

Central Intelligence Agency



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Spain: A Role in West European Gas Security?

Summary

Lack of a widespread internal gas transmission and distribution network will limit Spain's ability to absorb significant new imports of natural gas in the next few years. Still, a pipeline link with the rest of continental Europe is technically feasible and would provide Spain with the opportunity to import Dutch, Norwegian, or Soviet gas. Given Spanish desires to diversify gas suppliers quickly and Soviet ability to price gas favorably, however, we believe such a pipeline link would probably result in greater sales for Moscow in the late 1980s. The present operating losses of Enagas--the national gas company --however, may preclude the availability of funds for such a project. [redacted]

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This memorandum was prepared by [redacted] Energy Issues Branch, Office of Global Issues. The information contained herein is updated to 6 May 1983. Comments may be directed to [redacted] Chief, Energy Issues Branch [redacted]

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SUBJECT: Spain: A Role in West European Gas Security?

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Spain: A Role in West European Gas Security?Spain's Gas Market

Spain's consumption of natural gas--currently some 2 billion cubic meters (bcm) per year--accounts for less than 3 percent of the country's total energy use. Gas consumption in Spain has developed slowly because of the

- o lack of a widespread gas transmission and distribution infrastructure
- o absence of large, exploitable domestic reserves, and
- o lack of secure gas supplies at competitive prices.

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Prospects for future demand are mixed. Madrid is looking to boost gas use to nearly 8 bcm by 1990, with gas providing 6 percent of Spain's primary energy consumption. In order for such demand to develop, however, Madrid must make substantial investments in a gas transmission and distribution system and secure a stable supply of gas at competitive prices.

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At present, all gas consumed in Spain is imported liquefied natural gas (LNG). Higher shipping costs and the expense of liquefying and regasifying LNG adversely affect its price competitiveness compared with oil or pipeline gas. The bulk of Spanish gas use, moreover, is consumed in electric utilities and industry where demand is extremely price sensitive.

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As a result of these price factors and the lack of a gas infrastructure in Spain, senior Spanish government energy officials have conceded that LNG use will remain low for the next several years. For gas use to increase significantly, we believe Spain will have to secure Dutch, Norwegian, or Soviet gas via the European gas grid and make substantial investments in a gas transmission and distribution system. The present operating losses of Enagas--the national gas company--however, may preclude the availability of funds for such projects.

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Supply Factors

With only small reserves and no indigenous production at present, Spain relies on Algeria and Libya to meet its gas needs. Under existing contracts, Algeria is slated to supply Spain with 4.5 bcm of LNG per year under a 23 year deal which began in 1976. Under another contract, Libya is to supply 1.4 bcm per year until 1991. Both contracts are undersubscribed by Spain, which imported about 1.5 bcm from Algeria and .7 bcm from Libya in 1982.

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Algiers, however, is currently demanding that Spain lift the full contract volume of 4.5 bcm per year, accede to a 10 percent price increase, and pay almost \$500 million for gas not imported under "take or pay" contracts. Because of limited export capability, any new Algerian shipments would have to be at the expense of other LNG purchasers such as France or the United States. Enagas' losses of \$59 million last year are largely attributed to the cost of servicing the Algerian contract. A new accord is under negotiation, but the Spanish contend an agreement, if reachable, is many months away. According to US Embassy reporting, Spain would like to continue importing about 1.5 bcm annually of Algerian gas and is hoping to extract concessions on quantity and/or the price in return for export subsidies. Given the fact that Algeria is a major trading partner of Spain--receiving \$1 billion of Spanish exports last year--we believe some compromise will be forged. [redacted]

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To reduce its dependence on Algeria and Libya for gas supplies, Spain has considered importing Dutch, Norwegian, or Soviet gas via a 100 km pipeline link with the French network, according to industry sources. In 1981, an agreement between Spain and France was signed to combine their respective gas pipelines. Based on US Embassy reporting, however, France has indicated that Spain must line up gas supplies to be delivered through the system before the linkage is allowed. Such a linkage appears technically feasible to industry sources, although no detailed engineering studies have been done. [redacted]

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With the election of the new Socialist government, some reports indicate that Spain will renew negotiations with the Soviet Union for the purchase of gas from the Siberian pipeline. Socialist Government officials have indicated that an agreement to purchase 1-2 bcm of Soviet gas annually beginning in the mid-1980s would support their new national energy plan by:

- o Helping to increase the share of gas in Spain's total energy consumption.
- o Securing much needed bargaining leverage in price negotiations for Algerian LNG.
- o Increasing energy security by diversifying supplies and establishing a link to the European gas grid. [redacted]

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If Spain expands its internal gas infrastructure and joins the European gas grid, we believe Soviet gas will get the nod. Additional Norwegian supplies will not be available until the mid 1990s at the earliest, and Soviet gas is likely to be more attractively priced than Dutch gas. The Netherlands will also probably demand a premium price for additional gas exports. [redacted]

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Spain as a Conduit

In the longer-term, several projects have been proposed using Spain as a conduit to deliver African gas to Western Europe:

- o The Trans-Sahara Natural Gas Pipeline would link potential West African producers such as Nigeria and Cameroon with Spain. Although the Nigerians have dismissed this project because of potential transit and security problems, the project could receive renewed interest in the future if Lagos' again fails to move ahead with a proposed LNG facility.
- o The Trans-Mediterranean Pipeline or Segamo project would link Algeria and Spain directly. At present, this project is extremely costly and is faced with the major technical problem of laying the pipeline at water depths of 2,160 meters.
- o An alternative route for an Algeria to Spain pipeline would transit Morocco and the straits of Gibraltar. This project is more cost-effective than the Segamo project and is now more politically appealing given what Madrid perceives as a growing political rapprochement between Algeria and Morocco. [redacted]

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Because of Spain's desire to improve relations with North African countries and its problems with Algerian LNG supplies, Madrid is currently soliciting interest in implementing an African Trans-Mediterranean pipeline scheme, according to US Embassy reporting. A plan for Spain to serve as a conduit for delivering Algerian gas to Western Europe, however, is hard to justify in the medium term given weak West European gas demand and the fact that we believe Algeria will be unable to meet its existing gas export commitments to Western Europe and the United States. Although Algeria and other African and Middle Eastern countries will have the potential to sharply increase gas exports to Western Europe in the 1990s--possibly using Spain as a conduit--European purchasers will have to be willing to pay prices at least 10 to 15 percent higher than the price of Soviet gas under recently negotiated contracts. Moreover, Algerian gas shortfalls during the 1980s will reinforce West European views of Algeria as an unreliable supplier, and, consequently, gas purchasers will be less willing to sign new contracts for Algerian gas during the 1990s. In any case, a pipeline linking the African continent with the European gas grid already exists via the Algerian/ Italian pipeline. [redacted]

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