

OPEC Nations Urge Energy Growth, Not Cutbacks

Leading member nations of the Organization of Petroleum Exporting Countries (OPEC) have put the lie to U.S. Energy Secretary James Schlesinger's heavy-handed calls for drastic cutbacks in the energy consumption of the United States and Western Europe. The profiles presented below of the energy policies of Algeria and the Persian Gulf nations, as well as Mexico and Canada, demonstrate beyond any reasonable doubt that these nations are fully committed to exploiting their natural resources, be they natural gas or petroleum, to the fullest extent possible, as the primary means available for bringing their nations into the 20th century. To accomplish this feat, however, these leading Third World nations must rely on the willingness of the advanced-sector nations of Europe and the United States to invest in capital exports and to extend the credit for realizing this tremendous wealth.

Algeria:

Europe And U.S. Eager To Invest In LNG

As a major world producer of liquid natural gas (LNG), Algeria is currently being courted by Europe and the United States for its vast hydrocarbon wealth. According to World Bank statistics, Algeria's reserves amount to three trillion cubic meters or six percent of the world's reserves. Currently, Algeria's main purchaser of natural gas is Western Europe, but important contracts with the United States slated to go on line in the early 1980s have already brought the U.S. to the top of Algeria's list of customers.

Despite claims that Algeria has turned its back on Europe and now has a "marriage of convenience" with the United States for large LNG trade agreements, Algeria depends on Europe to purchase its output of LNG and will continue to do so well into the 1990s.

According to statistics from Sonatrach, the Algerian state-owned hydrocarbon industry, Algerian LNG is exported to Spain, France, and England. In 1977, Spain, Algeria's main customer, contracted with Sonatrach for a total of five billion cu. m. (cubic meters) per year over 23 years. Gaz de France is importing approximately four billion cu. m. per year for 20 to 25 years under the provisions of two contracts signed in 1965 and 1973. Finally, under terms of a 1965 contract British Methane has been receiving about one billion cu. m. per year of natural gas. Thus, Europe consumes more than 90 per-

cent of Algerian LNG out of total production of 11 billion cu. m. in 1977.

The future of the Algerian-West European energy relationship is even more certain. Two important Mediterranean pipeline contracts with Italy and France have been signed after many years of delay and a major trade agreement has been concluded between the Italian state-owned energy industry ENI, Algeria's Sonatrach and Tunisia. According to this arrangement, which Tunisia had blocked for three years in litigation procedures, a 2,500 kilometer gas pipeline will link Italy and Algeria via Tunisia and the Mediterranean. This multi-billion dollar project calls for the construction of the deepest underwater pipeline ever attempted. ENI authorities are counting on an annual capacity of 18 and 20 billion cu. m. of LNG per year for 25 years. Algeria also has agreed to cooperate with Spain and Gaz de France for the construction of another Mediterranean pipeline which will terminate in France by way of the western Mediterranean and Spain.

Algerian authorities have claimed that they will not have trouble selling their energy should the LNG agreements with the U.S. fall through. When the Federal Power Commission vetoed Algeria's contract with Easogas of New Jersey, Sonatrach immediately sold the gas to the West German consortium of Salzgitter Ferngas Ruhrgas. According to European sources, Gasunie Néerlandaise will enter into the agreement as a third party, sharing the eight billion cu. m. per year.

To finance its ambitious gas industrial program, Algeria has relied heavily on foreign capital, principally from the U.S. Export-Import Bank. It is thus in the interest of Algeria to realize a successful relationship with the United States by the conclusion of major LNG contracts. So far, only two of the four projected contracts with El Paso and Panhandle Gas have been passed by the Federal Power Commission, whose authority in matters of imported energy has been superseded by the newly appointed director of the Energy Department, James Rodney Schlesinger. Informed sources view this development as a stumbling block in the hoped-for approval of these contracts by the end of 1977. If the remaining contracts are approved, a total of 35 to 40 billion cu. m. of natural gas will flow to the U.S. over a period of 20 to 25 years.

By 1985, Algeria will have a projected production capacity of approximately 70 to 80 billion cu. m. Half of this is slated to be delivered to the U.S. in the form of LNG, given favorable decisions from Schlesinger's new Energy Regulatory Agency. Although a large part of this

projected sum is committed to the United States, the magnitude of the recently concluded gas agreements with Europe prove that Algeria is playing a very safe game, lining up future buyers on the continent in case difficulties arise on the other side of the Atlantic.

Algerian Oil Leader: Exploit Total Gas Reserves

The vice-president of the Algerian Petroleum Company Ait Laoussine, speaking at the fifth International Liquefied Natural Gas Conference in Düsseldorf last month, urged massive capital investment in gas production for the Organization of Petroleum Exporting Countries (OPEC). Such a large-scale international capital investment in petroleum accompanied by a parallel commitment to nuclear energy internationally will assure that the world economy will suffer no future energy shortage.

"The utilization of OPEC's total gas reserves would represent transactions 50 times larger than the present level. Here it is a question of the potential production of a valuable, noble and clean form of energy equal to 20 million barrels a day of oil — equivalent to two and a half times the current output of the USA and two-thirds of OPEC's present production. Thus the export commitments so far entered into by the OPEC countries represent only a fraction of the possible volume... only 7 percent of existing potential for the Gulf countries....

"Having established that OPEC's gas reserves are undeniably the major world energy source, it is appropriate to examine how they were exploited in 1976 when, although OPEC gas exports rose to 20 billion cubic meters (cu. m.), some 120 million cu. m. was flared. This wastage amounts to 2.2 million barrels of oil a day or more than half the potential energy conservation estimated by the OECD in 1985.

"We have calculated that in the Chicago area the cost of synthetic gas from coal, which is the most abundant resource capable of producing energy of as high a quality as natural gas, would be in the region of \$6.50 per million btu in 1985, which is almost double the highest price authorized by the Federal Power Commission for regassified imports from Algeria."

Persian Gulf:

Major Investments In Advanced Technology

The Persian Gulf petroleum exporting states are engaged in major new gas extraction infrastructure construction and improving existing oilfield production by attaching gas capturing devices. To achieve projected future gas production targets, an estimated nine billion dollars has already been spent. Liquefied Natural Gas (LNG) plays a critical role both as a leading export and as a feedstock for developing the Mideast petrochemical industry.

Iran is making the most aggressive drive for expanded gas output with a projected target of 67 billion cu. m. a year, 23.5 billion of which will go to the Soviet Union by 1983. A new ten billion cu. m. pipeline will carry the gas to the USSR where it will be swapped for Soviet gas which will be delivered in turn to West Germany, France, Austria, and Czechoslovakia. Iran's gas reserves, much of which is in the Persian Gulf, is second only to the Soviet gas reserves. Japan is expected to benefit from Iran's offshore gas through the giant Kalingas joint venture project which will supply Japan with 25 percent of her gas needs by 1985. Spain and Belgium will also receive gas from Iran.

The tiny Persian Gulf federation of sheikhdoms, the United Arab Emirates, is also playing a pioneering role in utilizing the most sophisticated technology for its developing gas industry, through the development of the Das Island complex. Its first gas shipment was dispatched to Japan last April. The Das Island LNG plant, with a capacity of 500 million cu. m. a day, is designed to produce just over two million tons a year of LNG to go to the Tokyo Electric Power Company. Furthermore, the UAE has employed the U.S. companies, Bechtel and Fluor Corporation to build another LNG plant for onshore gas.

Saudi Arabia has employed the Arabian American Oil Company (Aramco) to undertake the largest gas gathering and processing system in the history of the oil industry. When completed, the system will have the capacity to gather and process about six billion cubic feet of gas a day, a figure close to the amount of gas Aramco presently burns off daily as a byproduct of oil drilling. The facilities are expected to come on line in 1979.

The UAE's neighboring emirate Qatar has one of the world's largest known gas reserves as a result of a discovery last year by Royal Dutch Shell. At present feasibility studies on extraction of gas from the field are being made by Shell and could dramatically augment Qatar's LNG exports. Qatar has just raised a \$350 million loan to finance its development of natural gas and plans to build pipeline infrastructure from the inshore Dukhan field, which will yield 650,000 tons a year of liquefied petroleum gas and 150,000 tons a year of natural gas, mainly for export to Japan.

Mexico:

Still Committed To Natural Gas Pipeline

Mexican President José Lopez Portillo's Sept. 1 State of the Union address contained a sharp rebuke to monetarist critics of his government's commitment to build an 800-mile-long natural gas pipeline for supply to U.S. gas companies. The pipe would stretch from Mexico's enormous southeastern oil fields to the Texas border, and would constitute an excellent stimulus to industrial development in both nations.

"There are those who question the wisdom of this pipeline exportation," said Lopez. "We know that the right decision... is to sell our gas by pipeline. Not to do so simply because the buyer is our neighbor would... mean a useless sacrifice the country has no reason to make."

Lopez was pointedly addressing some Mexicans who have links to the Schlesinger U.S. "energy shortage" faction and identify with International Monetary Fund austerity constraints on Mexico. For instance, John Saxe-Fernandez, a representative of the Washington-based, terrorism-linked Institute for Policy Studies, and Heriberto Castillo, head of the Mexican Workers Party, have charged that the pipeline could become Mexico's "Panama Canal," with the U.S. defining the gas supply as an element of U.S. national security. Mexico would thus be jeopardizing its sovereignty, and should instead undertake expensive, long-term development of LNG, whose major market would be... the United States!

The obvious fraud in these arguments does not obscure the real point: threatening "nationalist" terrorism against the pipeline project. In a Sept. 5 *Proceso* interview, William Flannery of the Institute for Policy Studies-linked Center for Defense Information stressed repeatedly that the pipeline will be "difficult to protect, vulnerable, and the target for attacks."

Apart from such threats, however, there is, as Lopez indicated, no sane argument to oppose the project. It was the unexpected richness of the natural gas deposits in the Reforma oil field district of the southeast's Chiapas and Tabasco states, currently yielding an extraordinary 6,000 to 7,000 cubic feet of gas per barrel of oil, which led the Mexican national petroleum company, PEMEX, to formulate plans in May of this year for a Reforma-Texas pipeline.

This does not portend well for James Schlesinger's "permanent energy shortage" hoax. The fact is that Mexico may produce four billion cubic feet per day by the end of this year, and in two to three years, the Reforma region's output could reach 10 billion or more. Domestic Mexican demand will not equal this capacity, and even when IMF constraints are removed, the nation will have every reason to propose additional pipeline to the U.S. by 1980.

Financing: Stumbling Block

Apart from the political impact of terrorist sabotage

and similar threats, the only stumbling block in the Lopez government's commitment to the project is financing. The government is presently forced to find ways of bypassing the crippling \$3 billion ceiling on new foreign loans imposed by the IMF for 1977. The price tag now placed on the pipeline project alone is \$1.5 billion. Some of it will come from the U.S. Eximbank, another chunk possibly from a U.S.-European bank consortium. The rest may be raised from the U.S. gas companies and Japanese firms, the former paying for gas deliveries "in advance," the latter accepting repayment in oil after 1980 (a sale, not a "loan").

No matter what, however, the project will not be completed without a confrontation — and break — with the International Monetary Fund program. Large as the pipeline financing is, it is only the beginning of outlays necessitated by the project in the period immediately ahead.

Canada:

Finance Minister Calls For End To Pipeline Moratorium

Newly appointed Canadian Finance Minister Jean Chrétien stated this week that the 10-year moratorium on construction of a natural gas pipeline through the Mackenzie Valley in northern Canada will be set aside if recently estimated gas reserves are verified. He was quoted in an interview with a Montreal daily, *La Presse*.

Recent explorations in the Beaufort Sea area have indicated that Canada has on the order of 20 trillion cubic feet of natural gas reserves in the Mackenzie Delta. "If such reserves exist," Chrétien stated, "there will no longer be any question of waiting 10 years to construct a pipeline...." He said that the environmentalist Berger Report which was the basis for the federal decision to defer a Mackenzie pipeline earlier this year "did not take reality into account." The report is contrary to the actual interests of the Eskimos and other native peoples whose "environment" it purports to defend against such a pipeline, said Chrétien.

This constitutes the first official Canadian acknowledgement of the actual extent of Canadian hydrocarbon reserves. Earlier this year the Canadian National Energy Board (NEB) ruled against the immediate construction of a Mackenzie Valley gas line, solely on the basis of the Berger Report and other environmentalist complaints. The trans-Canadian pipeline route that was sanctioned in its place by U.S. and Canadian officials on Sept. 8 would completely bypass the enormous national gas reserves to which Chrétien referred, tapping only the limited reserves available from the north slope of Alaska.

The Arctic Gas Consortium of U.S. and Canadian companies, which had proposed the pipeline route traversing the Mackenzie Valley as well as to the Alaskan north slope, dissolved following the NEB decision.