

OFFICE OF THE
UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

May 12, 1982

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MEMORANDUM

TO: DOE, Mr. Kenneth Davis
T, Mr. James L. Buckley
DOD, Mr. Fred Ikle
Commerce, Mr. Lionel Olmer
Treasury, Mr. Marc Leland
NSC, Mr. Norman Bailey

FROM: [REDACTED]
DOD, Stephen Bryen/E, William Martin

SUBJECT: Chatham House Meeting on European Gas Security

Attached is a summary of the Chatham House meeting on European gas security held May 6. The meeting was attended by high level representatives of key commercial firms (producing, consuming and transporting) with an interest in North Sea development.

The meeting conclusions were strongly reminiscent of the results of [REDACTED] visit to Norway and the UK last February. There is strong commercial interest to develop North Sea reserves, although some hesitation arises because of

(1) perceived lack of sufficient European gas demand in light of the new contracts with the Soviet Union;

(2) the higher price for Norwegian gas (although it was recognized that this more secure source would warrant some additional premium); and

(3) a fear that Europeans, facing significant challenges in developing Norwegian reserves, may lapse into further reliance on the Soviet Union in the 1990s.

The resounding conclusion was that future European gas demand will either be met from further gas from the Soviet Union or from Norway's giant 31/2 field. Failure to tap 31/2 and/or Thomsa gas will almost inevitably result in further dependence on the Soviet Union and

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given the long lead times between negotiations and gas flow, one might expect the Soviets to try to negotiate new contracts in not-so-distant future.

Therefore, in our view, every effort should be made by the United States Government to discourage further European reliance on Soviet gas and to promote through any means at our disposal development of the extensive reserves of Norway, using the UK as a conduit as necessary for transporting the gas in the early stages of development.

In light of these discussions a sensible US strategy might include the following elements:

(1) At the upcoming Versailles and Bonn Summits (and also at the IEA Ministerial May 24) seek a political commitment from the Europeans to develop in an expeditious manner indigenous OECD-wide reserves to minimize future reliance on Soviet gas. Mandate the High Level Energy Monitoring Group of the Summit to develop a strategy for timely and economically prudent development of these resources (primarily US, Canada, Norway and the UK). (Note: The US will chair preparations for the US hosted 1983 Summit and we should encourage that this be a major topic.)

(2) Use an appropriate occasion, either in Washington or Europe, to have a high level Washington representative introduce Ambassador Galbraith to key industrial and political leaders who could play lead roles in North Sea development. Ambassador Galbraith has been asked to play a major role in encouraging European leaders to accelerate North Sea development. Detailed preparations will be produced in Washington and key support staff should be provided to the Ambassador in his efforts which might be expected to begin during the early fall. It might be advisable to invite Robert Belgrave, who organized the Chatham House meeting and who is widely respected in European industrial circles, to be an advisor to the Ambassador so that we can have the full benefit of a European perspective, plus a person who has key contacts. Larry Goldmuntz, who helped coordinate the DOD contracted study on North Sea gas, might also be a useful aid to the Ambassador.

(3) Consider areas where the US could provide supplement financing (perhaps through EX-IM) to encourage development of North Sea reserves. Treasury might look into this issue to see if there are any levers we can pull.

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The issue of continuation, extension or withdrawal of the 29 December sanctions on oil and gas export controls is not dealt with in this paper, although it continues to be in our interest that the pipeline not proceed or that there be a serious delay in its construction. If the building of the first strand of the pipeline proceeds smoothly, the chances are Europeans will return in the late 1980s for more Soviet gas recognizing that this is the easiest (although most dangerous and unacceptable) way out. On the other hand, if US equipment is withheld the Europeans and Soviets may be able to develop sufficient indigenous production capability to build not only a first, but second, Soviet strand. The possibility of further reliance on Soviet gas can be offset if Norwegian gas is brought to the market place at competitive prices in a timely manner.

The interagency group supporting the Buckley mission energy objectives is preparing two papers for consideration by the group. The first is an update of the analytical framework for assessing future European alternatives to reduce dependence on the Soviet Union. A first draft of this paper has already been distributed to your staffs for comment. A second paper is being drafted which lays out a political strategy for achieving the energy objectives of the Buckley mission. These papers will soon be circulated to your staffs for their comment.

Attachment: a/s

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Summary of Chatham House Meeting on Security
of European Gas Supplies

Summary

Robert Belgrave of Chatham House and ex-Director of British Petroleum hosted a meeting of key commercial firms interested in producing, transporting and marketing North Sea gas reserves. Government representatives from both the UK and US were also present. Topics included European energy security issues, European gas reserves, demand and projected imports both from intra-European trade (i.e., primarily Norway and the Netherlands) and outside European sources (Soviet Union, North Africa, Middle East). European gas demand throughout the 1980s decade is likely to be met from Dutch, Algerian and Soviet Union sources. Beginning in the early 1990s, however, additional sources will be necessary to meet even moderate demand projections. A triangular deal might be envisaged which would connect the Sleipner field of Norway to the Continent via the UK. The gas could either be shipped through the UK or swapped with UK gas in the Southern North Sea. Total delivered gas to the Continent would be about 10-15 bcm.

While a useful increment, this will not solve the total problem. Further gas deliveries will be necessary by 1995. The only potential sources of sufficient magnitude appear to be either the Soviet Union (and thus increased deliveries beyond those being contracted for today) or the giant Norwegian field 31/2. The Norwegian gas will be higher priced (at least a dollar more per million Btu); faces massive infrastructure development for transport (either over the mountains and through Sweden mainland or alternatively through a pipeline to Emden); the reserves, while well proven, are below 300 meters; and the deposits contain significant amounts of oil, a good part of which will probably have to be left untapped should the gas be produced first. Nevertheless, European gas companies are interested in the Norwegian reserves for diversification and security of supply reasons. The Norwegians also seem interested in developing what is commercially viable especially if the price is right. It was noted that while Norway's new minority government is more development prone extensive development will require positive decisions by the Parliament. A massive, but workable, effort is required by several different commercial interests and countries if the Norwegian reserves are to be tapped as a alternative to further reliance on the Soviet Union. If these efforts are not undertaken then European countries have no other choice but to take more gas from the Soviet Union and thus increase their dependence on and vulnerability to Soviet energy supplies.

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1. Chatham House Participants. The Royal Institute of International Affairs (Chatham House) hosted a meeting on Security of European Gas Supplies on 6th May 1982. The meeting was chaired by Robert Belgrave of Chatham House and participants included senior representatives from key North Sea producer companies (Statoil, Mobil, Shell, BP, Esso), key consuming companies (Elf, Ruhrgas, ENI, British Gas Corporation), key infrastructure companies and banks (Bechtel and Warburg), and government officials from the UK and US. The USG was represented by Steve Bryen, DOD and William Martin, State. Chatham House ground rules for discussion do not permit disclosure of individual comments, although material discussed can be used as long as a Chatham House meeting is not indicated as the source of the information. Therefore, strictly protect sources noted. (Tab A has the list of participants.)

2. European Gas Security Overview. John Stern of Conant and Associates opened the meeting by presenting a framework for viewing gas security. The basic problem is that by 1990 EEC countries will be dependent for 40-45% of their gas supplies from outside the EEC: 20% from Soviet Union; 10-15% from Norway, and 10-15% from North Africa. He noted four types of potential security problems: internal political instability in producer country; political disagreement between producer and consumer country; price disagreement; and technical problems. Consuming countries can best protect themselves by getting as much flexibility in contracts as possible; promoting interruptible contracts with gas consumers; and expanding storage. He was quite pessimistic about Dutch prospects, concluding that exports will drop to zero by 2000, and that their ability to act as significant swing producer in time of emergency could be weak after 1990. The key issue is how quickly Norway could replace the Netherlands as European producer of last resort. He noted security risks with both imports from the Soviet Union (for strategic reasons) and North Africa (for price and political reasons) and concluded that a key issue is the price of security. Steve Bryen added that another security problem in dealing with the Soviet Union is that they may eventually have to divert supplies away from Western Europe to Eastern Europe, given the expected drop in their oil imports to these countries.

3. Norwegian Gas Reserves and Prospects. Henrik Ager-Hanssen, senior executive Vice President of Statoil, then reviewed Norwegian reserves. Known reserves are enormous and there is still considerable scope for future

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discoveries, especially north of 62°. The 31/2 field is at least the size of Groningen, but although the reserves are well documented the gas lies below 300 meters. In addition, a layer of oil complicates gas recovery. If the gas is taken before the oil, then the oil is likely to remain unrecoverable. Over the next two years, there will be a number of tests as to whether some of the gas can be drawn without losing the oil. One participant noted that he felt there was an 80% chance that the gas would be taken first. If this were the case and if development proceeded smoothly, then gas could begin to flow from 31/2 as early as 1994. This would require a new pipeline system -- either directly to Emden or over the mountains and through the heart of Sweden. Development of this field would provide the Europeans with an alternative to further reliance on Soviet gas in the 1990s, but the price of the gas will be much higher -- perhaps at least \$1.00 per million btu. Nevertheless, several gas consuming countries noted that they would prefer to rely on Norwegian gas to improve the overall security of their gas supplies. Failure to tap 31/2 will almost inevitably result in further European dependence on the Soviet Union and given the long lead times between negotiations and gas flow, one might expect the Soviets to try to negotiate new contracts in the not-do-distant future.

4. Triangular Deal. A short term solution to European gas demands would be a triangular deal involving Norway, the UK and the Continent. Gas could be shipped from the Sleipner field in Norway to Northern Scotland in exchange for UK willingness to ship some of their gas (assuming that sufficient reserves are discovered) from the Southern North Sea to the Continent. This scheme could provide some 10-15 bcm to the Continent as early as 1989. It is not the final solution (that rests either with 31/2 or further Soviet gas dependence) but it is a very important interim possibility and would buy time for some of the more distant alternatives to be brought on stream. The UK government representatives said that the UK would have no objection in letting Norwegian gas pass through the UK and in fact noted that the government had recently announced that due to more pro development policies which it was promoting that the UK may be in a position to export gas should there be sufficient finds. In the short term, however, the UK is concerned as to how it fills the gap left by the depleting Frigg imported gas.

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5. Norwegian Infrastructure. How much new infrastructure is necessary in Norway to bring gas to market? There is already a gas line from Frigg to Northern Scotland (carrying about 10 bcm per year) and from Ekofest to Emden (about 20 bcm/yr). These fields are being depleted at a rapid rate and the pipeline capacity is likely to be increasingly underutilized. Ager-Hanssen said that if Norway's development plans were modest, then existing infrastructure would probably be sufficient to provide relatively small quantities of gas to the Continent and the UK. If a more aggressive development stance is desired, then major effort will be required to put in place a network of pipeline systems necessary to move 50 to 60 bcm of gas to the Continent by the end of the century.

6. Dutch Gas Prospects. One knowledgeable participant took issue with Stern's rather pessimistic view toward Dutch gas prospects and said that the picture noted by Stern was true if one assumed no new discoveries. However, there were some interesting possibilities which might extend Dutch reserves, although certainly the general downward trend was still highly probable. He noted that the Dutch were very interested in providing a buffer stock for future emergencies, although they would expect to receive appropriate premiums.

7. European Gas Demand. No definitive view was expressed as to the rate of growth, although most tended to see gas demand growing at less than that foreseen by the IEA (see USG visuals at Tab B). One oil company executive noted that the key "swing" demand was industry. Still, given falling Dutch production and depletion of some of the older North Sea fields, there is need to expand both indigenous European reserves and non-European imports. One participant noted that if there were a United Europe, then Norway's reserves could be developed at a pace commensurate with the depletion of Dutch gas. Very little gas would be needed from outside Europe. Nevertheless, when one looks at the reality of the situation one finds Germany, France and Italy highly dependent on Soviet Union and Algerian gas for their projected needs (see Tab C for Statoil estimate of European gas supply and demand to 1990).

8. Vulnerability and Dependence. Robert Belgrave began a discussion of the difference between dependence and vulnerability. A German contended that while Germany might appear very dependent, they were not vulnerable to disruptions. He admitted that Bavaria would be dependent on Soviet gas for 80-90% of its gas requirements, but said that the flexible nature of the

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German gas grid would enable quick switching to occur. The French and Italians were not as confident of their abilities to withstand disruptions which led the Chairman to conclude that while all three countries were highly dependent, France and Italy appeared to be more vulnerable. Not surprisingly, both the French and the Italian participants showed keen interest in the Norwegian gas possibility, while the German appeared less enthusiastic.

9. Safety Net Measures. The EEC representative outlined strategies for reducing vulnerability to outside supplies. His checklist of measures included more storage, interruptible contracts, space capacity to be used in times of emergency and more dual fired capacity.

10. Strategy for the Future. North Sea gas can provide a key alternative to further reliance on the Soviet Union. It is important that existing infrastructure be kept filled and that new infrastructure be built to accommodate 31/2 and the fields in the far North. The Sleipner triangular deal provides a very important bridge to development of 31/2 and therefore should be pursued, assuming that there is sufficient gas discovered in the UK sector of the Southern North Sea to be swapped. All participants agreed that what is needed is a strategy for development. An ad hoc approach will not work. The strategy will have to bring together the interrelated issues of investment needs, pricing policies, technical achievements to put in the infrastructure in a timely and economical manner and political constraints. This will require looking for the big projects with the large investments. One comment conveyed the sense of the meeting: if we do this in a United European fashion the problem will be solved, but if we do it in a country-by-country manner, we won't succeed. The resounding conclusion was that future European gas demand will either be met from further gas from the Soviet Union or from Norway's 31/2.

Attachments:

- Tab A - List of Participants
- Tab B - USG Visuals
- Tab C - Statoil Estimate of European Gas Supply and Demand to 1990

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BRITISH INSTITUTES' JOINT ENERGY POLICY PROGRAMME

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SECURITY OF EUROPEAN GAS SUPPLIESAgenda

Introduction - The Security Issues - Jonathan Stern.

European Reserves - Norway. U.K. Netherlands. France. Germany.

Demand - Forecasts. Share of energy imports.

Dependence and Vulnerability - Germany. France. Italy. U.K. IEA, EEC.

Imports - Present and planned. Netherlands. Norway. Algeria.
Soviet Union.

Supplementary Sources - LNG. Soviet Union. Norway. Substitutes.
Storage. Shut-in capacity. Improving the grid.

6th May 1982

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SECURITY OF EUROPEAN GAS SUPPLIES

Thursday 6th May 1982

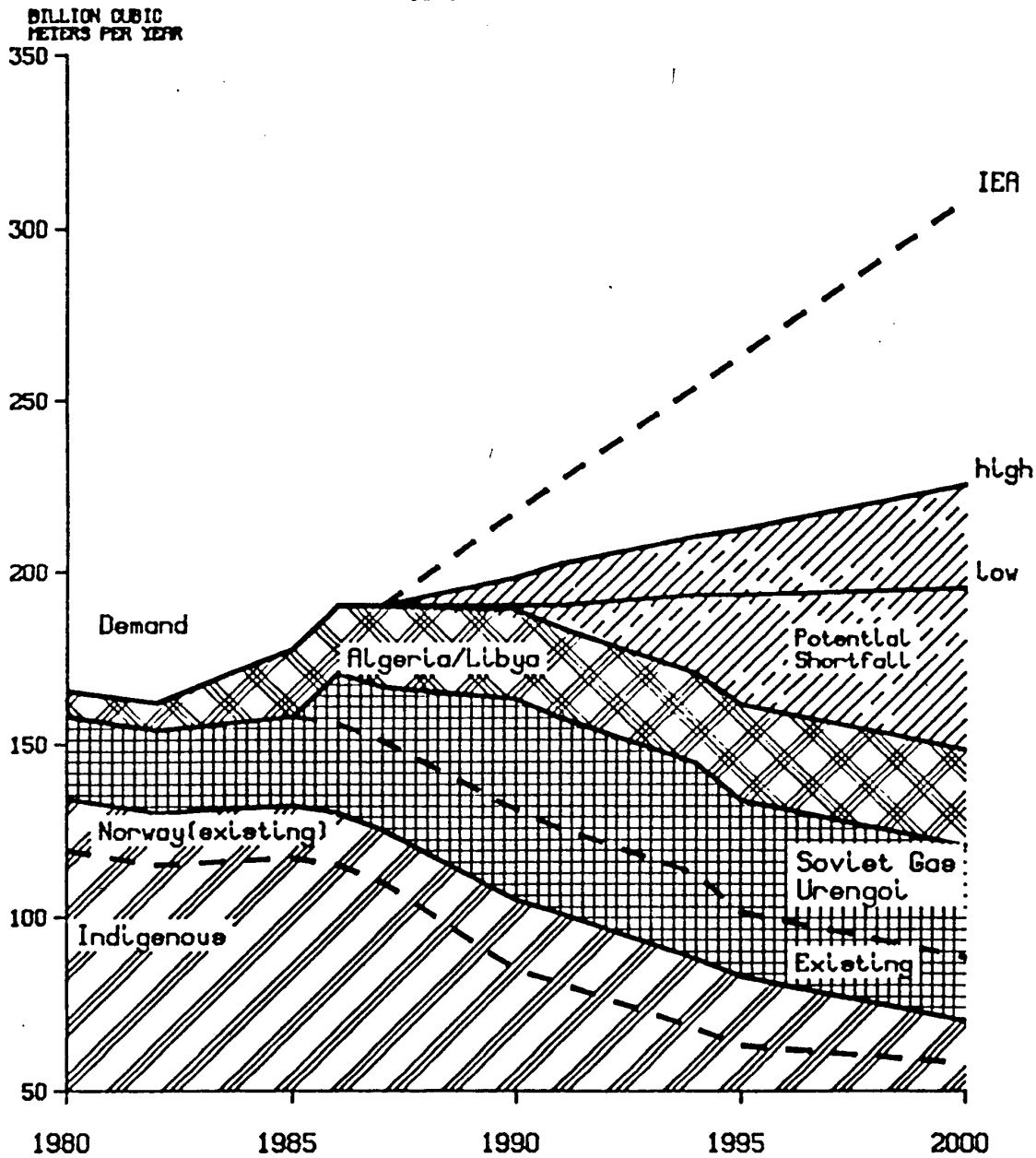
Participants

Dr Henrik Ager-Hanssen	Statoil
Robert Belgrave	Joint Energy Policy Programme
Colin Brant	Foreign & Commonwealth Office
Steve Bryen	US Department of Defence
Michael Clegg	British Petroleum
Dr Wilfried Czerniejewicz	Ruhr gas Aktiengesellschaft
Richard Greenwood	EEC Directorate-General for Energy
Jacques Hartmann	Elf Aquitaine
Frank Holloway	British Steel Corporation
Wallace J. Hopkins	International Energy Agency
P.D. Irwin	Mobil North Sea Ltd.
Clive Jones	Department of Energy
William Martin	US Department of State
Harley McCamish	Bechtel Great Britain Ltd.
T.W. Oerlemans	Shell International
James Peery	Esso Europe Inc.
Dr Rafaelo Santoro	Ente Nazionale Idrocarburi
Jonathan P. Stern	Conant & Associates
Louis Turner	Joint Energy Policy Programme
Nicholas Wakefield	S.G. Warburg & Co. Ltd.
Ken S. Williams	British Gas Corporation

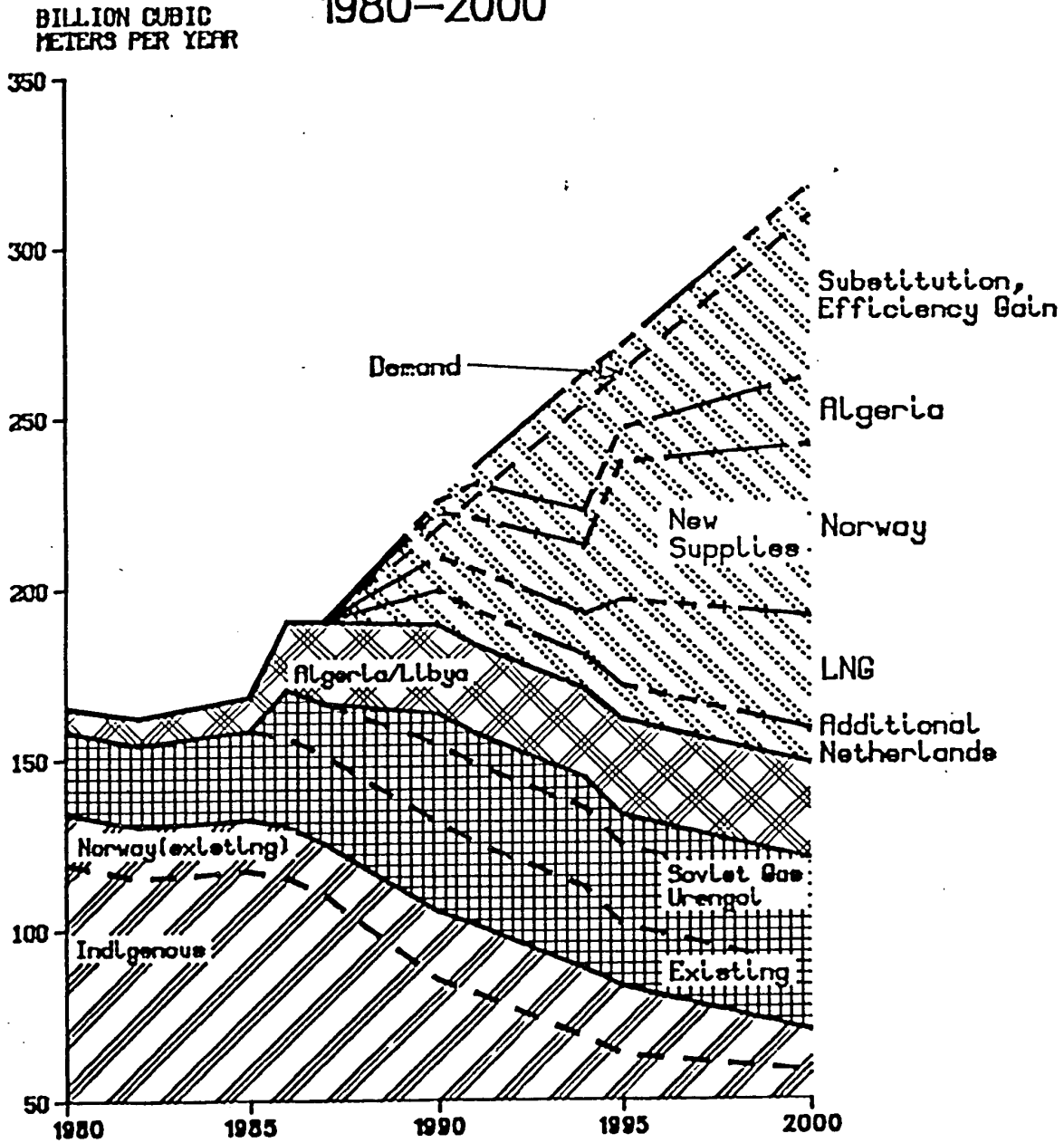
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Continental Europe: Natural Gas Supply and Demand Forecast 1980-2000



Continental Europe: Natural Gas Supply and Demand Forecast 1980-2000



NATURAL GAS BALANCE OF COUNTRIES IN THE EC AND EFTA COUNTRIES IN 1980 AND 1990

TAB C

(billion cubic meters)
(includes latest Soviet contracts)

	BELGIUM		FRANCE		GERMANY		ITALY		SPAIN		TOTAL		UNITED KINGDOM	
	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990
Consumption	8,9	15,0	26,3	34,0 39,0	52,2	60,0 70,0	25,6	40,0 45,0	2,0	8,0	115,0	157,0 177,0	46,6	55,0 65,0
Domestic production (a)	-	-	7,5	2,5	18,9	16,5	11,9	7,3	-	3,0	38,3	29,3	36,6	44,0
Imports (b)*														
- Norway														
. Frigg	-	-	-	-	-	-	-	-	-	-	-	-	9,3	9,3
. Ekofisk Eldfisk	1,9	1,0	2,3	1,3	7,9	3,5	-	-	-	-	12,1	5,8	-	-
. Heimdal Statfjord	-	0,5	-	2,2	-	3,4	-	-	-	-	-	6,1	-	-
- Netherlands**	7,0	6,5	10,0	3,5	18,8	18,0	6,0	5,6	-	-	41,8	33,6	-	-
- Algeria	-	5,0	2,0	9,0	-	-	-	12,0	1,2	2,0	3,2	28,0	0,7	0,7
- Libya	-	-	-	-	-	-	1,3	-	0,8	1,0	2,1	1,0	-	-
- USSR	-	2,0	3,5	12,0	8,1	18,0	6,4	10,0	-	2,0	18,0	44,0	-	-
- Germany	-	-	1,0	-	(1,5)	-	-	-	-	-	(0,5)	-	-	-
TOTAL (a) + (b)	8,9	15,0	26,3	30,5	52,2	59,4	25,6	34,9	2,0	8,0	115,0	147,8	46,6	54,0
DIFFERENCE	-	-	-	3,5 8,5	-	0,6 10,6	-	6,1 11,1	-	-	-	9,2 29,2	-	1,0 11,0

* Contracted or under negotiation

1000 Cu m gas \neq 0,9 TOE

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