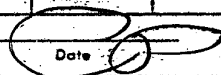


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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20505

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Executive Registry

December 4, 1982

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MEMORANDUM FOR

Mr. Donald P. Gregg
Assistant to the Vice President
for National Security Affairs

Dr. Alton Keel
Associate Director for National
Security and International Affairs
Office of Management and Budget

Mr. L. Paul Bremer III
Executive Secretary
Department of State

✓ Mr. Thomas B. Cormack
Executive Secretary
Central Intelligence Agency

Mr. David Pickford
Executive Secretary
Department of the Treasury

Ms. Jackie Tillman
Executive Assistant to the United
States Representative to the
United Nations
Department of State

Lieutenant Colonel W. Richard Higgins
Assistant for Interagency Matters
Office of the Secretary of Defense

Mr. Dennis Whitfield
Executive Assistant to the USTR

Mr. Stephen Shipley
Executive Assistant to the Secretary
Department of Interior

Mr. Roger Porter
Executive Assistant to the
Assistant to the President for
Policy Development

Mrs. Katherine M. Anderson
Director, Executive Secretariat
Department of Transportation

Colonel George A. Joulwan
Executive Assistant to the
Chairman, Joint Chiefs of Staff

Mr. William V. Vitale
Director, Office of the Executive
Secretariat
Department of Energy

SUBJECT: NSC Meeting on Alternative Energy, December 7, 1982 (C)

A National Security Council meeting has been scheduled for 2 p.m., Tuesday, December 7, 1982, in the Cabinet Room to discuss alternative energy. (C)

The following issues paper has been prepared by the NSC staff in an effort to provide the President with a status report on East-West energy security activities in preparation for the December 7, 1982 NSC discussion on alternative energy. Attached you will also find a summary from Don Regan on the SIG-IEP discussion on these issues. In preparing this paper, we have drawn on the conclusions of that meeting, as well as the preliminary discussions on the follow-up

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on the energy studies in the "Summary of Conclusion" on East-West economic relations. The objective of the meeting is to bring together the various elements into a coordinated strategy to reduce European dependency on Soviet energy. These will be the only documents circulated for the meeting, although background papers on these issues were distributed for the November 29, 1982 SIG-IEP. Copies of these papers are available on request from my office. (S)

Dona S. Moore
Michael O. Wheeler
Staff Secretary

Attachments

Tab A Issues Paper
Tab B Summary of SIG-IEP Discussion

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1. What is the potential market share of Soviet gas in European gas markets over the next two decades? What does this imply for European security and Soviet hard currency earnings? To what extent can the Soviet Union block development of non-Soviet alternatives? (C)

2. How can we achieve the NSDD-66 energy objective that European countries "will not commit to any incremental deliveries of Soviet gas beyond the amounts contracted for from the first strand of the Siberian pipeline; not commit themselves to significant incremental deliveries through existing pipeline capacity; and participate in the accelerated development of alternative Western energy resources, principally Norwegian gas reserves." (S)

3. What actions can we take domestically to contribute to a better world energy picture and gain credibility abroad in our negotiations on limiting European dependence on Soviet energy? (C)

Discussion and Background

1. European Gas Markets and the Role of Soviet Gas and non-Soviet Alternatives. CIA studies show that the Soviets can capture a significant part of the European gas market with only one strand and fuller use of existing pipeline capacity. Alternatives, such as Norway's giant Troll field, are more expensive, have longer lead times and are technically challenging. The Soviet Union can be expected to aggressively seek Western customers offering lower than market prices and lucrative equipment sales contracts. By limiting gas purchases to a one strand pipeline, total hard currency earnings can be contained to around \$10 billion annually, compared with twice that from a two strand/full capacity system. (For comparison, 1981 Soviet hard currency imports totalled \$26 billion.) (S)

2. International Measures to Reduce Allied Dependency on the Soviet Union and Achieve the NSDD-66 Objectives. The NSDD-66 energy objective will be difficult to negotiate. The Europeans will emphasize energy dependency as a whole and their need for Soviet gas to diversify away from Middle East oil. They will equate projected gas from present Soviet gas contracts with Dutch surge capacity and conclude that there is no security threat from increasing Soviet dependency. The United States should focus on natural gas markets and the need to preserve market share for large-scale alternatives such as Troll. We should point out the Soviet's ability to become the marginal supplier of gas to Europe and the negative impact this would have on large-scale alternatives. On gas security, we should insist on rigorous analytical study of the physical nature of the European grid and the ability to move gas to troubled areas in times of disruption (i.e. ability to

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transport gas to highly Soviet gas dependent regions such as Bavaria). (S)

While the Europeans will want to depend on general and global type analyses which gloss over the security problem, we should insist that these studies be country and sector specific on the demand side. On the supply side, we should emphasize the engineering and operational requirements and constraints of major alternatives, with a focus on Norwegian gas. This approach will be more of an effort than the energy studies prepared for past Economic Summits and IEA Ministerial meetings. More detail, however, serves our purposes. (C)

Our process should be threefold:

-- Strongly support the IEA natural gas security study with a Ministerial review of the progress in late spring 1983. (U)

-- Convene a Summit energy working group (if possible, as early as December 15 in Paris) which would include the Norwegians and Dutch to undertake the energy study in the "Summary of Conclusions." This study should review regional and country specific energy requirements, import dependencies, vulnerabilities to oil and gas disruptions and alternatives to reduce security risks. (S)

-- Continue USG studies in these areas and at the appropriate time share sanitized versions with our Allies and the IEA Secretariat. (C)

These three efforts should complement and reinforce one another and lead to at least a preliminary assessment by the time of the Williamsburg Summit. It will be difficult for the Europeans to admit publicly to no more Soviet contracts. However, we may be able to build on the present Germany commitment to limit Soviet gas to 30% of their total gas requirements. If future gas demand is low, as we expect, this implies commitment to only a one strand Siberian pipeline. This, coupled with an allied agreement to accelerate the development of Norway's Troll field to meet incremental European gas demand in the 1990's, would preclude construction of the second strand of the Siberian gas pipeline project or significant incremental deliveries through existing Soviet pipelines. This commitment should be our bottom line. Anything less will not satisfy the objectives of NSDD-66. (S)

3. Domestic Energy Recommendations. Our international approach would be complemented and strengthened if the United States took some important domestic steps to improve the global energy picture. U.S. energy exports cannot substitute for Soviet gas; however, by continuing the Administration's free market energy philosophy, we can improve the long-term energy future of all countries and increase our credibility in the negotiations on energy security. The Cabinet Council on Natural Resources and the Environment is giving consideration to the following measures:

-- Deregulation of Natural Gas Prices. This is our most important option to increase U.S. credibility abroad. (S)

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-- Partially lift the ban on Alaskan oil exports to Japan and/or encourage the Japanese to invest in new Alaskan resources, permitting them to export the oil they develop. This makes good sense from an economic perspective and could be an important signal of U.S. free trade promotion at a time when protectionist tendencies are threatening the world trading system. However, it will be difficult to achieve politically unless the Japanese are willing to make some economic and security concessions. There are indications that Japan is receptive to this approach. (The Cabinet Council on Natural Resources and the Environment has concluded that the SIG-IEP should take the lead in developing this issue. Discussions on this issue are only at a very preliminary level and, as the topic is very sensitive on the Hill and in Japan, it is important that the topic be handled with discretion.) (S)

-- Improve competitiveness of U.S. coal exports. Actions, such as assigning a high priority to obtaining the Administration's port user fee legislation to facilitate dredging of U.S. coal ports, would demonstrate our commitment to coal as an alternative energy source. (C)

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THE SECRETARY OF THE TREASURY
WASHINGTON

November 30, 1982

MEMORANDUM FOR THE HONORABLE
WILLIAM P. CLARK
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS

FROM: Donald T. Regan *DR*
SUBJECT: Summary of SIG-IEP Alternative Energy Discussion

As requested in your memorandum of October 14, I would like to give you a report on the SIG-IEP discussions on reducing Allied dependency on Soviet energy. The Group is agreed that the Soviets can capture a significant part of the European gas market beyond that contemplated for one Siberian strand. Alternatives, such as Norway's Troll field, are more expensive, have longer lead time and are technically challenging. Given the potential to reap hard currency earnings from gas which are comparable to their total payments for hard currency imports last year, the Soviet Union will have every incentive to offer low prices and lucrative equipment contracts to gain a greater share of the European gas market. Against this setting, the SIG-IEP strongly supports the recommendations of the International Energy Security Group that we urge our Allies to limit their gas purchases and to accelerate alternatives, particularly the Troll field. To carry out this objective, the International Energy Agency should be urged to complete its natural gas security study in a timely manner. This effort, coupled with the Allied energy studies called for in the Summary of Conclusions of the East-West accord, should provide the technical underpinnings for a political commitment to reduce dependency on Soviet energy by the time of the Williamsburg Summit. I think that it would also be useful if the very sobering analysis prepared by the CIA on Western European Gas Markets and Alternatives could be sanitized and shared with our Allies. The SIG-IEP will continue to monitor carefully the various energy studies and consultations with our Allies as is directed in NSDD-66.

The International Energy Security Group also recommended a number of domestic measures, many of which make good economic sense domestically as well as internationally. The SIG-IEP gave a firm vote of approval to the proposal to phase

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in complete decontrol of natural gas by 1985. They were also sympathetic to the suggestions to increase energy exports -- such as coal -- as a means to improve U.S. trade balances over the longer term. While these actions are not short-term remedies to the problem of Soviet gas dependency, they can improve world energy markets over the longer term, and they would most certainly give a boost to our credibility in future negotiations with the Allies who have from the start urged us to get our own house in order before lecturing to them about gas security.

We had a very good preliminary discussion on Alaskan oil export to Japan. I found no serious objection to pursuing this idea, so I have asked Allen Wallis to convene a small working group on the issue. I hope that we can provide a proposal for your consideration early next year.

The discussion revealed continuing Cabinet interest in the issue of finding solutions to ever-increasing European reliance on Soviet energy. But the road ahead with our Allies is likely to be a difficult one. With one foot in the door, the Soviets can become the marginal supplier of gas to Europe. The burden is now on the alternate suppliers who face higher costs and more technically challenging projects. Our actions at home can improve world markets over the longer term and increase our credibility, but they are not short-term fixes. The real answer lies in development of the giant Troll field in Norway. Development of this field will preclude further reliance on Soviet gas until well into the next century. It is here where we should put our emphasis in talks with the Allies over the coming months.

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