IS GIVEN. DUTCH GAS SUPPLIES ARE AS GIVEN IN THE GAS UNIE SALES PLAN FOR 1982, WITH ADDITIONAL QUANTITIES (SEE BELOW) COMING AVAILABLE IN THE LATE 1990'S.

8. UNDER THE HIGH SUPPLY CASE THE FOLLOWING APPROXIMATE

~~CONFIDENTIAL~~

EXDIS

EXDIS

EXDIS

EXDIS

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 02 OF 02 BONN 4971

DTG: 051826Z MAR 82 PSN: 042227

QUANTITIES (MTOE) ARE AVAILABLE:			
SOURCE	1990	1995	2000
INDIGENOUS	98	80	72
CONTRACTED	55	55	48
IMPORTS			
NEW SOVIET P/L	32	32	32
NETHERLANDS	50	40	40
NEW NORWEGIAN	2	15	32
LNG PROJECT	0	5	20
TOTAL	237	230	244

NOTE: THE FIRM DID NOT PROVIDE US WITH SPECIFIC NUMBERS FOR THE ABOVE TABLE (OR FOR THE TABLE WHICH FOLLOWS). WE HAVE INTERPOLATED THE FIGURES FROM COMPUTER GENERATED GRAPHS; THEY SHOULD THEREFORE BE TAKEN AS APPROXIMATIONS.

9. LOW SUPPLY CASE:

UNDER THE LOW SUPPLY CASE, ADDITIONAL SOVIET SUPPLIES ONLY AMOUNT TO 30 BCM (24.5 MTOE) AND THIS IS REACHED ONLY LATE IN 1988. DUTCH GAS PHASES DOWN AS HAS BEEN PUBLICALLY ANNOUNCED. NO LNG BECOMES AVAILABLE, WHILE NEW NORWEGIAN PRODUCTION IS THE SAME AS IN THE HIGH SUPPLY CASE. UNDER THIS CASE, SUPPLIES (MTOE) ARE AS FOLLOWS:

SOURCE	1990	1995	2000
INDIGENOUS	98	80	72
CONTRACTED	55	50	48
IMPORTS			
NEW SOVIET P/L	24	24	24

N
BT

EXDIS

EXDIS

EXDIS

EXDIS

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01 OF 02 BONN 4971 DTG: 051826Z MAR 82 PSN: 042232
EOB452 AN004404 TOR: 064/2143Z CSN: HCE068

DISTRIBUTION: BALY-01 MYER-01 FEIT-01 NAU-01 PIPE-01 RENT-01
/006 A1

WHTS ASSIGNED DISTRIBUTION:
SIT: PUBS EOB
EOB:

OP IMMED
STU4689
DE RUFHOL #4971/03 0641842
O 051826Z MAR 82
FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 4800

INFO AMEMBASSY LONDON 0688
AMEMBASSY PARIS 2087
AMEMBASSY ROME 7831
AMEMBASSY BRUSSELS 9927
AMEMBASSY THE HAGUE 1963
AMEMBASSY OSLO 4715

~~CONFIDENTIAL~~ SECTION 03 OF 04 BONN 04971

EXDIS			
NETHERLANDS	47	28	14
NEW NORWEGIAN	5	25	40
LNG PROJECT	0	0	0
TOTAL	229	207	198

10. EXCESS SUPPLY:
EXAMINING THE SUPPLY AND DEMAND CURVES TOGETHER, UNDER THE HIGH SUPPLY CASE THERE IS AN OVERSUPPLY OF ABOUT 13 MTOE IN 1990. IN 1995, SUPPLY IS PROJECTED TO EQUAL DEMAND, WITH EXCESS SUPPLY AMOUNTING TO 7 MTOE IN 2000, AS NEW NORWEGIAN SUPPLIES BECOME AVAILABLE. UNDER THE LOW SUPPLY CASE, THERE IS 5 MTOE OF EXCESS SUPPLY IN 1990, 25 MTOE SHORTAGE IN 1995, AND A 40 MTOE SHORTFALL IN 2000. THE FIRM'S ANALYSTS DO NOT BELIEVE THE LOW SUPPLY SITUATION TO BE VALID, PARTLY BECAUSE UNDER THIS CASE NO LNG MOVES TO EUROPE THROUGH THE END OF THE CENTURY. THEIR "PERSONAL GUESS" IS THAT SUPPLY WILL DEVELOP ADEQUATELY, ALTHOUGH A LITTLE SHORT OF THE HIGH SUPPLY CASE.

11. THE DUTCH ROLE:
OUR CONTACTS HAVE DONE CONSIDERABLE RESEARCH ON THE FUTURE OF THE DUTCH GAS INDUSTRY. THEY HAVE ANALYZED THE BASIC GEOLOGY OF THE DUTCH FIELDS, PRODUCTION RATES, AND OTHER TECHNICAL CONSTRAINTS. THEY HAVE CONCLUDED THAT THE GRONINGEN FIELD IS ADEQUATE TO LAST WELL INTO THE NEXT CENTURY, AND WITH REASONABLE CARE, WELL BEYOND. THEY BELIEVE THE DUTCH GOVERNMENT WILL BE FORCED BY GROWING BUDGET DEFICITS TO REEXAMINE ITS POSITION ON GAS EXPORTS AFTER 1984. THE LIKELY OUTCOME WILL BE CONTINUED EXPORTS AT NEAR PRESENT LEVELS OVER THE FORECAST PERIOD. (COMMENT: WE NOTE THIS IS AT VARIANCE WITH FRENCH VIEW PARA 6, REF E. END COMMENT.)

12. THE CURRENT DUTCH CONTRACTS RUN UNTIL 1984. BY THIS TIME, IT IS POSSIBLE THAT DUTCH GAS WILL BE MORE EXPENSIVE THAN SOVIET GAS, GIVEN THE DIFFERING ESCALATION FORMULAS. THE EUROPEAN CONTRACTS WITH THE SOVIETS PROVIDE FOR ONLY LIMITED (-20 PERCENT) FLEXIBILITY, SO THAT, IN THE FACE OF WEAK DEMAND AND NOT GROSSLY DISSIMILAR PRICES, EUROPEANS MAY PREFER TO LEAVE DUTCH GAS SHUT IN. THE DUTCH HAVE

~~CONFIDENTIAL~~

EXDIS

EXDIS

EXDIS

EXDIS

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 02 OF 02 BONN 4971

DTG: 051826Z MAR 82 PSN: 042232

ALREADY REDUCED THEIR PARTICIPATION IN THE SOVIET PIPELINE AND, TO REDUCE OIL EXPENDITURES, HAVE RECENTLY BEGUN TO USE DOMESTIC GAS FOR BASE-LOAD ELECTRICITY GENERATION. THEIR LATEST BUDGET IS IN SERIOUS DEFICIT, AND THEY WILL NEED ALL THE ROYALTIES AND GAS SALE REVENUES THEY CAN GET. THUS, OUR SOURCES BELIEVE DUTCH GAS WILL BE AVAILABLE, ALBEIT AFTER PROTRACTED AND DIFFICULT NEGOTIATIONS, THROUGHOUT THE FORECAST PERIOD.

13. SOVIET GAS DELIVERY CAPABILITIES:
OUR SOURCES CONFIRMED WHAT WE HAVE HEARD ELSEWHERE, NAMELY THAT THE U. S. SANCTIONS ARE NOT EXPECTED TO DELAY SIGNIFICANTLY THE CONSTRUCTION OF THE EXPORT GAS PIPELINE. THEY POINTED TO THE IRRELEVANCE OF CONCEPTS OF PROFIT AND LOSS OR ECONOMIC EFFICIENCY IN DISCUSSING SOVIET PIPELINE CONSTRUCTION. THEY REVIEWED THE EXTENSIVE SOVIET EXPERIENCE, INCLUDING THAT GAINED UNDER THE CURRENT FIVE-YEAR PLAN, WITH CONSTRUCTION IN PERMA-FROST AREAS. (THEY SAY THE SOVIETS HAVE SOLVED THE THAWING PROBLEM BY COOLING THE GAS BELOW FREEZING IN PERMA-FROST AREAS.) SACRIFICES WILL HAVE TO BE MADE, THEY BELIEVE, BUT THERE IS NO REASON WHY CONSTRUCTION OF THE EXPORT LINE CANNOT BE COMPLETED. SEVERAL POSSIBILITIES EXIST: THE SOVIETS CAN MERELY PUT MORE LOWER POWERED COMPRESSORS ON THE LINE; THEY CAN MOVE THEIR 25 MEGAWATT PROTOTYPE INTO SERIES PRODUCTION, POSSIBLY USING A WESTERN PRODUCER; OR THEY CAN MOVE EXISTING GE FRAME 5 COMPRESSORS TO THE EXPORT LINE. PIPELINE COMPLETION IS LIKELY TO BE DELAYED, BUT PROBABLY NO MORE THAN TWO YEARS. THE FIRM BELIEVES THERE IS SPARE CAPACITY IN THE EXISTING DELIVERY SYSTEM FROM THE FIELDS TO MOSCOW, AND WESTWARD TO THE EUROPEAN CONNECTION AT WAIIDHAUS. THE NOW COMPLETED BUT EMPTY MEGAL LINE COULD CARRY GAS ACROSS SOUTHERN GERMANY. IN RESPONSE TO OUR QUESTION, THESE ANALYSTS ESTIMATED THAT AS MUCH AS 3 BCM COULD BE DELIVERED IMMEDIATELY, AND SAID THERE WERE "RUMORS" THAT THE SOVIETS WERE ALREADY TALKING WITH THEIR CUSTOMERS ABOUT INCREASING DELIVERIES IMMEDIATELY. (THERE SEEM TO BE NO TAKERS.)
BT

EXDIS

EXDIS

EXDIS

EXDIS

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01 OF 02
EOB453

BONN 4971
AN004405

DTG: 051826Z MAR 82 PSN: 042235
TOR: 064/2145Z CSN: HCE069

DISTRIBUTION: BALY-01 MYER-01 FEIT-01 NAU-01 PIPE-01 RENT-01
/006 A1

WHTS ASSIGNED DISTRIBUTION:
SIT: PUBS EOB
EOB:

OP IMMED
STU4694
DE RUFHOL #4971/04 0641844
O 051826Z MAR 82
FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 4801

INFO AMEMBASSY LONDON 0689
AMEMBASSY PARIS 2088
AMEMBASSY ROME 7832
AMEMBASSY BRUSSELS 9928
AMEMBASSY THE HAGUE 1964
AMEMBASSY OSLO 4716

~~CONFIDENTIAL~~ SECTION 04 OF 04 BONN 04971

EXDIS

14. IN SUM, THE SOVIETS CAN DELIVER INITIAL GAS VOLUMES BY OCTOBER, 1984, AS CALLED FOR IN THEIR CONTRACTS, BUT MAY HAVE TO STRETCH OUT THE BUILD-UP PHASE TO FULL VOLUME. WE WERE ALSO TOLD THAT, AT LEAST IN THE CASE OF THE GERMAN CONTRACT, THE ACTUAL DETAILS OF HOW THE MINIMUM DELIVERY VOLUMES ARE TO GROW HAS NOT BEEN WORKED OUT. THE COMPANIES DO NOT WANT TO TAKE FULL VOLUMES OF GAS EARLY, AS OUR RUHRGAS CONTACT REMARKED, "THE LAST THING WE WANT IS 10.5 BCM STARTING IN 1984." GIVEN A POSSIBLE SOVIET DELIVERY CONSTRAINT, BOTH SIDES MAY AGREE TO LENGTHEN THE BUILD-UP PHASE WITHOUT SERIOUS NEGOTIATION.

15. NORWEGIAN SUPPLIES:
OUR CONTACTS REVIEWED WITH US THEIR VIEWS ON POSSIBLE GAS SUPPLIES FROM NORWAY, WHERE THEIR FIRM HAS CONSIDERABLE INTERESTS. (THEIR COMMENT APPEAR TO PARALLEL EMBASSY OSLO'S ANALYSIS IN REF D). THIS FIRM HAS EXTENSIVE GOVERNMENT CONTACTS AND HAS BEEN CLOSELY WATCHING FOR ANY POSSIBLE DEPLETION RATE CHANGES BY THE NEW GOVERNMENT. OUR SOURCES CONTINUE TO BELIEVE THAT THERE ARE VALID REASONS, CUTTING ACROSS PARTY POLITICAL LINES, ARGUING FOR NO SIGNIFICANT INCREASE IN HYDROCARBON EXPLOITATION IN THE PERIOD BEFORE 1990. EVEN ASSUMING A CHANGE IN GOVERNMENT POLICY, THEY BELIEVE TECHNICAL DIFFICULTIES WILL NOT PERMIT SIGNIFICANT INCREASES IN NORWEGIAN GAS PRODUCTION BEFORE THE EARLY 1990'S. THEY REVIEWED PRODUCTION POSSIBILITIES WITH US ON A FIELD BY FIELD BASIS, NOTING THE HIGH COSTS ASSOCIATED WITH NEW DEVELOPMENTS IN THE NORWEGIAN SECTOR. THEY DOUBT THAT THE GOVERNMENT WILL PERMIT THE TAKING OF GAS FROM THE 31/2 FIELD AND ITS THREE ASSOCIATED BLOCKS, WITHOUT FIRST RECOVERING THE BROAD BUT THIN (10-12 METERS) OIL LAYER ON WHICH THE GAS RESTS. GIVEN LIKELY DEVELOPMENT COSTS AND THE WEAK OIL MARKET, THERE MAY NOT BE INCENTIVE ENOUGH TO OPEN THIS AREA. BLOCK 36 IS SIMILAR, BOTH AS TO COST AND AS TO A LIKELY NORWEGIAN REQUIREMENT THAT THE OIL BE EXTRACTED FIRST FROM BELOW THE GAS CAP. THESE ANALYSTS DOUBT THAT GAS WILL BE EXTRACTED NORTH OF 62 DEGREES BEFORE 2000 BECAUSE OF TECHNICAL DIFFICULTIES BOTH IN EXTRACTION AND TRANSPORT TO MARKET. THE NORWEGIANS

EXDIS

EXDIS

EXDIS

EXDIS

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 02 OF 02 BONN 4971 DTG: 051826Z MAR 82 PSN: 042235

CLEARLY WANT TO STAKE THEIR CLAIM AS A SUPPLIER OF GAS TO EUROPE IN THE 1990'S AND BEYOND, BUT THIS WILL PROVE DIFFICULT GIVEN THE SOVIET CONTRACTS AND NORWEGIAN DEVELOPMENT COSTS. DEVELOPING NORWEGIAN GAS AS A SHUT-IN SECURITY RESERVE DOES NOT SEEM TO BE AN ANSWER BECAUSE THE COSTS OF CONSTRUCTING A TRANSPORTATION SYSTEM OF SUFFICIENT CAPACITY TO BE USEFUL IN AN EMERGENCY SITUATION WOULD BE PROHIBITIVE.

16. COMMENT:
WE ARE NOT ABLE TO VERIFY THE SPECIFICS OF MUCH OF WHAT WE WERE TOLD IN THIS BRIEFING, ALTHOUGH THE FIRM ENJOYS A MARKET POSITION THROUGHOUT EUROPE IN NATURAL GAS WHICH ADDS CREDIBILITY TO ITS INFORMATION SOURCES AND ANALYSIS. IN THOSE AREAS WHERE OTHER SOURCES ARE WILLING TO TALK TO US (AND THIS WILLINGNESS HAS DECREASED MARKEDLY SINCE DECEMBER 29), THEY HAVE IN THE PAST CONFIRMED THE ACCURACY OF THIS FIRM'S ANALYSIS. THESE ARE RESPONSIBLE APPLIED FORECASTERS, WHO EXPRESS SUITABLE HESITATION ABOUT EXACT PREDICTIONS OF ENERGY DEMAND OVER A TWENTY-YEAR HORIZON. NONETHELESS, THIS IS HOW THEY EARN THEIR MONEY AND THEY BELIEVE THEIR EFFORTS AT LEAST AS GOOD AS OTHER COMMERCIAL FORECASTS (AND BETTER THAN EUROPEAN GOVERNMENT WORK). THEIR ANALYSIS OF THE GERMAN GAS MARKET AGREES WITH OUR PROJECTIONS MADE LAST SUMMER (REF A) AND WITH WHAT WE HEAR FROM RUHRGAS. WE DEFER TO OTHER EMBASSIES AND TO WASHINGTON FOR JUDGMENTS ON THE COMMENTS ON NORWEGIAN CAPABILITIES AND INTENTIONS, AND ON DEMAND FOR GAS IN OTHER COUNTRIES. (WE ARE IN A POSITION TO POSE FOLLOW-UP QUESTIONS ABOUT ANY PORTION OF THIS BRIEFING, AND WELCOME ANY COMMENTS OR THOUGHTS ADDRESSEES WOULD LIKE US TO CHECK OUT.)
END COMMENT.
BURNS
BT

EXDIS

EXDIS

EXDIS

EXDIS

~~CONFIDENTIAL~~