Memorandum for:

Director of Policy & Planning

28 Dec 81

Bob:

Attached is the quickie assessment we have done on some alternatives to the Soviet pipeline. Nigeria is a reasonable alternative, but only if agreement can be reached on pricing issues. As things now stand Lagos is insisting on prices that are 25 percent higher than what the Soviets are charging. The same is true for Algeria which could constitute another major alternative. As for Norway, the reserves are there, but Oslo would have to make the policy decision to sharply increase deliveries to the Continent. We think the Dutch option probably remains the best alternative to Soviet gas in the near term.

cc: SA to DDCI
EA to D/NFAC

Director,

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Office of Global Issues

WESTERN EUROPE: ALTERNATIVE GAS SUPPLIES

Sufficient natural gas is potentially available to West European nations from several sources to provide alternatives to the 500,00 b/d oil equivalent Soviet pipeline deal. Several projects -- including a Nigerian proposal -- are viable from a technical standpoint and could be in operation in the 1986-87 timeframe. To achieve this, however, the producing countries would have to accept much lower prices for their gas than they are now demanding. Alternatively, the West Europeans would have to be willing to pay substantially more for the gas than the Soviets are charging.

US assistance to encourage development of these alternative projects through construction or pricing subsidies would be very expensive since the subsidies would have to offset lower Soviet gas prices. Pricing issues would be a major sticking point in delaying potential Algerian and Nigerian supplies and may even interfere with Norwegian projects already on the books. Perhaps the best near-term alternative to Soviet gas is expansion of Dutch gas supplies.

THE NIGERIAN OPTIONS

Lagos has contracted to ship the equivalent of at least 130,000 b/d of oil as liquefied natural gas (LNG) to Western Europe with an option to double this amount if the United States does not buy Nigerian LNG.

- Private financing has not been forthcoming, in part, because of a perceived lack of Nigerian commitment to the project.
- Participating companies also fear that a viable market will not exist in Western Europe now that the Soviet gas pipeline deal has been closed.
- To compete with Soviet prices ($4.60 per million Btu) the Nigerians would have to accept an f.o.b. price of less than $4 per million Btu. Lagos wants $4.80 or more.

An alternative to the LNG project that has been considered by Lagos is to transport the gas through North Africa to Western Europe via a 2250-2600 mile pipeline.

- Construction would be less costly (preliminary estimate of $10 billion) and less time consuming than the LNG project if transit rights were quickly established.
- Fees charged by countries through which the pipeline might transit could be exorbitant and subject the

Nigerians or West Europeans to blackmail. Should the line transit Algeria (the most direct route), Algiers most certainly would charge a transit fee sufficient to ensure that Nigerian gas is not more favorably priced than Algerian gas.

NORWAY

New discoveries in the Arctic region off the Norwegian coast have added to Norway's already vast gas potential. The latest discoveries, however, have not been fully evaluated for export potential as LNG or via pipeline.

- o Because of present drilling restrictions in the area and the Norwegian Government's hydrocarbon policy, it is not likely that gas will be available for export before 1990.

- o Except for the Statfjord project (200,000 b/d oil equivalent), other North Sea reserves will not be developed before 1990.

- o Producing companies believe even the contracted-for-Statfjord project will not be viable if the Soviet project is finalized because lower Soviet prices will require the companies to adjust their prices downward.

NETHERLANDS

Dutch gas policy is to phase out export sales and conserve gas for domestic uses:

- o Shell and Esso, the major Dutch producers, believe domestic gas reserves are much higher than official Dutch figures.

- o Stagnant or declining gas revenues could present Dutch officials with budget problems in the next few years and force them to consider expanding sales or at least to extend present contracts.

ALGERIA

The Algerians alone could provide sufficient gas to offset the volume proposed under the Soviet pipeline.

- o Algeria's militant pricing policy has delayed deliveries under existing contracts and postponed signing of additional contracts.

- o Although Algeria's revenue needs will force a more conservative pricing policy, it may be a long time before Algiers accept this reality.

CAMEROON

French firms are pushing strongly to acquire the inside track on developing Cameroon's LNG potential of 80-120,000 b/d oil equivalent, deliverable in the late 1980s.

WEST EUROPEAN GAS DEMAND

Natural gas consumption in Western Europe declined another three percent in 1981 after an unprecedented four percent drop last year. Most forecasters have now revised their estimates of future West European gas needs downward by at least 300,000 b/d oil equivalent. If demand continues to slip and nothing is done to realize the alternatives to Soviet gas that many West European nations have already contracted for, Soviet gas will be a much higher percentage of consumption than these West European nations now envision.