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MEMORANDUM

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NATIONAL SECURITY COUNCIL

INFORMATION

April 3, 1975

MEMORANDUM FOR: GENERAL SCOWCROFT

FROM: ROBERT HORMATS RH

SUBJECT: REFER TO DOS US LNG Policy

As you will recall, the President asked for NSC views on overall policies toward LNG, and specifically on whether Ex-Im should finance LNG projects abroad. Zarb has written you on this (Tab A). State has provided two papers (Tabs B and C). A meeting, presumably with the President, will be held on this subject on April 8.

The US does not have an overall policy on LNG; decisions are now made on a case-by-case basis. A study to determine whether we should increase imports of LNG should come before subsidiary decisions on Ex-Im and MARAD financing.

Background

Two US firms have received FPC approval to import Algerian LNG; US companies are negotiating on new contracts in Algeria, Nigeria, Iran, Indonesia and the Soviet Union. Applications are pending with the FPC for LNG imports from four Algerian projects and one Indonesian project. No FPC applications are pending for the other three countries.

Ex-Im Policy

Ex-Im's current policy is to consider LNG only after countries have obtained the approval of FPC for importing LNG into the United States, or the approval of foreign governments if they are the recipients of the LNG imports. The Bank is now involved in financing LNG projects in Algeria, but has no involvement in Indonesia or Nigeria and has no application for financing projects in these countries before it at this time. The Bank did make a preliminary commitment to Indonesia in May 1973, but this expired in December 1973 when the initial agreement on price between Indonesia and the Pacific Lighting Corporation broke down. A new understanding on price has now been reached and PLC intends to amend its

application to the FPC. FPC consideration would require at least one year; if it is favorable, Indonesia, or PLC, would probably seek Ex-Im financing. Philips is currently negotiating with the Nigerian government on a LNG project; if successful, an application might be made for Ex-Im financing.

The consequence of withholding Ex-Im financing from these projects would be that they would (a) either not be constructed or (b) would be built with European and Japanese financing, and US exporters might lose some of the equipment exports business (although a substantial portion of the business would probably go to the US in any case because of our technological superiority in a number of areas). The latter is the most likely case since if there is a market for the LNG in the US, and the project has received FPC approval, the investment would be attractive for other countries. Accordingly, it is questionable whether the withholding or granting of Ex-Im financing would have a significant impact on whether or not the US increased its reliance on other countries for LNG. As far as the countries are concerned, they would obviously regard rejection by Ex-Im as a major signal of US disinterest in their development and an indication that we do not regard them as reliable suppliers.

Overall US LNG Import Policy

The major question--to which the Ex-Im financing, MARAD subsidy and regulatory pricing issues are subsidiaries--is whether or not we want to increase dependence on imports of LNG. FEA makes the point that most LNG comes from OPEC countries whose policies and actions on this commodity are not likely to differ from those relating to oil exports, and that once a region of the US becomes dependent on imports it is very difficult to switch to alternative supply sources should the need arise. It argues also that the costs of imported LNG are in excess of $2 per million cubic feet compared with the $.80 per million cubic feet in the US, and foreign prices could be increased. Reliance on imports also runs counter to the national policy of reducing dependence on foreign suppliers, foreign LNG would probably not be needed if domestic gas prices are deregulated, and oil imports are probably preferable alternatives because of greater diversity of sources and price.

Arguments for additional LNG imports are that it would help satisfy future demand for gas, especially in Northeast and West Coast markets, comprise only a small part of our total energy needs, slightly reduce the demand for imported oil, diversify sourcing and is preferable from an environmental point of view.

By and large it appears wise to avoid increased dependence on long-term LNG imports--as FEA recommends--if there is a prospect of developing

sufficient domestic resources to supply US demand. Thus, the FEA must first determine whether domestic demand can be supplied by domestic sources.

A second question (alluded to earlier) is whether or not Ex-Im financing is really a key factor in determining whether the project will be constructed. If, in fact, FPC approval must be obtained before Ex-Im financing can be approved, it would appear that the FPC approval process, not the Ex-Im process, is critical. If the FPC approves, implying that it would be appropriate to import LNG from a project in question, would it not be inconsistent to deny Ex-Im or MARAD financing?

With respect to pricing of imports on subsidized projects, the FEA proposal recommending authorization of imports only if the import price is no greater than the wholesale price of domestic natural gas requires a substantial knowledge of future supply and demand considerations, which appears difficult to obtain far in advance; but it is certainly desirable to hold down the imported price as much as possible and I agree with the recommendation. In the event that projects do not receive financial subsidies, authorization of imports only if the full price can be supported by the end use demand seems logical.

In summary, the FEA recommendations on Ex-Im and MARAD financing require answers to additional questions, and an overall look at US LNG import policy. The recommendations on price appear sound and we support them in principle, but we would like to withhold judgment pending the results of the suggested study.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

MAR 2 1 1975

OFFICE OF THE ADMINISTRATOR

Lt. General Brent Scowcroft
Deputy Assistant to the President
for National Security Affairs
The White House
Washington, D. C.

Dear General Scowcroft:

The Energy Resources Council (ERC) is in the process of evaluating U.S. policy regarding the importation of liquefied natural gas (LNG). The issue is very complex as it involves both domestic and international political, economic, commercial, and security considerations.

The issue is especially timely and important because imported LNG could contribute to reducing the projected shortfall in future U.S. natural gas requirements. But recent events have increased our concern with the supply stability and costs of imported energy. We must, therefore, make a conscious effort to select a policy consistent with our objectives of reducing the political and economic vulnerabilities associated with energy import dependence.

The ERC has weighed the relative benefits and costs of importing LNG and has concluded that the U.S. Government should not provide special incentives for foreign LNG projects for the following principal reasons.

First of all, most of those projects are in OPEC countries whose policies and actions on LNG exports are not likely to differ from those on their oil exports. In addition, the projects are very expensive (about $2-3 billion for a billion cubic feet per day including liquefaction/ gasification plants, terminals, and cryogenic tankers), and involve highly specialized facilities whose dedication to specific markets effectively limits flexibility with respect to alternative supply sources should the need arise.

Moreover, the lead times are very long (5 to 7 years) and the supplies are not likely to be available in substantial quantities before additional domestic natural gas could be forthcoming under less restrictive regulatory pricing practices by the Federal Power Commission.

Finally, the costs of imported LNG are presently estimated to be in excess of $2 per million cubic feet (MCF) compared with the current cost of about $.80 per MCF in the relevant U.S. domestic natural gas market. In addition, there is no way of predicting the magnitude of future price increases on the part of foreign suppliers, nor little alternative but to pay it once the markets are locked into those sources.

In keeping with its conclusion regarding foreign LNG projects, the ERC has decided to recommend that the Export-Import Bank not grant any form of financial support or credit to foreign LNG projects unless compelling overriding national interests dictate otherwise.

The ERC still is considering two other recommendations--One involves withholding MARAD subsidies on cryogenic tankers for foreign LNG trade. These tankers can account for as much as 60 percent of the total project costs, and thus the MARAD subsidies are an important factor in LNG investment decisions.

The other recommendation pertains to the regulatory pricing of LNG imports by the FPC. The recommendation depends on whether or not foreign LNG projects continue to receive Eximbank support and/or MARAD subsidies. If they do, then the ERC is considering a recommendation that the FPC authorize LNG imports only if the price at which it is imported is no greater than the wholesale price of domestic natural gas in the relevant domestic market.

If foreign LNG projects do not receive financial subsidies, then the ERC is considering a recommendation that the FPC authorize LNG imports only if the full unit price at which it is imported can be supported by the end-use demand in the market in which it is sold.

The ERC will be discussing these last two recommendations at its next meeting scheduled for Tuesday, ~~March 25~~. I would greatly appreciate your attendance at that meeting and your views on the issues I've discussed.

I want to emphasize that we are not considering policies designed to prohibit the importation of LNG. And we fully appreciate the magnitude and diversity of interests involved in and affected by such interests.

But the ERC has concluded that the risks, costs, lead times, and quantities involved in current and planned foreign LNG projects, are such that it is not in the best energy interests of the U.S. to encourage such imports via preferential financing and marketing mechanisms.

I've attached copies of all the background material developed for the ERC evaluation. I look forward to your thoughts on this matter and your participation at the next ERC meeting.

Sincerely,

Frank G. Zarb
Administrator

Attachments
(1) March 6, 1975, Issue Paper
(2) Letter to Honorable William Casey
Export-Import Bank
(3) March 13, 1975, Issue Paper
(4) Memorandum "LNG Import Pricing Issue" March 18, 1975
(5) Memorandum "LNG Policy" December 23, 1974

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

Honorable William Casey
Chairman of the Board
Export-Import Bank
Washington, D. C. 20005

Dear Bill:

As you know, President Ford's vigorous program to increase U.S. energy independence is a direct consequence of the recent oil embargo. Indeed, that experience has caused deep concern about the future supply security and prices of all our energy imports.

In this regard, the Energy Resources Council (ERC) has just completed an evaluation of U.S. policy regarding the importation of liquefied natural gas (LNG). That evaluation focused on the supply security and costs of imported LNG and its expected contribution to future U.S. energy requirements.

It was determined that imported LNG is no more secure than imported oil because OPEC member states are the major sources of LNG and are likely to adopt similar LNG and oil export policies. In fact, LNG may be even less secure than oil because of the far fewer number of supplies. Moreover, technical and related problems further increase the prospects for disruptions in the supply of imported LNG.

Imported LNG is a relatively expensive source of energy. The cost of daily deliverable capacity, including highly specialized and dedicated terminal and transportation facilities, results in an end user charge of about $2 per thousand cubic feet. This is equivalent to approximately $12 per barrel oil. Thus, it is not an attractive lower cost energy alternative to imported oil.

Increased production of U.S. natural gas is essential to reducing our dependence on imported energy. Given that, imported higher cost LNG would serve only to reduce the market for and thereby displace domestic natural gas.

And finally, the existing and planned LNG projects are not anticipated to be operative before 1985, at which time the U.S. demand for such an alternative could be reduced significantly by increased production of lower cost U.S. natural gas and other energy fuels.

Currently all of the major existing and/or planned imported LNG projects, intend to supply U.S. markets, involve some form of direct and/or indirect financial support from the Federal Government. In that regard, Eximbank financial support, especially in the form of commercial insurance and loan guarantees, usually is the determining factor in decisions to invest in LNG projects.

The ERC feels that given the relative insecurity and high cost of imported LNG, the Federal Government and agencies thereof should not provide financial incentives to or otherwise support the importation of liquefied natural gas. To that end, we respectfully recommend that the Board of Directors of the Eximbank establish a policy of not granting financial assistance to LNG imports.

I'm sure you appreciate the scope of analysis and depth of consideration that has gone into this ERC recommendation and the spirit in which it is made.

If you have any questions on this matter, I shall be happy to discuss them with you at your convenience.

Sincerely,

Rogers C. B. Morton
Chairman
Energy Resources Council

ISSUE:

What should be the U.S. policy regarding direct and indirect government financial support to imported liquefied natural gas (LNG)?

BACKGROUND:

Currently all major existing and/or planned imported LNG projects intended to supply U.S. markets, involve some form of direct and/or indirect U.S.G. financial support.

The private sector is reluctant to independently finance imported LNG projects primarily because of:

(1) their relatively high cost ($2,000 per MCF of daily deliverable capacity including terminal and transportation facilities, resulting in an end-user charge of about $2 per MCF equivalent to about $12/bbl oil) and highly specialized and dedicated facilities; and

(2) the requirement for marketing and pricing authorization from Federal and state regulatory commissions, typically requiring long-term (20 years) regulated-price contracts, in the face of significant pricing uncertainties from the foreign supply source.

Currently the U.S.G. gives direct and indirect financial support to imported LNG through:

-- Eximbank financial involvement in LNG supply systems, via direct loans, guarantees, and commercial insurance;

-- MARAD subsidies for cryogenic tanker construction; and

Moreover, indirect financial support would be further extended by:

-- Proposals that state utility commissions permit LNG prices to be averaged-in with regulated domestic natural gas prices, in determining end-user charges.

ANALYSIS:

The U.S.G. can:

1. Continue to provide financial assistance to foreign LNG projects;

2. Limit financial support to certain aspects of LNG projects; or

3. Eliminate all forms of financial assistance.

OPTION 1:

Continue current pattern and level of financial support to foreign LNG projects.

-- This will tend to encourage the market displacement of and commercial discrimination against U.S. domestic natural gas by an imported energy fuel:

(a) whose delivered cost substantially exceeds that of U.S. domestic natural gas and oil;

(b) that will not be available in significant quantities before 1985--at which time the U.S. demand for such an alternative could be significantly reduced by increased production of U.S. natural gas and other energy fuels;

(c) that exhibits significantly greater technical and environmental risks than U.S. domestic energy alternatives; and

(d) that is guaranteed by U.S. market and price policies which minimize constraints on pricing actions by and financing obligations of foreign suppliers, and extends U.S. dependence on insecure foreign sources of energy supply.

OPTION 2:

Eliminate Eximbank and MARAD direct financial support to imported LNG projects.

-- This would significantly increase the total cost of LNG projects because:

(a) Eximbank financial support--especially in the form of commercial insurance guarantees--typically is the determining factor in LNG investment decisions. Denial of such financing would greatly increase the financial risks and costs of LNG projects, thereby diminishing their commercial attractiveness if not precluding their undertaking; and

(b) LNG tankers typically account for approximately 60-80% of the total project costs, and MARAD typically subsidizes about 16% (to a maximum of 37%) of tanker construction costs and/or guarantees the mortgage under Title 11 of the Merchant Marine Act of 1936, as amended.

-- Under current regulatory averaging-in pricing proposals, the increases in LNG project and delivered costs resulting from denial of Eximbank and MARAD subsidies, would be reflected in the end-user service charges in U.S. domestic gas markets.

These higher end-user prices should contribute to increased production of U.S. domestic natural gas, if regulated well-head prices were raised to reflect the higher average costs.

However, the benefits of higher U.S. end-user charges would be diminished by the fact that the future domestic market would be smaller due to increased service charges and diminished growth rates, and would be shared by higher cost imported LNG.

OPTION 3:

Preclude the indirect financial support of imported LNG likely to result from current regulatory averaging-in pricing proposals by requiring that the contracted price of imported LNG cannot exceed the wholesale price at which domestic natural gas is sold in the proposed LNG market.

-- The respective state regulatory commissions determine how LNG will be priced in their respective markets. Currently, most state utility commissions propose to average-in the costs of imported LNG with the costs of domestic natural gas in determining an end-user charge for gas marketed within their jurisdiction. This would tend to mask the real cost of imported LNG, distort its relative market demand, and result in the subsidization of LNG users by lower cost domestic natural gas users.

-- But the FPC determines the acceptability of the price at which LNG can be imported into the U.S. Requiring imported LNG prices to be no greater than domestic gas prices would effectively diminish the price distorting impacts of averaging-in pricing policies and more accurately determine the real demand for high cost imported LNG.

RECOMMENDATION:

The U.S.G. should withdraw direct and indirect financial support of imported LNG. The order of preferred action is as follows:

1. Eliminate all forms of financial assistance.

2. Request that FPC approval of LNG import applications be conditioned by the requirement that the contracted import price be no greater than the wholesale price at which domestic gas is sold in the relevant market.

3. Deny Eximbank and MARAD direct and/or indirect financial support to foreign LNG projects.

It should be noted that all of the above would appear to require amendments to existing, if not new, legislation.

4. Interpose objections to Eximbank direct and/or indirect financial support of LNG projects unless FPC requires that contracted LNG price be no greater than wholesale price at which domestic gas is sold in relevant market.

This action could be taken via Administrative action (or Executive Order if necessary) under current legislation and FEA review of Eximbank energy-related activities.

Issue:

What should be the U.S. policy regarding the domestic pricing of imported liquefied natural gas (LNG)?

Background:

All LNG import contracts require the approval of the Federal Power Commission (FPC). The contracts involve foreign sources of supply, subsidiaries of U.S. pipeline companies, and U.S. utility distribution companies.

The FPC evaluation of LNG contracts involves: the proposed delivered contract price, including price escalator clauses; the domestic need for such supplemental natural gas supplies; the investments required; the reliability of the source of supply; and the adequacy of supply dedicated to the LNG project.

In most instances, subsidiaries of interestate pipeline companies initiate LNG proposals for the purpose of supplementing the parent company's natural gas supplies. Imported LNG is integrated with domestic natural gas in the pipeline system. The cost of the LNG may be either rolled-in with the domestic natural gas costs to derive an average city gate price paid by the utility distributor or the cost of the LNG may be passed directly to the utility distributor or an ultimate consumer. The latter incremental pricing procedure may be accomplished under separate contracts from sales involving domestic natural gas.

In Opinion 622 (June 28, 1972), the FPC declared itself in favor of incremental pricing for LNG. However, this position has been opposed by the pipeline companies involved in the purchase of LNG supplies. The court remanded the FPC Opinion and hearings are now underway to further re-evaluate the issue of incremental versus rolled-in LNG prices.

It should be noted that the FPC has no jurisdiction over utility distributors' actions with regard to the pricing of LNG in the market after they acquire it from an interstate pipeline company. This holds also if a utility distributor purchases LNG directly from a foreign source.

It is FPC's view that their influence is limited to decisions of state utility commissions. For the most part, utility distributors prefer to roll-in LNG prices.

Two important positions have been adopted by the FPC under Opinion 622A, dated October 5, 1972, regarding LNG. One states that incrementally priced LNG is not subject to supply curtailment, and the second is that once LNG imports commence, their import should not be restricted in the event that lower cost alternatives subsequently become available in the U.S.

Recommendation:

The recommendation is conditioned on whether or not LNG projects continue to receive direct U.S. financial assistance because the price at which LNG is marketed should reflect the real cost of importing LNG in order to avoid discrimination against domestic production.

I. If LNG projects are not subsidized (by Eximbank financing and/or guarantees or MARAD tanker subsidizes) then: The Administration should support the FPC position on incremental pricing of LNG. State utility commissions as well as utility companies should be urged to market LNG at its import price rather than rolling-in LNG import prices with domestic natural gas wholesale prices.

Rationale:

1. Rolling-in higher cost LNG with lower cost domestic gas masks the real cost of LNG. This tends to stimulate its demand relative to domestic natural gas, increases dependency on higher cost imports, and distorts capital investment decisions.

2. In view of the limited control FPC has over foreign LNG source prices and the arbitrary determination of such prices by foreign suppliers, incremental pricing transfers the real costs of imported LNG to the markets willing to pay for it. This provides a reasonably accurate indication of the need for further capital investment in LNG projects relative to other alternatives.

3. When LNG prices are rolled-in with domestic natural gas prices, rents are paid to foreign sources whose prices are insulated from the domestic market demand.

II. If LNG projects continue to be subsidized by preferential financing, then the Administration should advise the FPC to require that LNG prices be no greater than the wholesale price at which domestic gas is sold in the relevant market.

Rationale:

1. Domestic natural gas suppliers are price constrained by regulation. Therefore, the domestic suppliers will be discriminated against if, in addition to direct and indirect subsidies to LNG suppliers, the wholesale prices of LNG are not regulated. This in effect establishes a two-tier pricing system which disfavors domestic producers.

2. If the U.S. natural gas consumer is to benefit from U.S. financial subsidies to LNG projects, then constraints must be imposed on the prices at which it is marketed in the U.S. Otherwise, the U.S. will be subsidizing the costs of foreign LNG suppliers, but not regulating the price at which it is sold.

In Sum:

Either subsidize LNG imports and regulate its price so as to assure that the U.S. consumer receives the full intended benefit--or don't subsidize LNG imports--and let its full import cost be reflected in the price paid by the market in which it is demanded.

Federal Energy Administration
International Energy Affairs

Subject: LNG Policy

Date: Dec. 23, 1974

From: C. B. Thompson

To: Mr. Conant
Mr. Malin
Mr. West

Attached is a copy of the LNG policy paper prepared by FEA/IEA/P&A, State, FPC, MARAD, submitted to the ERC December 20.

UPON REMOVAL OF ATTACHMENTS THIS DOCUMENT BECOMES UNCLASSIFIED

FEA-F-58

EXECUTIVE SUMMARY

ISSUE: Should the USG have an overall policy toward foreign imports of liquefied natural gas (LNG) and what should the policy be?

This paper examines the potential role of LNG in meeting the nation's future energy needs. It analyses projected shortfalls between domestic gas demand and supply, discusses the costs and benefits of increasing the nation's reliance on imported LNG, and compares LNG to other energy alternatives. It recommends a policy that is consistent with the Administration's efforts to reduce US dependence on foreign energy supplies and expand domestic energy production.

The paper reaches the following conclusions:

1. Increased LNG imports will probably not be essential to meeting future US energy needs after 1980 when most LNG supplies will become available.

2. The private sector is reluctant to finance capital intensive foreign LNG projects on its own. The granting of USG preferential financing for such projects encourages the flow of private capital and equipment to foreign projects which might otherwise be used for domestic energy development.

3. The price of LNG imports is unpredictable but is likely to be substantially greater than some alternatives. The practice of rolling-in LNG prices with domestic gas prices tends to distort the true cost of imported LNG. Furthermore, the long-term nature of LNG contracts commits US consumers to high gas prices even if lower cost alternatives later become available.

4. LNG imports offer little if any more supply security than oil imports. They can also be cut-off for political reasons. In addition, technical and environmental problems tend to further reduce the supply security of LNG imports.

The paper recommends that the USG establish an overall policy on LNG imports which includes:

-- A general preference against long-term LNG imports as an interim alternative to developing sufficient domestic energy sources to satisfy demand.

-- A position of not providing EXIMbank financing for foreign LNG projects, unless compelling political and national interest considerations dictate otherwise.

-- A position that LNG import applications should not be approved unless the incremental unit price of LNG is supported by the market demand.

This policy would require LNG imports to be evaluated on the basis of their true economic costs. This policy would not prohibit LNG imports. But it would not encourage such imports by granting preferential financing or other market subsidies. The policy would be consistent with the goals of Project Independence and would bring more clearly into focus the need for deregulated gas prices to stimulate expanded domestic production. Finally, the US could cite this policy to other consumer and producer nations as proof of its determination to reduce US vulnerability to foreign energy supplies.

ISSUE: Should the USG have an overall policy toward foreign imports of liquefied natural gas (LNG) and what should the policy be?

Analysis

Need for Overall Policy Guidelines on LNG Imports

The recent oil embargo and massive increases in world oil prices have generated concern about the relative quantities, security, price levels, and predictability of US energy imports.

The USG currently lacks a fully coordinated policy on imports of liquefied natural gas (LNG). The Federal Power Commission rules on LNG import applications on a case-by-case basis; decisions on government subsidies for the LNG projects are handled in the same way. A number of LNG import applications are currently on the FPC docket, and US gas firms are negotiating for other LNG projects in several producer countries. The cumulative political and economic impact of these projects has not been fully assessed.

When LNG decisions are made, they tend to involve significant long range commitments. Increases in LNG imports involve: 1) large capital investments; 2) possible USG subsidies; 3) contract commitments to high prices for 20 years or more; and 4) vulnerability to supply interruptions.

Under these circumstances, general guidelines on LNG are required to ensure that rulings on specific projects are consistent with the national energy objective of reducing dependence on imported energy. With a clear USG policy on LNG, US companies could more efficiently determine where to concentrate their efforts to secure future energy supplies.

Considerations for an Overall LNG Policy

Will there be a shortfall between domestic supply and demand after 1980?

Forecasts of domestic production and consumption of natural gas are subject to uncertainties involving future price levels and the supply response to these prices. According to the Project Independence Blueprint (PIB), the deregulation of interstate domestic gas prices would expand supply under the Business as Usual scenario from 22.5 tcf/yr. to 23-24.5 tcf/yr by 1985. Under the Accelerated Development scenario, at $11 per barrel oil prices, gas supply is projected to increase to 27.3 tcf/yr. If interstate gas prices continue to be severely regulated, domestic production is projected to decline to 15.2 tcf/yr by 1985, according to the PIB.

Two independent models (Appendix A) illustrate the range of disagreement associated with predicting future domestic supply.

The MacAvoy-Pindyck econometric model forecasts supply in 1980 at 35 tcf/yr. The AGA's engineering-simulation TERA model places supply at only 19.7 tcf/yr.

Demand figures are equally difficult to determine. An internal FEA study forecasts 1985 demand, depending on price, to range between 30 and 33 tcf/yr (Appendix B). The TERA model projects demand at 30 tcf/yr. by 1980. The MacAvoy-Pindyck model projects demand at 35.1 tcf/yr; this is only 100 billion cubic feet short of its domestic supply projection. The Future Requirements Committee forecasts 38.4 tcf/yr for 1980.

It is difficult to obtain consensus on the size of future gas supply shortfalls. Domestic production will certainly increase if prices are deregulated. The rate of growth in demand will be dampened by rising prices; consumption will be reduced by future conservation measures. Furthermore, much of the projected future demand, which is expected to occur primarily in the industrial sector, could be met by alternative fuel sources, particularly oil and coal. We do not agree with those who contend that the severity of future US gas supply shortfalls necessitates a major commitment to foreign gas supplies.

Potential Foreign LNG Sources and Supplies.

International trade in LNG began in 1957. Algeria, Brunei and Libya currently market LNG. Several other countries will join them in a few years. If all the LNG projects now under consideration are consummated, world LNG trade could expand production to 6.8 tcf/yr in the early 1980s. Current trends in LNG negotiations suggest that this estimate is too high.

At present, the US is a minor importer of LNG. One peak shaving project[1] is designed to supply 15.3 bcf/yr to the US market; a base-load project under construction[2] will add another 365 bcf/yr after 1976. However, contracts involving 1.4 tcf/yr are pending before the FPC. Two projects involving 1.1 tcf/yr are under negotiation with the Soviets. Projects in Nigeria, Iran, and other countries are under discussion.

LNG could, therefore, contribute supplemental supplies to US markets. It is a clean fuel, preferable to other energy alternatives for environmental reasons. LNG could go directly into the existing pipeline network, which has spare capacity. However, given the long lead times associated with LNG projects, 5-7 years, substantial supplies of LNG could not arrive in the US market until after 1980.

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[1] Peak shaving operations occur for up to six months a year to meet high seasonal gas demand.

[2] A base-load facility operates year-round and processes a greater volume of gas at a lower cost per unit of output.

Costs of LNG Projects

LNG project costs involve pipelines, gathering facilities, liquefaction and regasification plants, cryogenic tankers, and port facilities. Initially, LNG investments were estimated to be $2000 (or more) per mcf of daily deliverable capacity.[3] Current information suggests that those costs have risen.. The two proposed Soviet LNG projects are even more costly. Many LNG producers so far have insisted on US financing for a large share of their investment costs.

The private investment community typically will not finance LNG projects on its own. It considers the potential financial returns on LNG projects to be inadequate given their political and commercial risks. It conditions its involvement in overseas LNG projects on EXIMbank participation and commitments from local utilities which guarantee long term markets to assure pay off of the costly investment.

The use of USG and private funds for LNG projects raises several other issues. USG preferential financing of overseas energy projects when similar terms are unavailable for domestic energy development runs counter to the US objective of reducing dependency on foreign suppliers. In addition, EXIMbank financing of two or more LNG projects would probably require

[3]Based on data submitted to the FPC on the first approved El Paso-Algeria project.

Congressional action to raise the Bank's lending authority. Supplemental private financing of LNG would also reduce funds available for domestic energy development and raise the cost of capital.

Although EXIMbank financing would encourage larger sales of gas field and liquefaction equipment, it would not -- as some LNG proponents contend -- offset the balance of payments cost of LNG. As an example, the cash outflow for one trillion cubic feet per annum of LNG imports over a twenty year period would be almost $40 billion (at approximately $2 cif per mcf). This surpasses many times the expected income from the sale of equipment required to bring this quantity of LNG on stream.

To construct overseas LNG export projects for the US market, the USG might have to export energy capital equipment that is in short supply in the US and is required to maximize domestic energy production. The cost of constructing cryogenic tankers in US shipyards is roughly equal to foreign construction costs. This obviates the need for large MARAD subsidies for tankers for at least the next few years.

Price of LNG

The unilateral pricing and production policies of OPEC countries greatly increase the price uncertainty of LNG imports. Producers are currently insisting on pricing LNG at a BTU cost equivalent to oil ($1.60-$2.00 cif per mcf). Producers are also insisting on provisions that would assure that LNG prices will rise as oil prices do, but do not decline if and when oil prices fall. If LNG imports commit the US to long-term contracts at high and unpredictable prices, the US would be unable to take advantage of any future declines in world oil prices.

In addition, there is no assurance that producers will adhere to the negotiated price over the life of the contract. Indeed, recent experience suggests that they will not hesitate to abrogate contracts if they decide it is in their interests. Once the gas has become part of the US national energy supply, it would be costly in the short run to satisfy with substitutes the demand that has become dependent on LNG. Company and consumer pressures would probably cause the FPC to permit the higher prices to be passed through and the contracts revised.

With respect to market pricing of LNG, averaging-in or rolling-in of imported LNG prices with domestic baseload natural gas prices favors foreign LNG. The rolling-in tends to distort the true economic cost of imported energy.

Security of Supply

Proponents of LNG projects contend that LNG imports enhance US foreign energy supply security for several reasons:

-- LNG imports reduce our need for imported oil.

-- The special tankers and receiving terminals required for LNG make it difficult for producers to switch customers on short notice.

-- Producers would not likely shut in LNG production for political reasons since this would reduce their main income source for meeting their LNG debt servicing burden.

-- Diversification of energy types and sources helps reduce our vulnerability to future embargoes.

These arguments lack persuasiveness. They assume that the producers will act primarily for economic reasons. But embargoes are imposed for political reasons. Algeria has made clear that, had its LNG plant not been down for technical reasons, it would have shut in LNG production to support the oil embargo last winter. Furthermore, since LNG prices are to be tied to those of oil, reductions in oil production to maintain or increase oil prices will have a similar effect on LNG prices.

The diversification argument flounders because most prospective LNG suppliers belong to OPEC. Algeria and Iran are now striving to create a natural gas cartel within OPEC. The Soviet Union is not a member of OPEC, but there is strong Congressional opposition to our assisting Soviet energy development.

Past experience does not support the view that substantial US investment in producer countries gives us leverage against potential supply interruptions. While foreign commerce may soften the policies of some nations, the long lead times associates with LNG projects mean that once US funds are invested, US leverage declines substantially. US ownership of the ships in an LNG project would prevent producers from diverting supplies scheduled for the US to other markets, but it would not prevent their shutting-in production to deny supplies to the US.

There are problems related to complex liquefaction technology which increase the probability of supply disruptions. Also there are problems associated with LNG shipping and receiving terminals. There include potential leakages from tanks, collisions at sea and accidental spills while off-loading.

Are There Viable Alternatives to Imported LNG?

The principal alternatives to importing LNG are additional production of domestic (including Alaskan) oil, gas, and coal, coal gasification; and additional oil imports. Whereas one cannot precisely compare the incremental costs of these energy cources, available information suggests that these alternatives would cost no more than imported LNG.

The availability of domestic alternatives in the 1978-85 timeframe depends on the timely commitment of investments toward their development. If the alternatives do not become available in this time period, increased oil imports coupled with energy conservation and/or demand restraint would be a viable alternative. Undertaking substantial importation of LNG in order to meet "projected" shortfalls in natural gas demand from 1978-85 would saddle consumers with arbitrarily determined gas prices for a longer period thereafter.

Recommendations

That the USG establish an overall policy on LNG imports which includes:

-- A general preference against long-term LNG imports as an interim alternative to developing sufficient domestic energy sources to satisfy demand.

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-- A position of not providing EXIMbank financing for foreign LNG projects, unless compelling political and national interest considerations dictate otherwise.

-- A position that LNG import applications should not be approved unless the incremental unit price of LNG is supported by the market demand.

This policy would require LNG imports to be evaluated on the basis of their true economic costs. This policy would not prohibit LNG imports. But it would not encourage such imports by granting preferential financing or other market subsidies. The policy would be consistent with the goals of Project Independence and bring more clearly into focus the need for deregulated gas prices to stimulate expanded production. Finally, we could cite this policy to other consumer and producer nations as proof of our determination to reduce our vulnerability to foreign energy supplies.

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Natural Gas Forecast
MacAvoy-Pindyck and TERA Models
1975, 1980 - Deregulation Scenario

	New Contract Price/MCF	MacAvoy-Pindyck		TERA	
		D	S	D	S
1975	64.6¢	28.6	26.8	24.3	21.5
1980	90.3¢	35.1	35.0	30.0	19.7

Forecasts of production and consumption of natural gas are subject to a number of uncertainties regarding the effects of regulation and the ability of known reservoirs to increase output in the short-run. A number of different models of natural gas production are also available using differing assumptions and techniques of estimation. Two of the models are the MacAvoy-Pindyck and TERA models. These models produce very different forecasts of the level of potential production and demand. This illustrates the current debate in this area regarding the effect of reduced drilling activity in recent years. The resolution of this debate has not been completed. Despite the many differences in these models, all of them project that output will be greater under deregulation than under continued regulation.

The MacAvoy-Pindyck model forecast shortages of 1.6 TCF and 0.1 TCF in 1975 and 1980 respectively. The TERA model on the other hand forecast shortage of 2.8 TCF and 10.3 TCF.

These two models are two completely different approaches to natural gas forecasting. The MacAvoy-Pindyck model is an econometric model which estimates historical relationships and projects them into the future. The TERA model is an engineering - simulation model which assumes behavioral relationships and imposes technological and institutional constraints on the production and deliverability of natural gas. These technological constraints are not imposed upon the MacAvoy-Pindyck model. Hence, their supply projections are much higher.

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Appendix E*

(Trillion cubic feet per annum)

1985	Accelerated Development Case	Continuation of Current Trends Case
Wellhead price of US gas per MCF	$1.40-$1.50**	44-66¢
Natural gas demand	30	33
Total US production (includes Alaska and lower 48 offshore)	25	22
Deficit to be made up	5	11

* Source Data developed in IEA from papers by the Federal Power Commission, Project Independence work on natural gas, and industry sources in trade journals.

** Approximate range of LNG terminal prices.

Date: March 18, 1975

Reply to Attn of: Peter Borre

Subject: LNG Import Pricing Issue

To: Bruce Pasternack

BACKGROUND

- International's recommendations are:

  a) With Exim and MarAd subsidies, require that imported LNG be priced at the regulated wholesale ceiling level;

  b) Without Exim and MarAd subsidies, require that the full landed cost of LNG imports be passed through, via incremental pricing, to F.P.C. and state public utilities commissions for them to approve, case-by-case.

- I concur with this; however, we have to recognize the severe consequences on MarAd and other parties:

  - Under alternative a, many deals won't go through because Algerians and others won't drop their price ($1.80 landed imports v. 51¢ regulated).

  - Under alternative b, F.P.C., state commissions and/or customers may balk at the high flow-through price.

MARAD POSITION

- MarAd has four programs which could benefit LNG import ventures:

  - Construction subsidy;

  - Operating subsidy;

  - Title XI mortgage guarantee;

  - Tax deferral via capital construction fund

- Title XI is the most significant; all ships listed on Table I, attached, have such coverage; government exposure is $1.2 billion.

- Construction subsidy obligations total $190 million, of which $40 million has been disbursed.

- Policies which disincent LNG imports will throw the ten U.S.-trade committed ships (Table I) onto the world market where alternative use is very problematical:

  - LNG Tankers are highly site and route specific;

  - No spot market for large LNG Tankers;

  - Current idle LNG ship capacity;

  - Buyer and seller of LNG tend to lock up shipping arrangements bilaterally (counter to Burmah's Indonesia-Japan deal).

- MarAd's paper on impacts is attached.

OTHER IMPACTS

These are many, severe, and obvious; to mention a few:

- Shipyards:
  - Extensive yard investments in anticipation of this and follow-on LNG orders;
  - Regional employment impact;
  - General Dynamics seems extremely vulnerable.
- Utilities:
  - Transmission and distribution companies will claim that further curtailments will inevitably result.
- Ship Operators -
  - Burmah has had recent financial troubles, resulting in a partial take-over by the U.K. government;
  - Impact of this policy on Burmah could be crippling.

- Foreign: - Reaction from Algeria, directly and through OAPEC, can be anticipated.

RECOMMENDATIONS

Because of the severity and scope of impact of this policy, F.E.A. should anticipate loud protest from the affected parties. At the very least the following measures can be taken:

- Explore formally with MarAd feasibility of alternative uses for tankers.
- After ERC ratifies a policy, meet with the Natural Gas Advisory board to hear the inevitable.
- Accelerate work on North Slope gas logistics study to determine whether an early commitment to the Valdez-West Coast LNG option can be made (runs counter to Trans Canadian link, perhaps a better option).
- Meet this issue head-on with a major address by Zarb emphasizing the following:
  - LNG imports are an expensive, vulnerable substitute for domestic supply which can be enhanced through deregulation.
  - Long term foreign LNG projects create vested interests domestically and overseas, which by their mere existence reduce pressure for domestic supply enhancement, and thus compound the problem.
- High level, before-the-fact briefing for key Congressional people from impacted states.

Attachments

TABLE I

PRINCIPAL FIRM	ROUTE	NO SHIPS	YARD	LOCATION	CONSTRUCTION SUBSIDY	UTILITY SERVED
Burmah/ Easco	Algeria- (Skikda) U.S.	3	General Dynamics	Massachusetts	yes	PSEG (N.J.) Algonquin (N.E.)
Burmah/ Cherokee	Indonesia- Japan	5	General Dynamics	Massachusetts	no	(Japan)
El Paso (1)	Algeria- (Arzew) U.S.	6	Avondale (3) Newport (3)	Louisiana Virginia	yes yes	Columbia, Consolidated, Southern
Pacific (2) Lighting	Alaska- Cal.	1	Sun	Pennsylvania	no	Pacific
Pacific (2) Lighting	Indonesia- Cal.	1	Sun	Pennsylvania	no	Pacific

(1) El Paso also has 3 LNG tankers being built by a French yard.

(2) Title XI mortgage guarantee approval is pending, but probable

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THE IMPACT ON THE MARITIME ADMINISTRATION OF POLICIES DESIGNED TO DISCOURAGE THE IMPORTATION OF LNG

The Maritime Administration under titles V and XI of the Merchant Marine Act of 1936, as amended, pays construction subsidy and guarantees the funding of ship construction. At the present time MarAd is supporting construction of liquid natural gas (LNG) carriers under these provisions. The underlying purpose of the Act is to defray the costs of U.S. citizens owning and/or operating vessels in the U.S. foreign trade to guarantee cost parity with their foreign competitors. Even though there are some statutory exceptions to this, all of the LNG vessels now being built with construction subsidy are being constructed for the U.S. foreign trade. If LNG were not imported, these vessels would have to find alternative employment.

Alternative Employment Provisions

Under Section 905 (a) of the Act "foreign trade" is redefined for the payment of subsidy to bulk carriers to include trading between foreign ports. Therefore, those LNG vessels now being built with construction subsidy could be used in an alternative trade, with the approval of the Maritime Administration. They could also be used in the domestic trade with the repayment of construction subsidy.

The availability of alternative employment is another question. It appears that the liquification facilities in Algeria will not be completed on schedule. This will reduce the worldwide demand of vessels during the period when the first vessels are launched. There is some indication of over-tonnage at the present time in the announced plans of El Paso Natural Gas to lay-up the first of three LNG's to be delivered by Chartiers de France-Durkerque. However, indications are that the Indonesian project is progressing and this should increase demand for shipping. In addition, Alaskan LNG may be available by about 1980 creating additional employment for these vessels. It also appears that at least some of the yards building the ships, particularly General Dynamics, were optimistic in setting delivery dates. The vessel for Cryogenic Energy originally scheduled for November of 1975 probably will not be available before June of 1977. This, of course, will affect subsequent delivery at that yard.

Taking these factors together, the opportunities for alternative employment appear uncertain. But it must be remembered that the market for LNG transport is very limited. Small changes in project schedule and product demand could produce a vessel oversupply with extensive lay-up.

Maritime Administration Exposure

At this moment MarAd is paying subsidy to build nine LNG's. Three are being built in Avondale for which MarAd has paid about $8.8 million in progress payments to the end

of January. Three are being built in General Dynamics for some $22 million in subsidy. And, MarAd has spent about $9.6 million for construction at Newport News. Our exposure to date is about $40.4 million on a total obligation of some $190.3 million.

In addition, MarAd has conditionally approved title XI for all of the vessels mentioned above guaranteeing $590.3 million in mortgages. Five non-subsidized vessels for Cherokee Shipping Corporation also have conditional approval for guarantees on about $451. million. Approval is pending on two vessels for Pacific Lighting Marine Company at $236 million. Total title XI conditional approval exposure to date is over $1. billion.

If there is no market for the services of these vessels the taxpayer could stand to lose over $1.2 billion in subsidy payments and guarantees. This factor should be carefully considered when policies with regard to LNG imports are made.

LNG Projects

Cryogenic Energy Transport, Inc., Liquegas Transport, Inc. (Eascogas); and LNG Transport, Inc., have approvals from the Maritime Administration for construction Differential Subsidy (CDS) and conditional approval for mortgage guarantees for one vessel each. These are standard vessels of 125,000 cubic meters having 63,600 deadweight tons and 19 knots speed. They are to be operated between Skikda, Algeria, the loading port and Narragunsett Bay, Rhode Island, and New York Harbor, the ports of discharge. This movement is to be carried

out under an agreement between Burmah Oil Tankers Limited (BOT), Bermuda corporation, and Public Service Electric and Gas Company and Algonquin Gas Transmission Company, respectively New Jersey and Delaware Corporations. The vessels will be chartered to Summit Marine Operations, Inc., and in turn time chartered to Burmah Oil, Inc. (BOI).

The other six vessels receiving CDS are owned by subsidies of El Paso Natural Gas Company. These are the Methane Alpha Company, Methane Beta Company, Methane Gramma Company, Methane Delta Company, Methane Epsilon Company, and the Methane Zeta Company. One company for each ship. These too, are standard vessels of 125,000 cubic meters, of some 63,000 deadweight, and 19.75 knots. The vessels are intended for use between Arzev, Algeria, the landing port, and Cove Point, Maryland, and Savannah, Georgia the ports of discharge. They are to be operated in conjunction with three vessels of 125,000 cubic meters each, built by Chartiers de France-Durkerque. The gas is to be purchased from SONATRACH and sold on the high seas to Columbia LNG Corp., Consolidated System LNG Company, and Southern Energy Company.

The title XI projects are not yet to the stage of having the keel laid, although contracts have been signed with General Dynamics, the five Cherokee Shipping Corporations, and Sun Shipbuilding for the two Pacific Lighting vessels. The currently scheduled delivery dates for these are 1976 through 1980, although these dates may be put off.

The vessels for Cherokee are to be used to transport LNG from Indonesia to Japan. The owner/operating arrangements are similar to those for the Cryogenic Energy Transport, et. al. Burma Oil Trading Limited (BOT) will own the vessels through a trust which will be created. The vessels will be demise chartered to a series of special purpose corporations. At the same time the ships will be time chartered to a BOT subsidiary.

The Pacific Alaska LNG Company has a pending title XI application for two vessels, one for the Indonesia to California movement and a second for Alaska to California. These ships are slightly different in design from the normal vessel of this type being of 130,000 cubic meters, 65,350 deadweight and 23 knots. The additional three to four knots cost about 40,000 additional shaft horsepower or about twice as much as the 19 knot plant.

The gas will be sold to the Southern California Gas Company which is a subsidiary of Pacific Lighting Corporation. The vessel will be chartered to the Pacific Lighting Marine Company and time chartered to Pacific Alaska LNG Company for the Alaska movement and Pacific Indonesia LNG Company for the Indonesian trade.

Conclusion

Even though the number of vessels, nine CDS and 7 for title XI only, that MarAd is supporting in this area is small, the financial exposure is quite large. Any action by the Government that would jeopardize this investment of tax funds

should be carefully considered. The Maritime Administration has made a board appraisal of foreign LNG as a supplemental source of energy for domestic use. This source has been determined to provide a useful addition to U.S. Energy Supplies. As a result, MarAd has embarked upon a building program to provide transportation for the importation of LNG at the necessary levels. Foreign LNG continues to be a viable source of needed energy and as a result, the Maritime Administration remains committed to the LNG shipbuilding program.

DEPARTMENT OF STATE

Washington, D.C. 20520

March 26, 1975

MEMORANDUM FOR LIEUTENANT GENERAL BRENT SCOWCROFT
THE WHITE HOUSE

Subject: Policy Paper on Liquefied Natural Gas (LNG)

Issue

The USG does not have an overall policy on LNG imports. Decisions are made on a case-by-case basis. A general policy is needed to ensure that decisions on individual projects are consistent with our national energy objectives.

Background

Two US firms earlier received USG approval for importation of Algerian LNG. Negotiations for other LNG contracts are underway in Algeria, Nigeria, Iran, Indonesia, and the Soviet Union. Import applications for one or more of these projects will be filed relatively soon. (See attachment)

US companies argue that foreign LNG is needed to help make up the projected shortfall between domestic gas supply and demand. They claim there is no alternative to LNG for meeting a significant part of the future energy requirements of the North-east and West Coast markets. These projections assume continued regulation of domestic gas prices. With deregulation, domestic supply will increase and demand decline. Many industrial users of gas would shift to oil; some would convert to coal. The need for foreign gas supplies would be sub-stantially reduced.

The capital costs of major LNG projects (liquefaction plant, gas gathering facilities, special tankers, and regasification plant) run into billions of dollars. Many producers expect US financing for these projects, but US banks hesitate to make funds available without EXIM and/or MARAD participation.

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Price demands for LNG greatly exceed domestic gas prices. The long-term contracts ensure high prices for 20 or more years. Utility companies tend to average in high LNG prices with lower domestic prices, thus forcing domestic industry to subsidize energy imports.

Arguments For and Against Additional LNG Imports

Pros

-- Would help satisfy future demand for gas, especially in Northeast and West Coast markets, but comprise only a small part of our total energy needs.

-- Would reduce slightly demand for imported oil.

-- Would diversify somewhat type and sources of energy imports, thereby enhancing supply security.

-- Because of expensive and specialized facilities and limited markets, might make producers hesitant to shut off supplies for foreign policy reasons.

-- Could use existing pipeline network, which has spare capacity.

-- Is preferable to energy substitutes on environmental grounds.

-- Would stimulate US exports of LNG plants and equipment.

-- Might increase US influence in producer countries.

Cons

-- Runs counter to national policy of reducing dependency on foreign energy supplies.

-- Requires substantial public and private investment capital that might otherwise be available for domestic energy development.

-- Would probably not be needed if domestic gas prices are deregulated.

-- Would lock us into high-priced energy for duration of long-term contracts even if cheaper alternatives became available.

-- Forces domestic industry to subsidize LNG imports through averaging LNG prices with lower domestic gas prices.

-- Could be less secure than oil imports since LNG supply line would lack flexibility and supplies would be concentrated geographically rather than spread out through the country as a whole.

-- Would not lead to much diversification of supply and sources since most LNG producers are members of OPEC. The Soviet Union poses different security of supply problems.

-- Even with substantial economic interest in supplying countries, e.g. Algeria, they have demonstrated willingness to embargo for political reasons.

-- Would not be available in large quantities for several years, by which time cheaper alternatives would probably be available.

-- All safety problems related to LNG processing and transportation have not been solved.

-- Oil imports are a probably preferable alternative because of greater diversity of source and for reasons of price. Another alternative is naptha (whether imported or refined from imported crude), which can be processed into synthetic natural gas (SNG).

Decision Process

The FPC, an independent regulatory agency, has jurisdiction over LNG imports under the Natural Gas Act. The FPC reviews each application, focusing largely on the economics and environmental impact of the project. The FPC seeks State and Defense advice on national security implications of LNG applications, but it is not bound to reflect these recommendations when making its determination.

If FPC approval is granted, the firms normally apply to EXIM and/or MARAD for financing. Such financing is not essential, however. Several US firms have said they could get European financing if necessary.

Decision Required

We need a total policy for LNG imports. A decision to deny EXIM and/or MARAD financing would not obviate need for a clear cut LNG policy since State and Defense are required to take a position on foreign policy and supply security aspects of LNG projects. On the basis of present assumptions, it would be difficult to justify LNG projects on security grounds.

Samuel R. Bannerman
for George S. Springsteen
Executive Secretary

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ATTACHMENT

Status of LNG Projects Involving US Firms

LNG Producer	US Firms	Volume (mmcf/d)	F.O.B. Price (per mcf)	Status with FPC
Algeria	Distrigas (1)	42	34.5¢	approved *
Algeria	El Paso (1)	1000	30.5¢	approved **
Algeria	Distrigas (2)	72	under negotiation	application pending ***
Algeria	El Paso (2)	1000	under negotiation	application pending ***
Algeria	Eascogas	650	under negotiation	application pending ***
Algeria	Panhandle	420	under negotiation	application pending ***
Indonesia	Pacific Lighting	550	$1.25****	application pending ***
Nigeria	Agip/Phillips	under negotiation	under negotiation	no application filed
Iran	El Paso & European firms	2000 *****	under negotiation	no application filed
Iran	Chicago Bridge & Iron, International Controls and Systems, Lone Star & Norweigan & Japanese firms	1200 *****	under negotiation	no application filed

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LNG Producer	US Firms	Volume (mmcf/d)	F.O.B. Price (per mcf)	Status with FPC
USSR	Tenncco, Texas Eastern, Brown and Root	2000	under negotiation	no application filed
USSR	El Paso, Occidential, & Japanese firms	2000 (1000 to US)	negotiating exploratory phase	no application filed

* Algeria defaulted on this contract because of mercury damage to liquifaction facilities.

** Under construction - delivery scheduled to begin in 1977.

*** Price and other provisions being renegotiated at producers' request.

**** Plus annual increase indexed to crude oil prices and US inflation.

***** Amount for US market not yet determined.

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DEPARTMENT OF STATE

Washington, D.C. 20520

1516

March 24, 1975

MEMORANDUM FOR LIEUTENANT GENERAL BRENT SCOWCROFT
THE WHITE HOUSE

Subject: Export-Import Bank Policy on Financing LNG Projects

The following information on the Export-Import Bank's policy toward financing LNG projects is provided in response to the memorandum from Jeanne Davis of March 11, 1975. This reply has been cleared with Eximbank.

EXIM's current policy is to consider applications for financing LNG projects only after companies have obtained the approval of the Federal Power Commission for importing LNG into the U.S. or the approval of foreign governments if the LNG is to be exported to countries other than the United States. In the past, EXIM on occasion made preliminary commitments to finance LNG projects with the condition that final approval of EXIM financing was contingent upon assured markets for the LNG.

The Bank is not now involved in financing LNG projects in Indonesia nor Nigeria and has no application for such financing before it at this time. EXIMBANK made a preliminary commitment in May 1973 to PERTAMINA, the Indonesian state oil and gas enterprise, to provide financing for LNG facilities in that country. This commitment expired on December 31, 1973, however, when the initial agreement on price between PERTAMINA and the Pacific Lighting Corp., the prospective U.S. purchaser of the LNG, broke down. A new understanding on price has now been achieved, and Pacific Lighting intends to amend its application pending before the FPC once it has formal Indonesian Government approval of the contract. FPC consideration would require at least one year. If FPC approval is obtained, PERTAMINA and/or Pacific Lighting probably would seek EXIM financing.

The Phillips Petroleum Co. in association with AGIP of Italy is currently negotiating with the Nigerian Government for an LNG project. If the negotiations are successful, Phillips may apply for EXIM financing.

Other U.S. firms are negotiating for new LNG projects in Algeria, Iran, and the Soviet Union. None of these companies have applications for these projects currently before the Bank.

EXIM to date has provided financing for two LNG projects. EXIMBANK has supported the financing of exports of $47.9 million in U.S. goods and services for an LNG project in Brunei constructed by Mitsubishi and the Shell Oil Co.; the EXIM commitments for the Brunei project were made in 1970 and 1972. Under commitments which it made in March 1973, EXIM financing is supporting U.S. exports totalling $349.8 million for the liquifaction plant of the El Paso I project in Algeria. The Bank is also considering an application by a U.S. exporter for financing the gas gathering facilities for this project. LNG from the Brunei plant is to be exported to Japan, and the FPC has approved the importation of LNG from the El Paso I project for sale on the east coast of the United States.

George S. Springsteen
Executive Secretary

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

VIA LDX

March 24, 1975

MEMORANDUM FOR:

Mr. George S. Springsteen
Executive Secretary
Department of State

SUBJECT: Importation of LNG

To confirm my telephone conversation with Frank Ortiz this morning, could we please have by close of business Tuesday, March 25, a briefing paper on the question of the importation of liquefied natural gas.

Jeanne W. Davis
Staff Secretary

THE WHITE HOUSE
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'75 MAR 24 AM 10:17

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NSA	TREA

NUMBER OF PAGES 1

DESCRIPTION/COMMENT:

FROM: JEANNE DAVIS

TO: GEORGE SPRINGSTEEN

NSC/S

RECEIVED BY: STATE

DATE/TIME: 10:21

VIA LDX

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

March 11, 1975

MEMORANDUM FOR:

Mr. George S. Springsteen
Executive Secretary
Department of State

SUBJECT: Exim Bank Financing of LNG Plants Abroad

The President has expressed interest in the Export-Import Bank's policy toward financing LNG plants abroad, particularly in Indonesia and Nigeria.

Would you please prepare a briefing paper on this subject for transmittal to the President as soon as possible.

James H. Barnum for
Jeanne W. Davis
Staff Secretary

VIA LDX

March 11, 1975

MEMORANDUM FOR:

Mr. George S Springsteen
Executive Secretary
Department of State

SUBJECT: Exim Bank Financing of LNG Plants Abroad

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Jeanne W Davis
Staff Secretary

cc: Bob Hormats

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TO: GEORGE SPRINGSTEEN	
RECEIVED BY: DE Wmdall	DATE/TIME:

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