THE SECRETARY OF ENERGY
WASHINGTON, D.C. 20585

MEMORANDUM FOR THE PRESIDENT

THROUGH: THE CABINET COUNCIL ON COMMERCE AND TRADE

FROM: SECRETARY OF ENERGY Don Hodel

SUBJECT: REVISITATION OF ADMINISTRATION POSITION ON WHETHER TO PERMIT LIMITED EXPORTS OF ALASKAN CRUDE OIL

Background:

We have been asked by the Office of Cabinet Affairs to bring you up-to-date on a proposed amendment to the Export Administration Act (to be offered by Senators Frank Murkowski and Ted Stevens) which would permit limited exports of Alaskan crude oil. Both the Cabinet Council on Commerce and Trade and the Cabinet Council on Natural Resources and Environment have discussed this issue in past meetings.

Action Forcing Event:

The Export Administration Act expires February 29, 1984, and the Murkowski-Stevens amendment is expected to come up for Congressional consideration after the current recess.

Summary of Amendment:

The amendment to be proposed by Senators Murkowski and Stevens:

1) Permits the export of 200,000 barrels a day of Alaskan crude oil.

2) Requires you to make and publish findings that any Alaskan crude oil to be exported outside the U.S. be transported in U.S. built and documented vessels, and that such vessels be maintained and repaired in U.S. shipyards; and that crude oil export contracts be subject to later termination upon a finding that U.S. crude oil supplies are interrupted, threatened or diminished.

3) Requires a Presidential finding that export will: a) not impair the ability of the maritime industry to transport amounts of crude oil necessary to meet national security or military needs; b) provide substantial increases in federal revenues; c) be made only to countries which have made substantial progress in removing trade barriers to U.S. imports; d) encourage domestic oil exploration and development; and, e) enhance the U.S. international trading position.

The proposal also would delete Presidential finding requirements in current law that export will result in lower acquisition costs for refiners and reduce consumer costs.

Status:

The Alaskan delegation strongly supports Senator Murkowski's proposal. Although certain provisions of the amendment attempt to defuse maritime industry opposition, indications are that maritime unions remain opposed.

From the perspective of national energy policy, limited export of Alaskan crude oil would enhance the energy security of the United States by increasing domestic oil production and promoting efficient oil transportation and domestic refining. It also would increase the stability of supplies for our allies in the Far East, and the flexibility of the world oil market to adjust to unexpected supply disruptions. Although the U.S. energy security would not be diminished by permitting exports, the provision in Senator Murkowski's amendment to permit termination of contracts in the event of an oil supply disruption would resolve energy security questions that have been raised in the past by opponents of those exports.

Should the Administration decide to review and revise its prior decision before supporting the proposed Murkowski-Stevens amendment, technical flaws would need to be resolved to ensure it's effectiveness.

WILLIAM F. MARTIN
DIRECTOR
INTERNATIONAL ECONOMIC AFFAIRS
NATIONAL SECURITY COUNCIL

WASHINGTON, DC 20506 (202) 395-5607

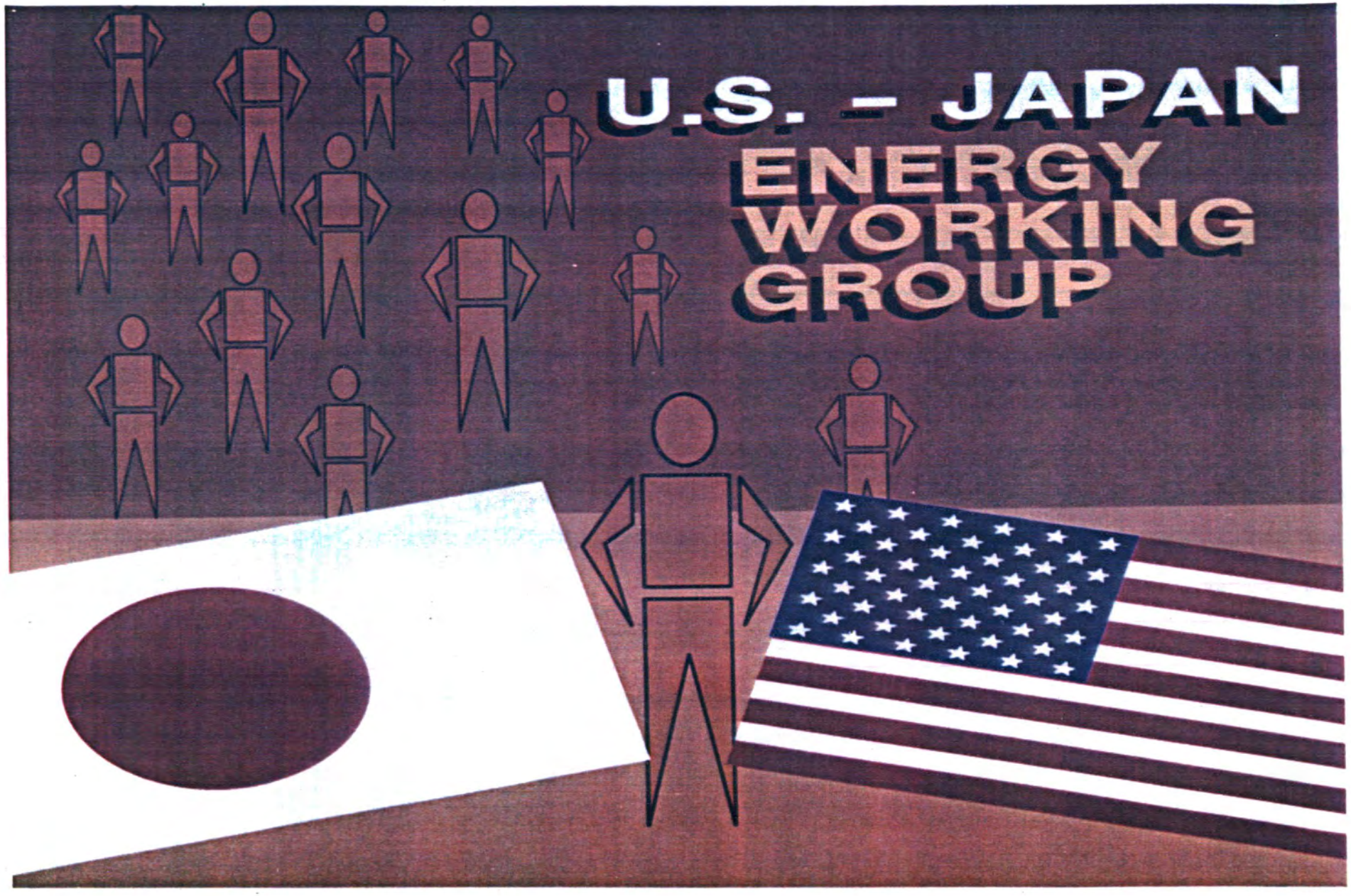
NATIONAL SECURITY COUNCIL

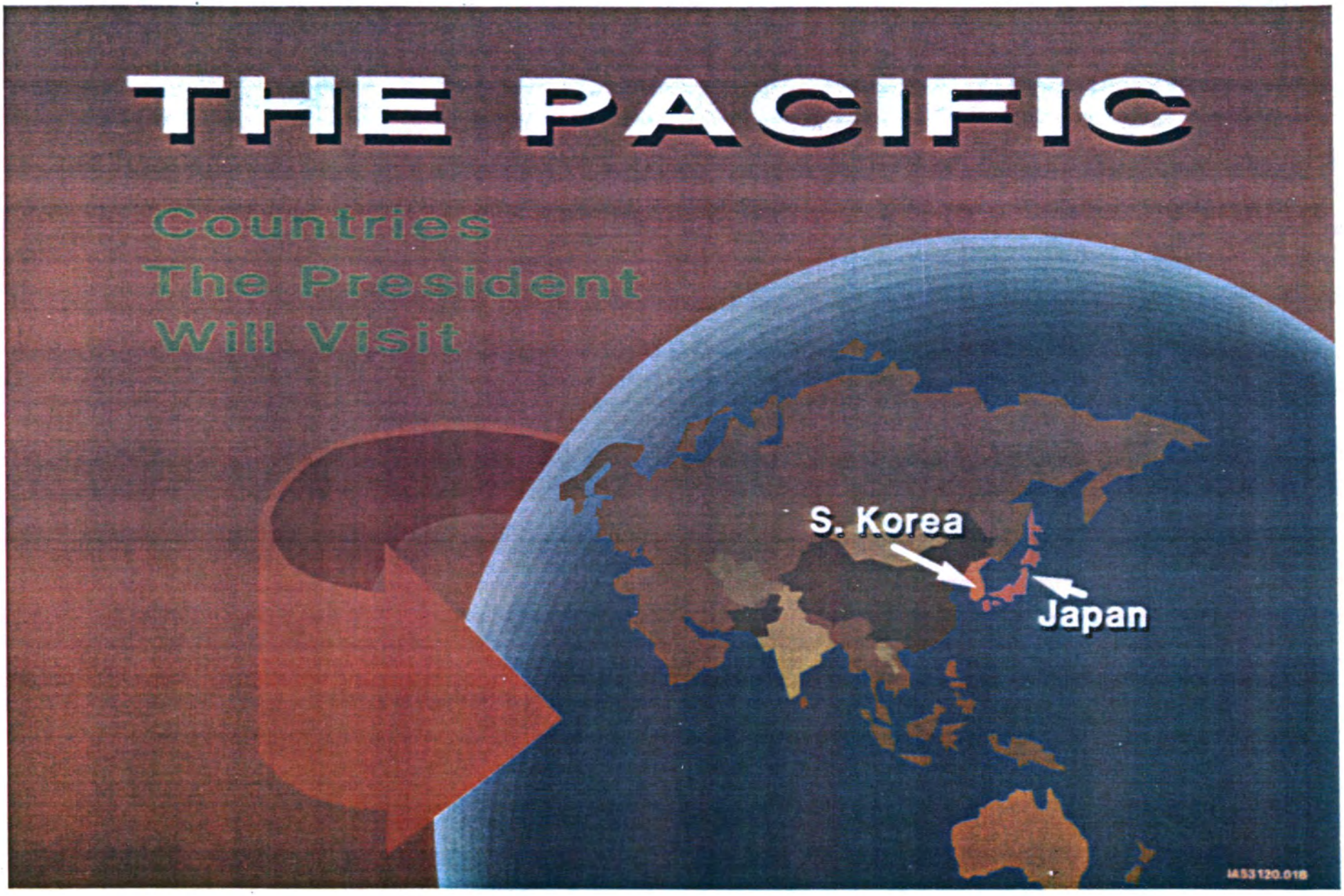
October 18, 1983

Wendell

Here are 5 copes of the presentation. I will have 40 more for the Cabinet meeting. These will be ready tomorrow. Is this a sufficient number?

Bill Martin


U.S. – JAPAN
ENERGY
WORKING
GROUP


THE PACIFIC
Countries
The President
Will Visit
S. Korea
Japan
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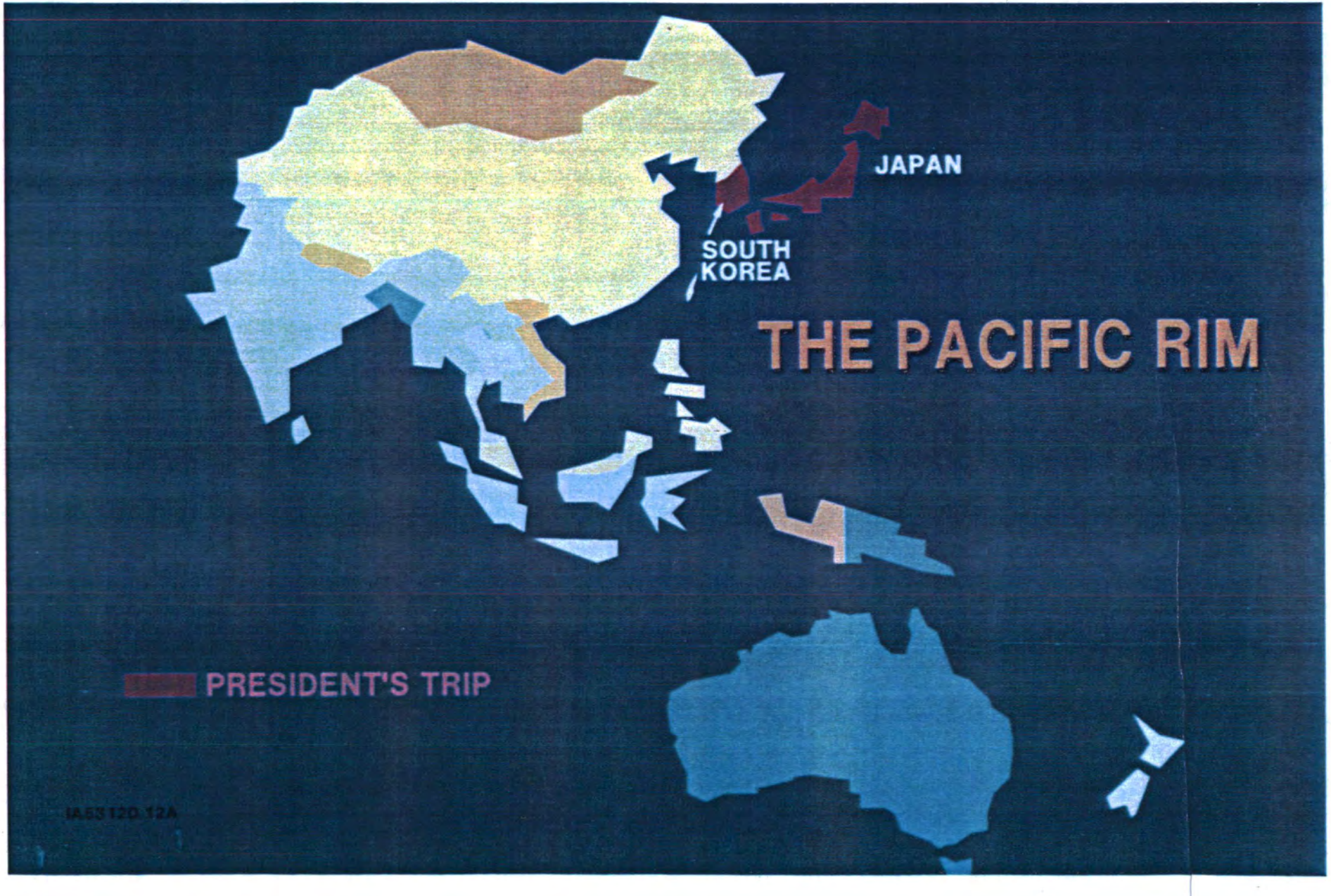
THE PRESIDENT'S TRIP
TO THE PACIFIC RIM
AND
U.S.-JAPANESE ENERGY TRADE PROSPECTS


JAPAN
SOUTH KOREA
THE PACIFIC RIM
PRESIDENT'S TRIP
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SUMMARY

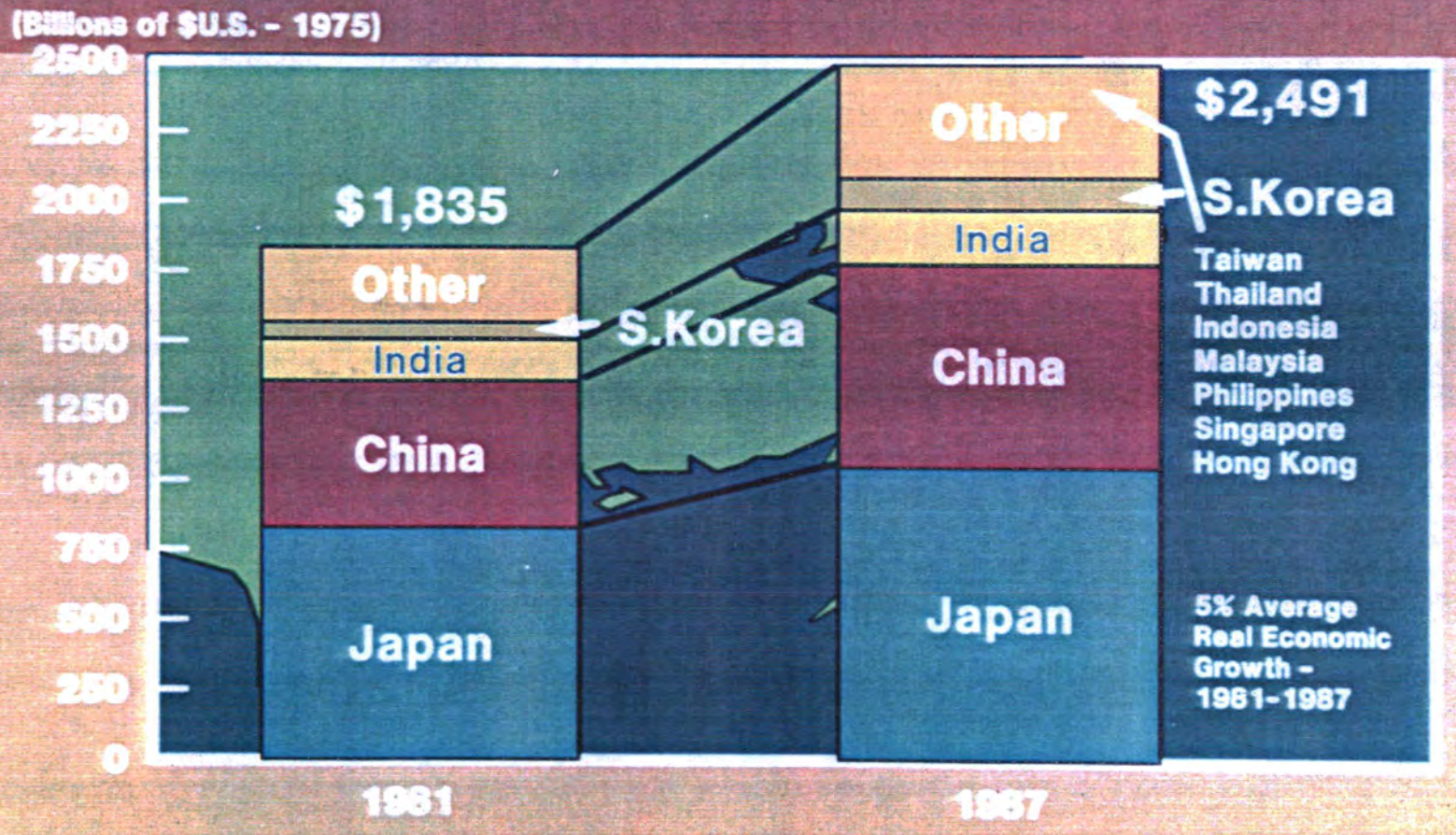
- Enhanced energy trade is one area where we can strengthen our economic presence in the Pacific Rim, improve the area's energy security and preclude further inroads of Soviet energy;

- Greater U.S. energy exports help U.S. industry, particularly the beleaguered coal industry. Increases in U.S. energy exports mean new jobs, higher government revenues, enhanced exploration and development of the U.S. resource base, and injections of capital investment;

- U.S. energy exports are therefore not only an energy security boon for our allies but also for us. Without exports, our energy resources, particularly in Alaska, may remain underdeveloped or undiscovered in their full potential. Exports can facilitate exploration, development and the availability of U.S. energy for the Pacific Rim.

REAL ECONOMIC GROWTH PROSPECTS IN THE ASIA/PACIFIC AREA

(Billions of $U.S.)



Source: Data Resources, Incorporated.

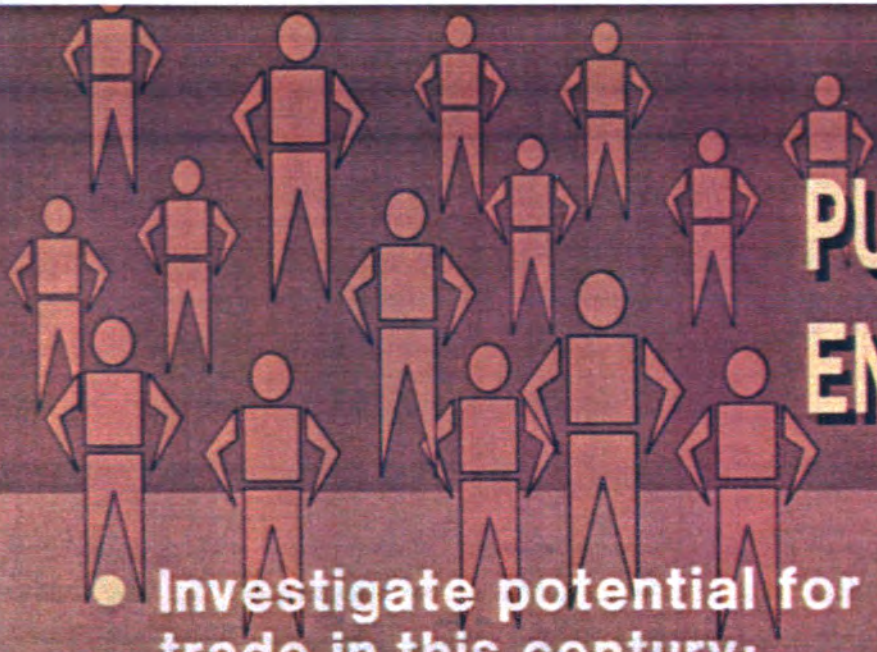
IMPORTANCE OF THE PACIFIC RIM

- THE PRESIDENT'S TRIP TO JAPAN AND SOUTH KOREA IN NOVEMBER IS A RECOGNITION OF THE IMPORTANCE OF THE PACIFIC RIM TO U.S. ECONOMIC AND STRATEGIC INTERESTS.

- THE AREA WILL BE A DRIVING FORCE IN WORLD ENERGY DEMAND INCREASES OVER THE NEXT TWO DECADES AS ENERGY DEMAND RESPONDS TO HIGH RATES OF REAL ECONOMIC GROWTH.

- THE PACIFIC RIM IS HIGHLY DEPENDENT ON IMPORTED OIL. JAPAN, FOR EXAMPLE, IMPORTS VIRTUALLY ALL OF ITS OIL AND DERIVES 70% OF ITS OIL IMPORTS FROM THE MIDDLE EAST. NATIONS LIKE JAPAN AND SOUTH KOREA ARE DIVERSIFYING AWAY FROM OIL THROUGH INCREASED USE OF COAL, GAS, AND NUCLEAR ENERGY.

- INCREASES IN ENERGY DEMAND IN THE PACIFIC RIM COMBINED WITH THE AREA'S ATTEMPT TO DIVERSIFY ENERGY FUELS AND SEEK SECURE SOURCES OF SUPPLY PRESENT SIGNIFICANT OPPORTUNITIES FOR GREATER EXPORTS OF U.S. ENERGY RESOURCES AND TECHNOLOGY.



PURPOSE OF U.S.-JAPAN ENERGY WORKING GROUP

- Investigate potential for GREATER OIL,GAS & COAL trade in this century;
- Identify and seek ways to eliminate impediments to this trade;
- Explore ways to make U.S. energy more competitive in Japanese market;
- Encourage commercial discussions/feasibility studies.

U.S. JAPAN ENERGY WORKING GROUP

- To further energy trade and cooperation, President Reagan and Prime Minister Nakasone established in January 1983 the U.S.-Japan Energy Working Group.

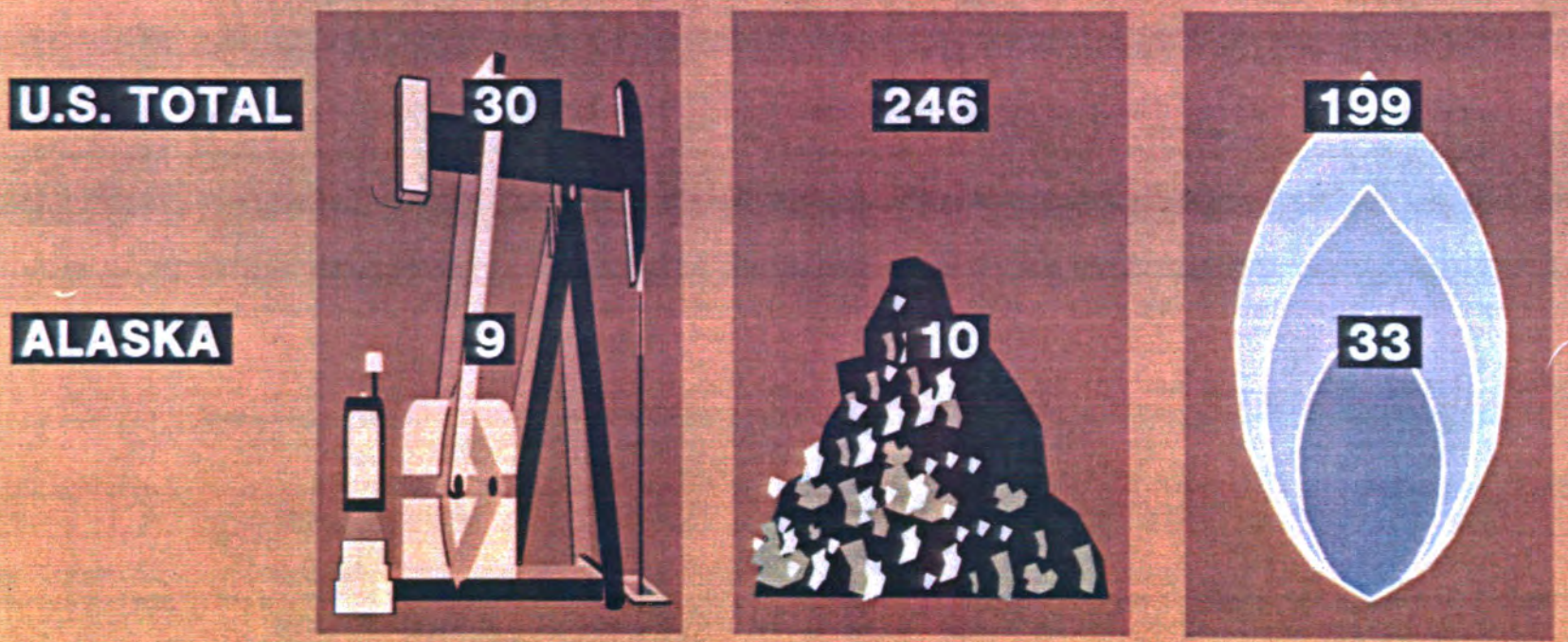
- The Working Group has been discussing expanded energy trade consisting of limited quantities of United States oil exports, increased metallurgical and steam coal exports, and joint development of Alaskan gas resources.

- The major immediate benefits result from saving at least 15,000 and as much as 25,000 jobs in the coal and related industries by halting the precipitious decline in coal exports to Japan.

- Over the longer term expanded energy trade will lead to greater capital investment in the United States, job creation, increased State and Local revenues and enhanced energy security for the United States brought about by intensified energy development.

- Greater energy exports will also reduce the potential for more Soviet-Asian energy trade.

U.S. PROVEN RESERVES OF OIL, COAL, GAS

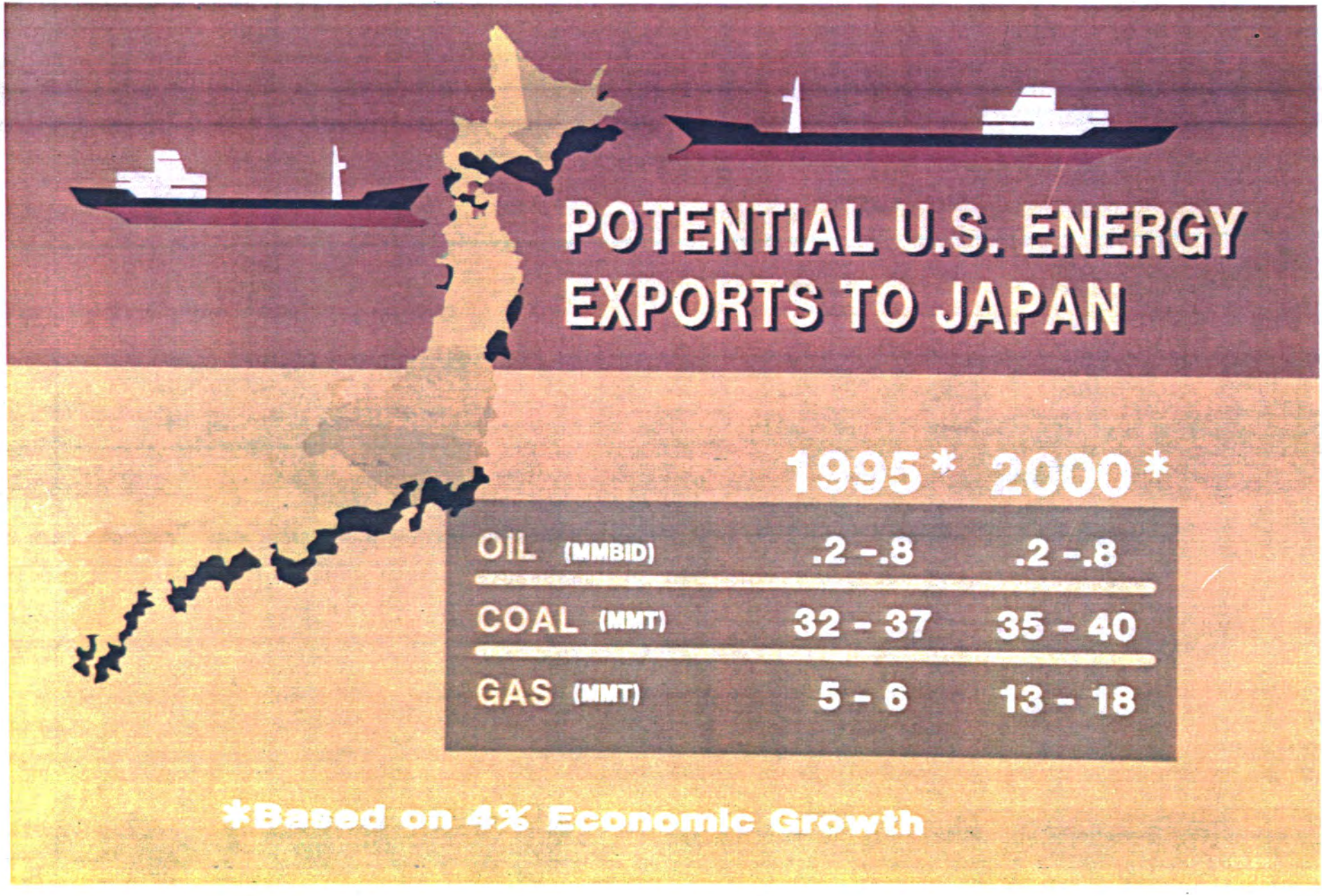


U.S. ENERGY SUPPLY POTENTIAL

- THE U.S. HAS ENORMOUS RESERVES OF OIL, COAL, AND GAS BOTH IN THE LOWER-48 AND ALASKA--A PARTICULARLY ATTRACTIVE U.S. SUPPLY SOURCE FOR JAPAN GIVEN ITS RELATIVE GEOGRAPHIC PROXIMITY.

- THE U.S. IS IN A POSITION TO SUPPORT GREATER EXPORTS OF OIL, COAL, AND GAS WHICH WILL PROVIDE JOBS, CAPITAL INVESTMENTS, AND REVENUES WITHOUT AFFECTING U.S. NET ENERGY IMPORTS.

- IN FACT, GREATER ENERGY EXPORTS COULD REDUCE U.S. NET ENERGY IMPORTS TO THE EXTENT THAT EXPORTS PROVIDE INCENTIVES FOR EXPLORATION AND DEVELOPMENT OF U.S. RESOURCES.


POTENTIAL U.S. ENERGY EXPORTS TO JAPAN
1995* 2000*
OIL (MMBID) .2 -.8 .2 -.8
COAL (MMT) 32 - 37 35 - 40
GAS (MMT) 5 - 6 13 - 18
*Based on 4% Economic Growth

JAPANESE ENERGY OUTLOOK

- UNLIKE THE U.S., JAPAN IS RESOURCE POOR. IT IMPORTS VIRTUALLY ALL OF ITS ENERGY NEEDS. KEY GOALS OF JAPAN ARE TO DIVERSIFY ITS ENERGY MIX AND SEEK SECURE SOURCES OF SUPPLY.

- THE U.S. ALREADY SUPPLIES, PRIMARILY THROUGH COAL EXPORTS, ABOUT 5% OF JAPAN'S ENERGY NEEDS.

- BASED ON JAPANESE AND U.S. GOVERNMENT FORECASTS, WE ESTIMATE THAT IF OUR ENERGY IS COMPETITIVELY PRICED THE U.S. COULD SUPPLY TO JAPAN BY THE YEAR 2000 ABOUT 35-40 MILLION METRIC TONS OF COAL; 13-18 MILLION METRIC TONS OF GAS; AND 200-800 THOUSAND BARRELS PER DAY OF OIL-- IN ALL POSSIBLY 10-20 PERCENT OF JAPAN'S ENERGY NEEDS.

DIRECT ECONOMIC BENEFITS OF U.S. ENERGY EXPORTS TO JAPAN BY THE YEAR 2000*

Economic Measure	Oil (Thousand Barrels/Day	Natural Gas (Million Metric Tons)	Coal (Million Metric Tons)	Total (Thousand bpdoe)
Proposed U.S. Export	200-800	13-18	40	1,050-1,770
Price (1982 $)	$57/bbl	$7/Mmbtu	$64/Metric Ton	–
Revenues (Billion 1982 $)	$4.2-$16.6B	$3.8-$5.3B	$2.6B	$10.6-$24.5
Capital Investment (Billion 1982 $)	15-80B**	$19.0-$26.3B	$2.5B	$36.5-$108.8
Jobs Created ***	800-3,300	12000-16,500	26,000	38,800-45,000

*Preliminary estimates based on possible U.S. energy export levels to Japan by the year 2000.

**Associated with exploration and production of new reserves (other than Prudhoe and Kuporuk) starting in 1988.

***Direct energy employment only. Secondary effects would create about 50 percent more jobs, resulting in a total of 85,200 – 95,700 jobs.

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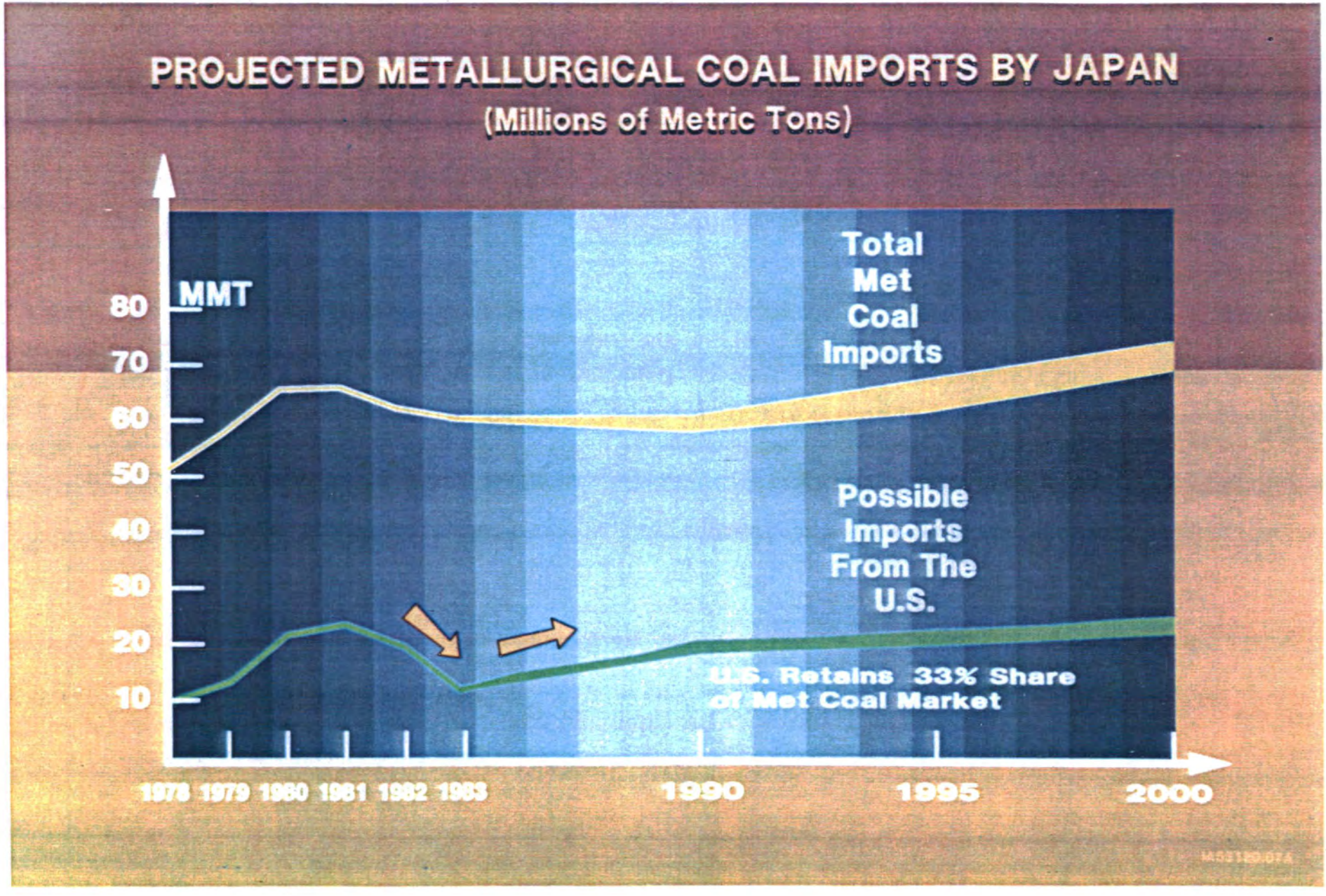
IMPACTS OF U.S. ENERGY EXPORTS

- GREATER U.S. ENERGY EXPORTS TO JAPAN COULD HAVE A POSITIVE EFFECT ON OUR TRADE BALANCE WITH JAPAN; INCREASE U.S. JOBS; INCREASE CAPITAL INVESTMENT IN THE U.S.; RAISE FEDERAL AND STATE TAX REVENUES; ENHANCE U.S. ENERGY RESOURCE DEVELOPMENT AND THEREBY IMPROVE NOT ONLY JAPANESE ENERGY SECURITY BUT OUR OWN.

- WE ESTIMATE THAT EACH ADDITIONAL 10 MILLION TONS OF COAL EXPORTS WILL INCREASE U.S. EMPLOYMENT BY ABOUT 17,000 JOBS; INCREASE REVENUES TO THE U.S. ECONOMY BY $660 MILLION; AND REPRESENT OVER $1 BILLION IN CAPITAL INVESTMENT.

- U.S. ENERGY EXPORTS AND POTENTIAL JAPANESE INVESTMENTS WILL HELP DEVELOP THE U.S. ENERGY INFRASTRUCTURE AND PROVIDE JOBS FOR U.S. CITIZENS.


PROJECTED METALLURGICAL COAL IMPORTS BY JAPAN
(Millions of Metric Tons)
MMT
80
70
60
50
40
30
20
10
Total Met Coal Imports
Possible Imports From The U.S.
U.S. Retains 33% Share of Met Coal Market
1978 1979 1980 1981 1982 1983
1990
1995
2000

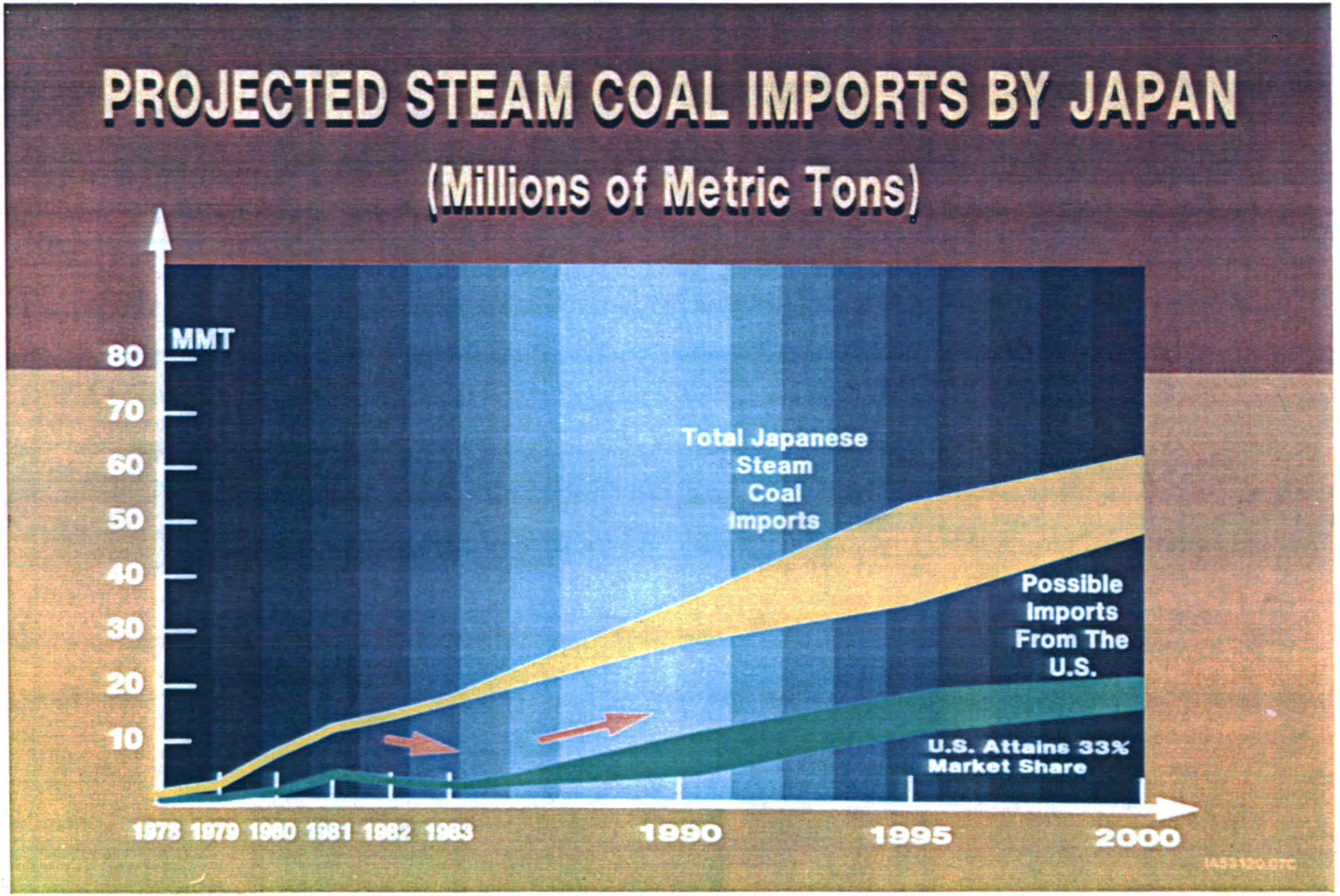
CURRENT COAL SITUATION

- THE U.S. HAS BEEN A MAJOR SUPPLIER OF METALLURGICAL COAL TO JAPAN FOR OVER 30 YEARS--PROVIDING ABOUT ONE-THIRD OF ITS IMPORTS IN RECENT YEARS.

- THE U.S. HAS BEEN DISADVANTAGED BY JAPAN'S POLICY OF SECURING LONG-TERM CONTRACTS WITH U.S. COMPETITORS (AUSTRALIA, CANADA, AND OTHERS) BUT NONE WITH THE U.S.

- THIS POLICY HAS CONTRIBUTED TO A STEEP DECLINE IN U.S. METALLURGICAL COAL SALES TO JAPAN, PERHAPS BY 40-50 PERCENT IN 1983.

- THIS TREND, IF NOT REVERSED, WOULD REDUCE THE U.S. TO A MARGINAL SUPPLIER OF A FEW MILLION TONS, LEAD TO THE LOSS OF UP TO 25,000 JOBS AND OVER $1 BILLION IN CAPITAL INVESTMENTS.


PROJECTED STEAM COAL IMPORTS BY JAPAN
(Millions of Metric Tons)
MMT
80
70
60
50
40
30
20
10
Total Japanese Steam Coal Imports
Possible Imports From The U.S.
U.S. Attains 33% Market Share
1978 1979 1980 1981 1982 1983
1990
1995
2000

COAL OUTLOOK

- In the U.S.-Japan Energy Working Group, the U.S. is seeking both to enhance our historical role as a supplier to the Japanese metallurgical coal market and enlarge our share of the growing steam coal market.

- We have stressed to Japan that U.S. coal supplies are plentiful, secure, and can be competitive under long-term supply agreements.

- Due to reduced forecasts of steel output, Japan's metallurgical coal needs are expected to remain flat throughout the century.

- Japanese steam coal import demand is expected to rise steadily to perhaps 45-60 million metric tons by 2000. This is the big growth area for the U.S. which last year supplied only 1 million metric tons.

- With the competitive advantage offered through long-term contracts, total U.S. coal exports to Japan even in a low economic growth scenario could be in the vicintiy of 35-40 million metric tons by 2000, compared to 21 million metric tons last year.

JAPAN: LNG SUPPLY/DEMAND

(Million Metric Tons)

	1982 Actual	1990 MITI	1995 MITI	2000 (USG Estimate)
DEMAND	17.5	37-39	42-43	45-50*
SUPPLY	17.5	37	37	32
Indonesia	9.1	14	14	14
Brunei	5.2	5.1	5.1	
Abu Dhabi	2.2	2.1	2.1	2.1
Alaska	1.0	1.0	1.0	1.0
Malaysia	–	6.0	6.0	6.0
Australia	–	6.0	6.0	6.0
Canada	–	2.9	2.9	2.9
SUPPLY (SHORTFALL)		0.0-(2.0)	(5)-(6)	(13-18)

* 45mmt assumes same increase in LNG demand in period 1995-2000 as MITI estimates for 1990-1995

50 mmt assumes a growth rate similar to projected GNP growth of 4% – still well below the MITI annual rate of increase in LNG use for 1982-1995

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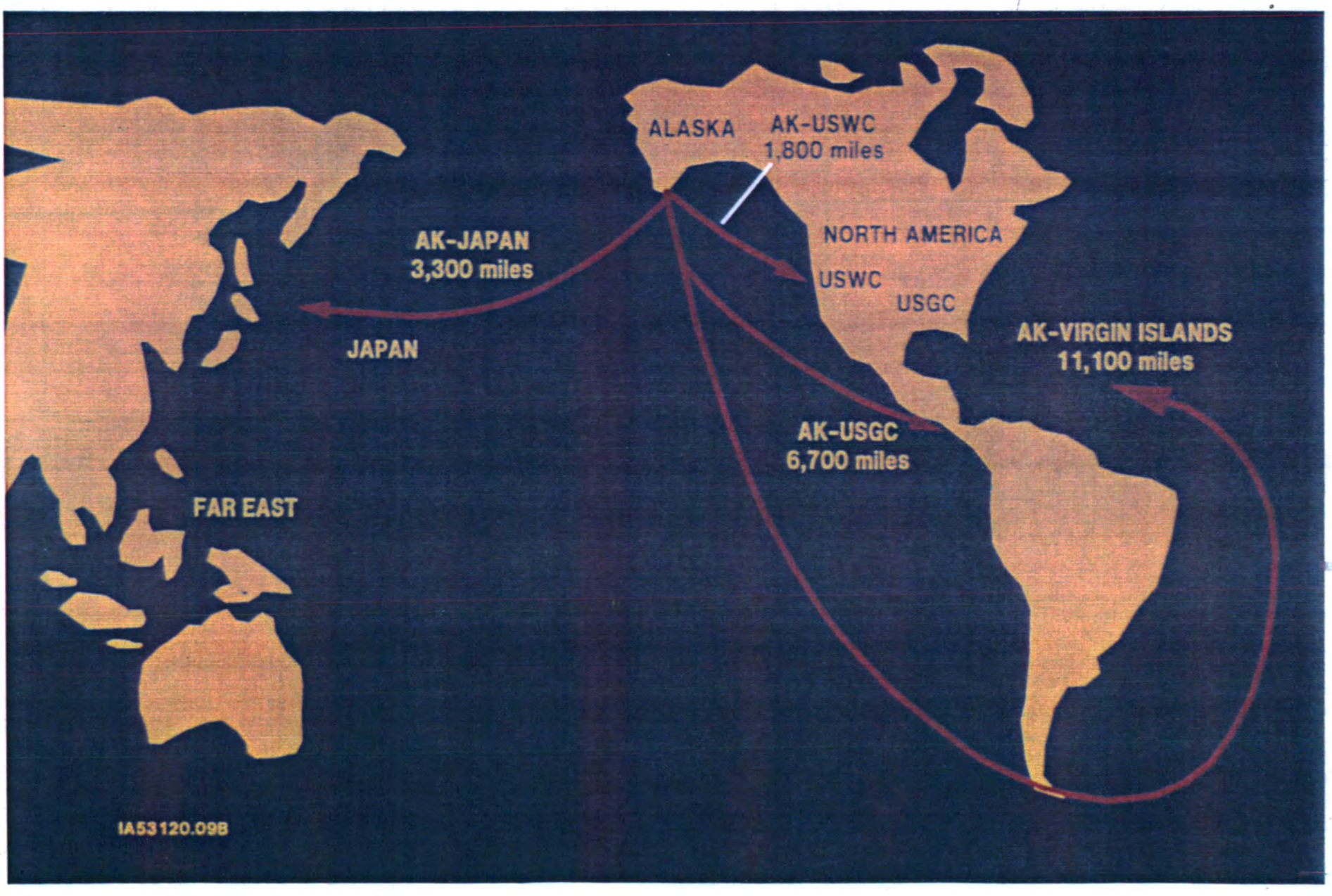
GAS OUTLOOK

- The U.S. was Japan's first LNG supplier and since 1969 has continued to supply about 1 million metric tons of LNG from the south coast of Alaska.
- Recent forecasts suggest that a potentially large LNG supply gap will exist for Japan in the late 1990's in the range of 13-18 million metric tons per annum by the year 2000.
- A supply gap of this size would provide a market for projects such as the Trans-Alaska Gas System (TAGS) or the Alaska Natural Gas Transportation System (ANGTS). The TAGS project for example is premised on the ultimate marketing of 14.5 million metric tons per year of gas.
- Japanese participation in developing Alaskan gas might allow a combined TAGS/ANGTS type project to proceed earlier than either would alone and thereby accelerate the construction of a pipeline south.
- In addition to Japan, other Pacific Rim gas markets are emerging--in Korea, Singapore and Taiwan.


ALASKA
AK-USWC
1,800 miles
NORTH AMERICA
USWC
USGC
AK-JAPAN
3,300 miles
JAPAN
AK-VIRGIN ISLANDS
11,100 miles
AK-USGC
6,700 miles
FAR EAST
IA53120.09B

OIL OUTLOOK

- The U.S. could derive substantial net benefits through exports of Alaskan oil to Japan, largely attributable to transportation cost savings.

- The potential is there. Alaskan oil production is currently 1.6 million barrels per day, one half of which is shipped to the Gulf/East Coasts, and is expected to rise to 2.0 million barrels per day by 2000.

- The Japanese government has shown a strong interest in diversifying oil supply sources, and Japanese refiners have expressed an interest in initial purchases of 50,000 barrels per day.

- Governor Sheffield of Alaska has notified the President that if legal barriers could be relaxed, Alaska would be willing to export 50,000 barrels per day of state royalty oil to Japan.

BENEFITS OF LIFTING U.S. CRUDE OIL EXPORT CONTROLS

- Savings in U.S. Petroleum Transport and Refining Costs
- Increased Investment in U.S. Oil Exploration and Development
- Increased Value of New Oil Discoveries in Alaska and on West Coast
- Federal and State Revenue Gains
- Possible U.S. Oil Production Increases
- Enhance Energy Security of Key Ally

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COSTS AND BENEFITS OF ALLOWING CRUDE OIL EXPORTS

- THERE ARE NUMEROUS LEGAL BARRIERS TO CRUDE EXPORTS. IF THE CRUDE OIL IS FROM THE NORTH SLOPE, PASSES THROUGH THE TAPS PIPELINE OR CROSSES CERTAIN RIGHTS OF WAY, ITS EXPORT IS VIRTUALLY IMPOSSIBLE WITHOUT POSITIVE CONGRESSIONAL ACTION. THE MOST ONEROUS RESTRICTIONS ARE IN THE EXPORT ADMINISTRATION ACT NOW BEFORE THE CONGRESS FOR RENEWAL.

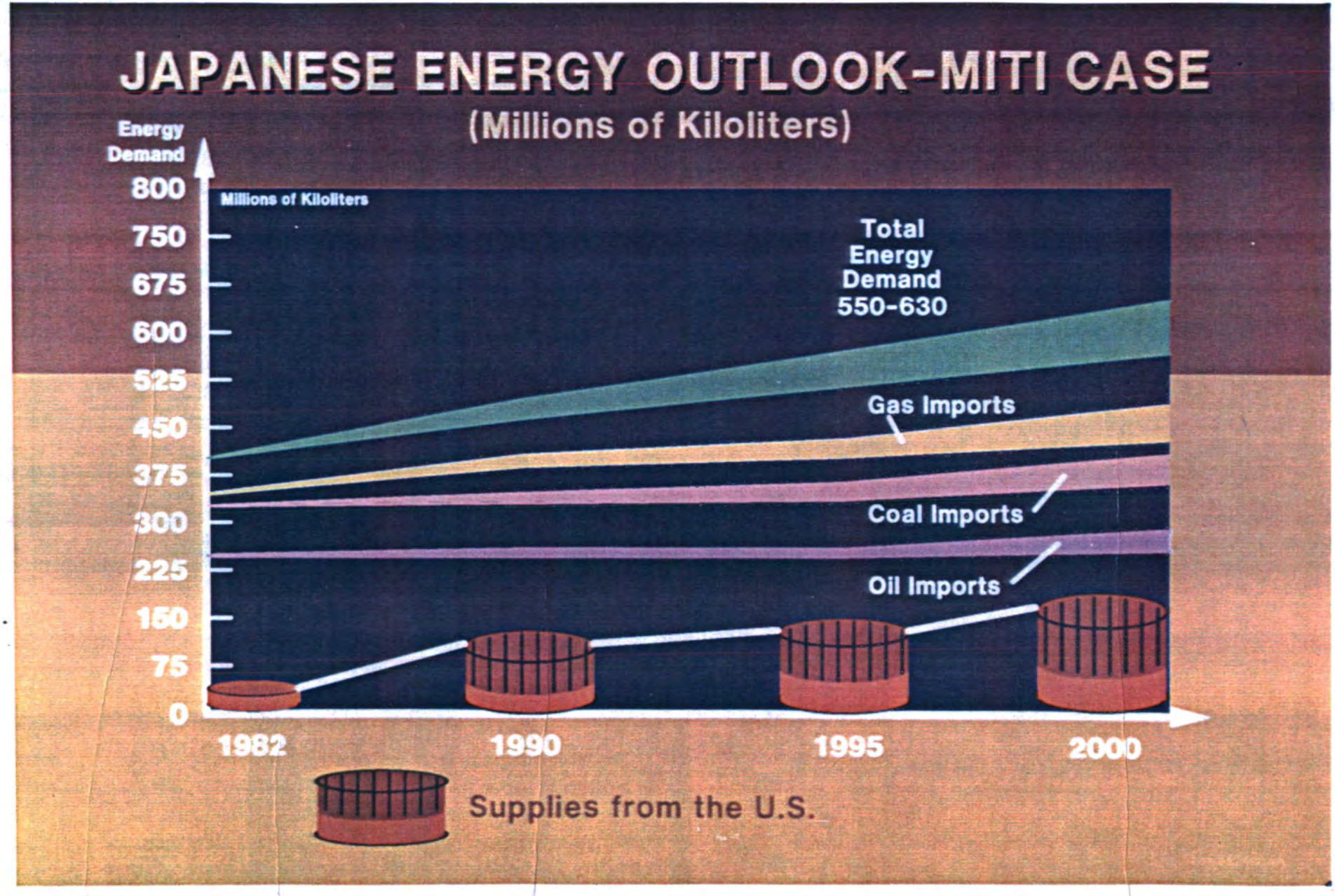
- WE HAVE WEIGHED THE COSTS AND BENEFITS OF REMOVING EXPORT CONTROLS, LOOKING AT OPTIONS RANGING FROM EXPORT ONLY OF OIL FROM NEW DISCOVERIES TO A FULL LIFTING OF THE BAN.

- THERE ARE SOME COSTS TO LIFTING THE BAN, AS THERE ALWAYS ARE WHEN VARIOUS SECTORS OF THE ECONOMY ADJUST TO THE ARTIFICIAL INCENTIVES THAT REGULATIONS IMPOSE.

- THERE WOULD BE SOME IDLING OF TANKERS (SOME USEFUL FOR DEFENSE NEEDS) AND ATTENDANT LOSS OF SOME MARITIME JOBS. HOWEVER, MUCH OF THIS WOULD HAPPEN ANYWAY DUE TO THE COMBINED EFFECTS OF PHASING OUT THE PORT AND TANKER SAFETY ACT AND THE WINDFALL PROFITS ACT AND POSSIBLE RE-ENTRY OF VLCC'S INTO THE DOMESTIC ALASKAN TRADE.

- THE BENEFITS OF LIFTING THE BAN ARE SUBSTANTIALLY GREATER THAN THESE COSTS. THE MOST IMMEDIATE AND DIRECT BENEFIT IS THE SAVINGS IN TRANSPORTATION COSTS: THE COST PER BARREL OF SHIPMENT TO THE PACIFIC RIM IS LESS THAN $1.00 WHILE THE COST TO THE GULF COAST IS ABOUT $4.50.

- SUBSTANTIAL ADDED BENEFITS ACCRUE AS THE VALUE OF NEW ALASKAN AND WEST COAST LEASES INCREASES; OIL EXPLORATION AND DEVELOPMENT (AND JOBS IN THAT INDUSTRY) INCREASE; AND FEDERAL AND STATE REVENUES ARE ENHANCED FROM THESE ACTIVITIES. U.S. ENERGY SECURITY WILL IMPROVE AS INCREASES IN DOMESTIC PRODUCTION CAUSE NET IMPORTS TO DROP, AND THE DIVERSIFICATION OF SUPPLIES WILL ENHANCE THE ENERGY SECURITY OF KEY PACIFIC RIM ALLIES.


JAPANESE ENERGY OUTLOOK-MITI CASE
(Millions of Kiloliters)
Energy Demand
800
750
675
600
525
450
375
300
225
150
75
0
Millions of Kiloliters
Total Energy Demand 550-630
Gas Imports
Coal Imports
Oil Imports
1982
1990
1995
2000
Supplies from the U.S.

CONCLUSIONS

- THE U.S.-JAPAN ENERGY WORKING GROUP IS DEVELOPING POLICY RECOMMENDATIONS FOR PRESIDENT REAGAN AND PRIME MINISTER NAKASONE. THE FOLLOWING INITIATIVES ARE UNDER CONSIDERATION:

  -- IN OIL, THE U.S. WILL CONTINUE TO CONSULT WITH THE CONGRESS TO MAKE AVAILABLE A LIMITED SUPPLY OF ALASKAN OIL TO HELP DIVERSIFY JAPAN'S ENERGY SOURCES, (THIS WOULD MINIMIZE THE ADVERSE EFFECTS ON MARITIME INTERESTS AND IMPROVE THE ENVIRONMENT FOR GREATER SALE TO JAPAN OF U.S. COAL AND GAS);

  -- IN GAS, BOTH GOVERNMENTS WILL ENCOURAGE THEIR PRIVATE SECTORS TO UNDERTAKE FEASIBILITY STUDIES OF THE JOINT COMMERCIAL DEVELOPMENT OF ALASKAN GAS;

  -- IN COAL, THE FOLLOWING STEPS ARE ENVISIONED:

  - AN EXPRESSION OF JAPANESE INTENT NOT TO LOWER PURCHASES OF U.S. METALLURGICAL COAL BELOW RECENT LEVELS AND TO CONSIDER FAVORABLY PURCHASES OF U.S. STEAM COAL TO MEET FUTURE DEMAND, IF PRICED COMPETITIVELY. JAPAN WILL ENDEAVOR TO PURCHASE MORE U.S. COAL AS RECOVERY PROCEEDS;

  - ENCOURAGEMENT OF OUR PRIVATE SECTORS TO DISCUSS THE CONCLUSION OF LONG-TERM CONTRACTS AND JOINT DEVELOPMENT OF MINES AND TRANSPORTATION SYSTEMS TO MAKE AMERICAN COAL MORE COMPETITIVE IN JAPAN;

  - ORGANIZATION OF A HIGH-LEVEL JAPANESE COAL TRADE MISSION TO THE U.S. TO EXPLORE PROSPECTS FOR EXPANDED COAL TRADE AND SOLICIT INTEREST IN A JOINT PRIVATE SECTOR STUDY OF REDUCING THE DELIVERED COST OF U.S. COAL TO JAPAN;

  - AN INTENSIVE STUDY BY JAPAN OF THE POSSIBILITY OF INCREASING THE SUBSTITUTION OF COAL FOR OIL IN ELECTRICAL GENERATION.

PREPARED BY

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WILLIAM MARTIN - NSC

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KAARN WEAVER - DOS

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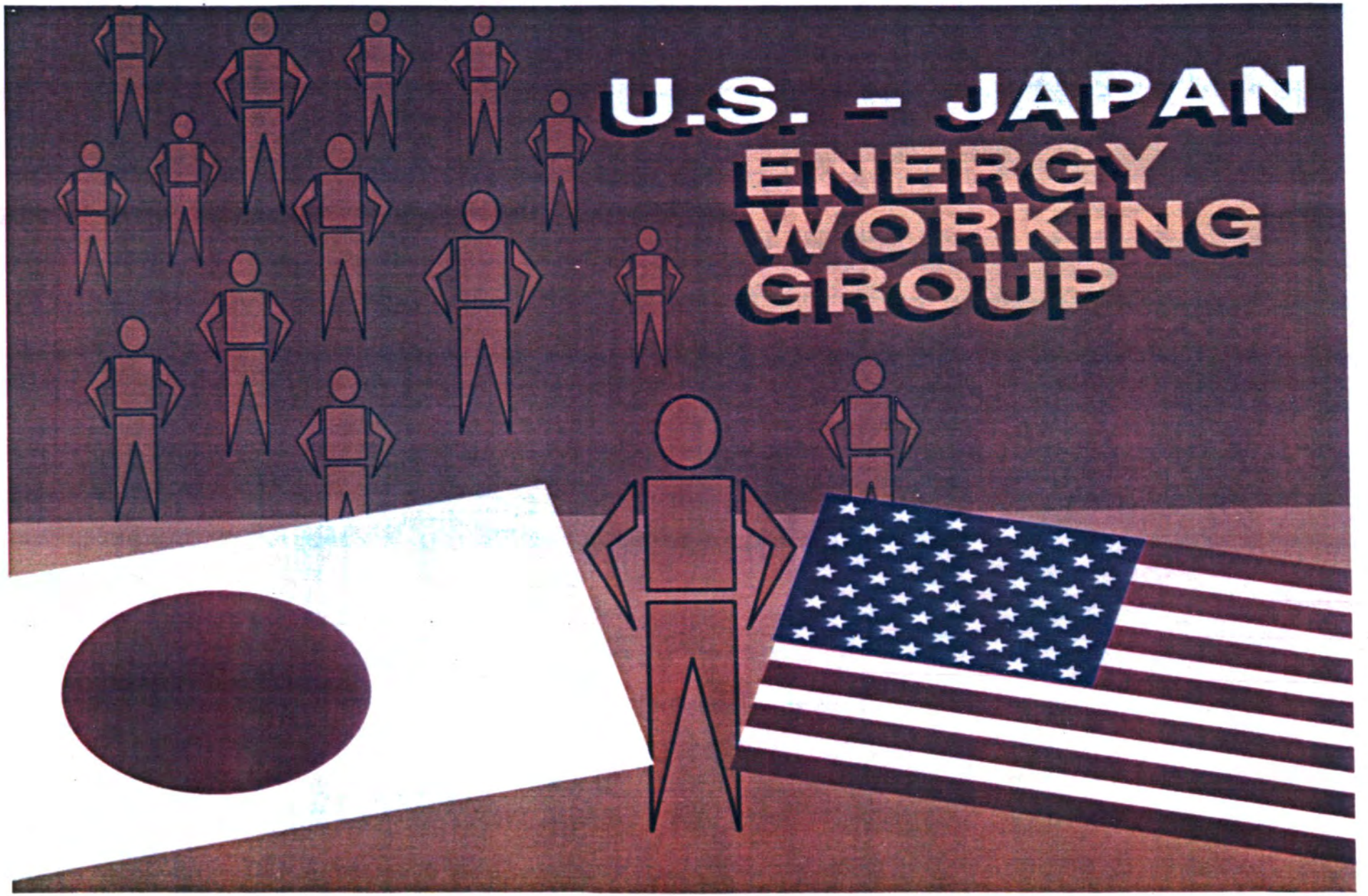
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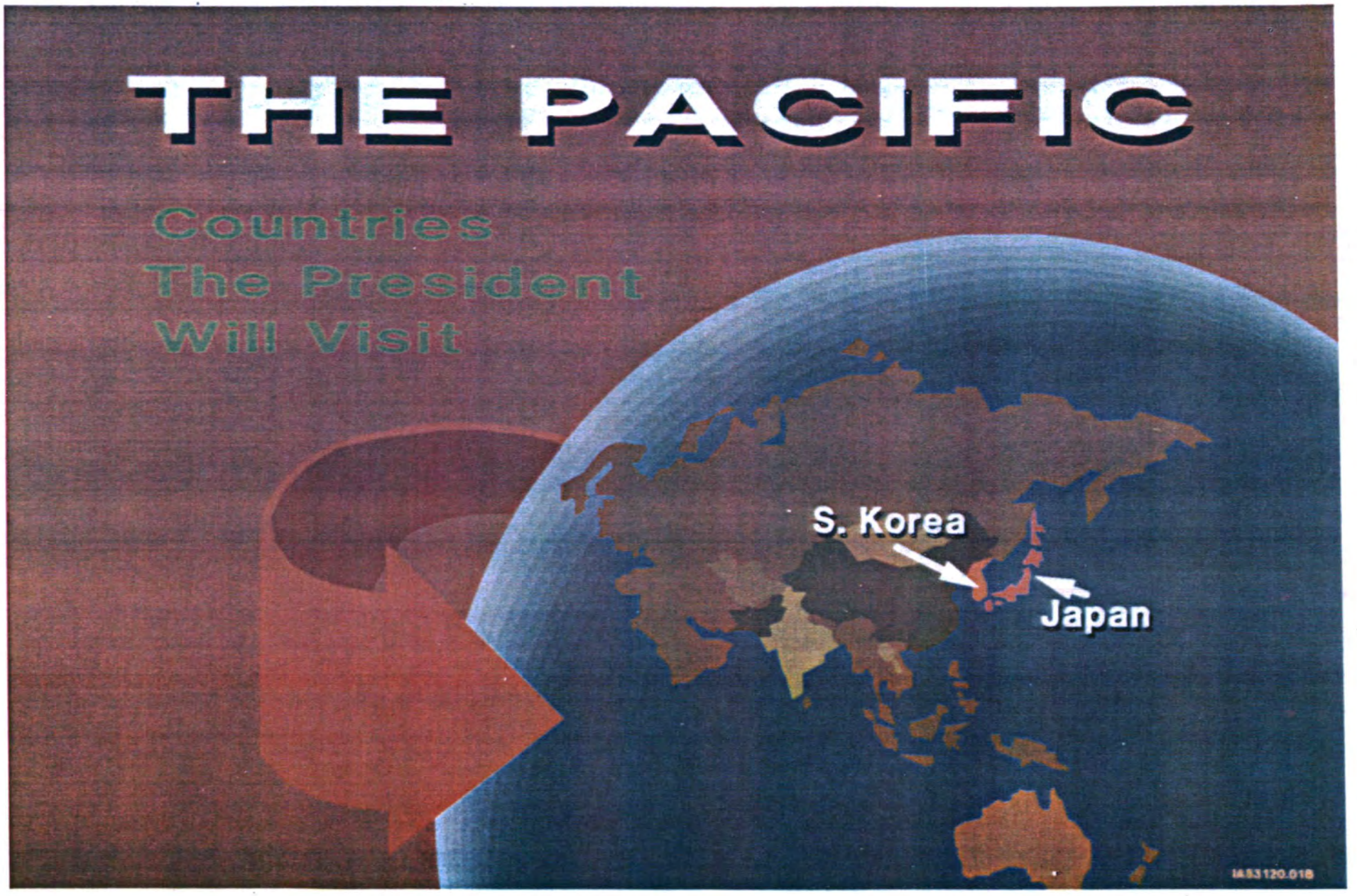
THE PACIFIC
Countries
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THE PRESIDENT'S TRIP
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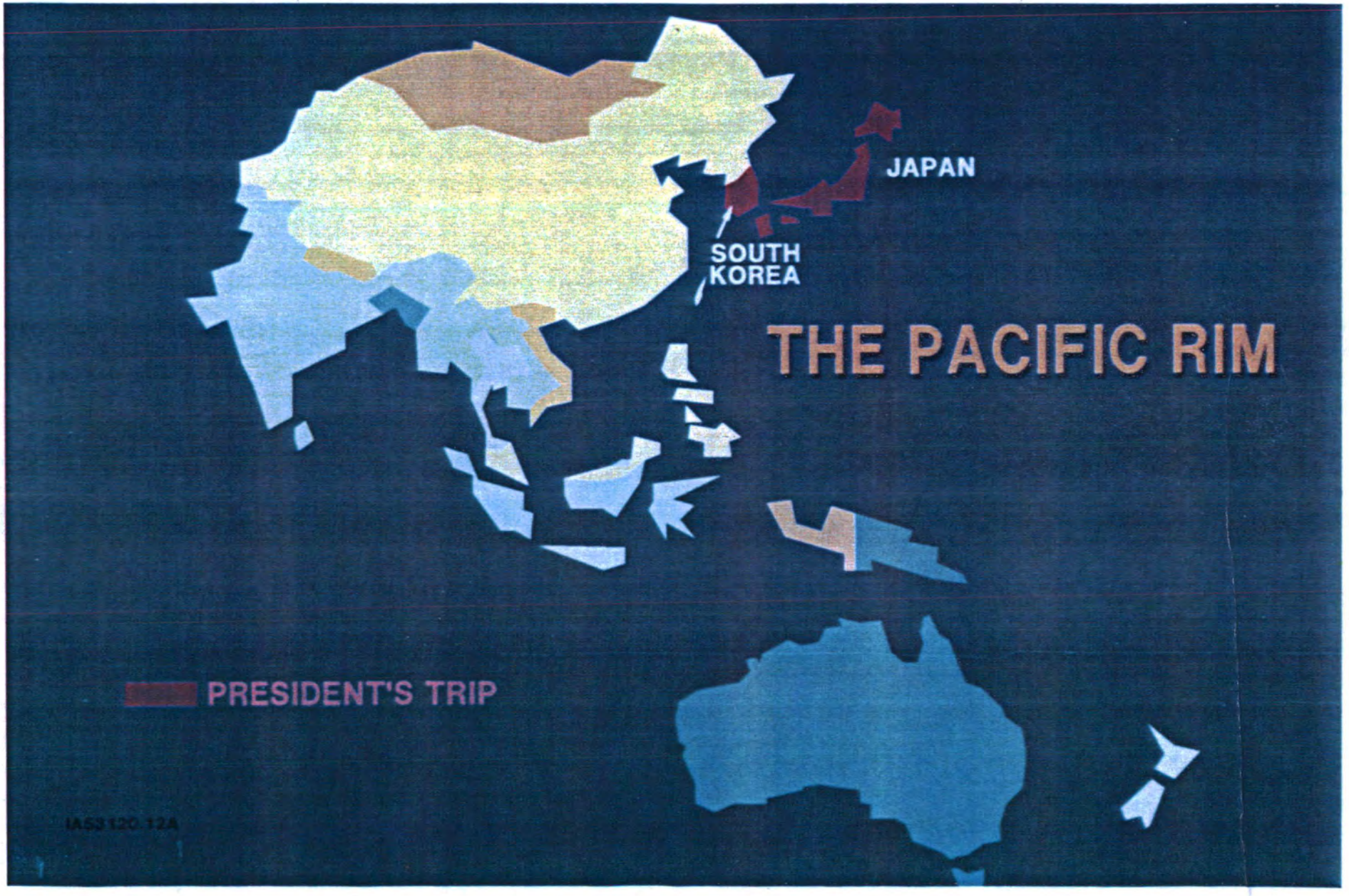
JAPAN
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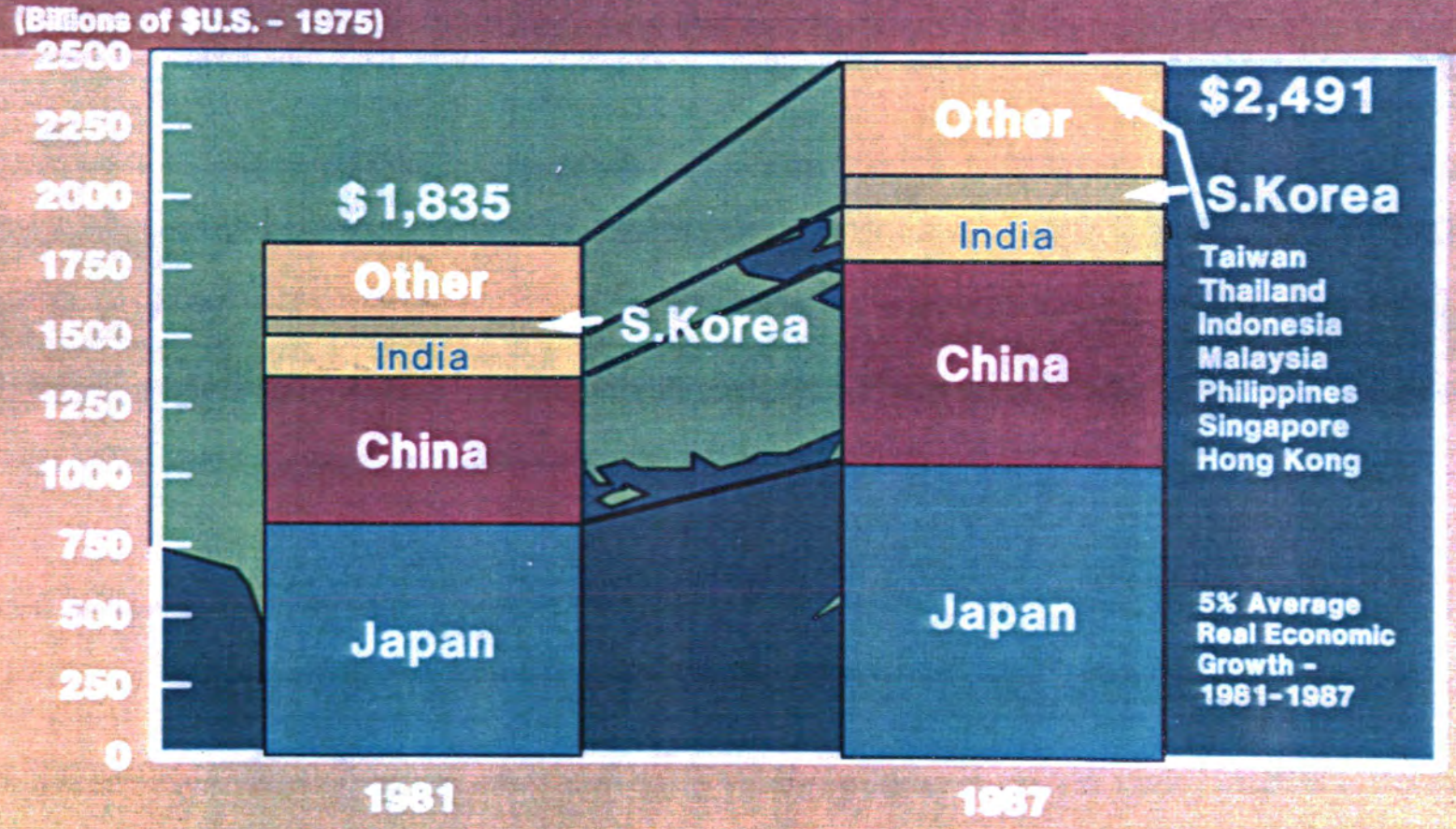
REAL ECONOMIC GROWTH PROSPECTS IN THE ASIA/PACIFIC AREA

(Billions of $U.S.)



Source: Data Resources, Incorporated.

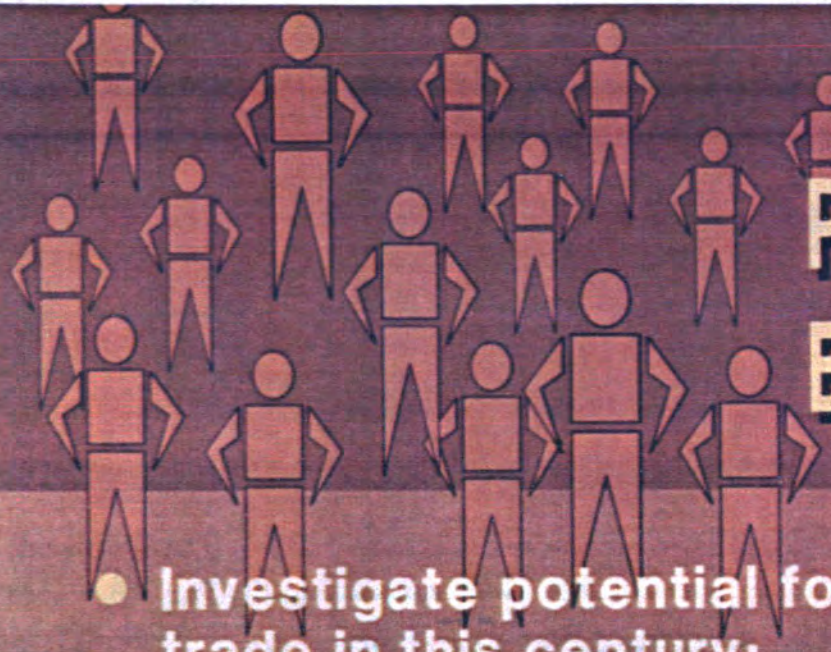
IMPORTANCE OF THE PACIFIC RIM

- The president's trip to Japan and South Korea in November is a recognition of the importance of the Pacific Rim to U.S. economic and strategic interests.

- The area will be a driving force in world energy demand increases over the next two decades as energy demand responds to high rates of real economic growth.

- The Pacific Rim is highly dependent on imported oil. Japan, for example, imports virtually all of its oil and derives 70% of its oil imports from the Middle East. Nations like Japan and South Korea are diversifying away from oil through increased use of coal, gas, and nuclear energy.

- Increases in energy demand in the Pacific Rim combined with the area's attempt to diversify energy fuels and seek secure sources of supply present significant opportunities for greater exports of U.S. energy resources and technology.



PURPOSE OF U.S.-JAPAN ENERGY WORKING GROUP

- Investigate potential for GREATER OIL,GAS & COAL trade in this century;
- Identify and seek ways to eliminate impediments to this trade;
- Explore ways to make U.S. energy more competitive in Japanese market;
- Encourage commercial discussions/feasibility studies.

U.S. JAPAN ENERGY WORKING GROUP

- To further energy trade and cooperation, President Reagan and Prime Minister Nakasone established in January 1983 the U.S.-Japan Energy Working Group.

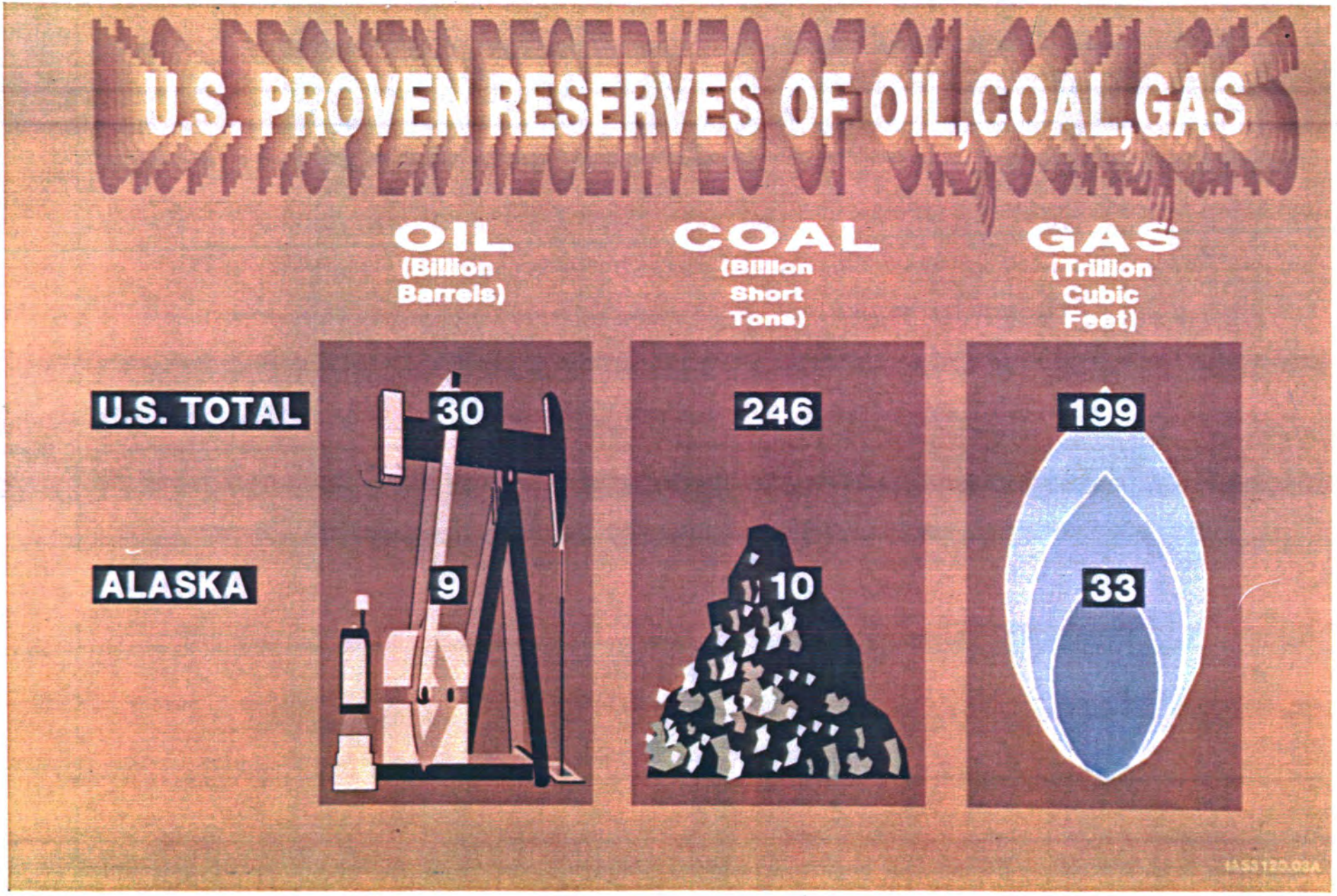
- The Working Group has been discussing expanded energy trade consisting of limited quantities of United States oil exports, increased metallurgical and steam coal exports, and joint development of Alaskan gas resources.

- The major immediate benefits result from saving at least 15,000 and as much as 25,000 jobs in the coal and related industries by halting the precipitious decline in coal exports to Japan.

- Over the longer term expanded energy trade will lead to greater capital investment in the United States, job creation, increased State and Local revenues and enhanced energy security for the United States brought about by intensified energy development.

- Greater energy exports will also reduce the potential for more Soviet-Asian energy trade.

U.S. PROVEN RESERVES OF OIL, COAL, GAS

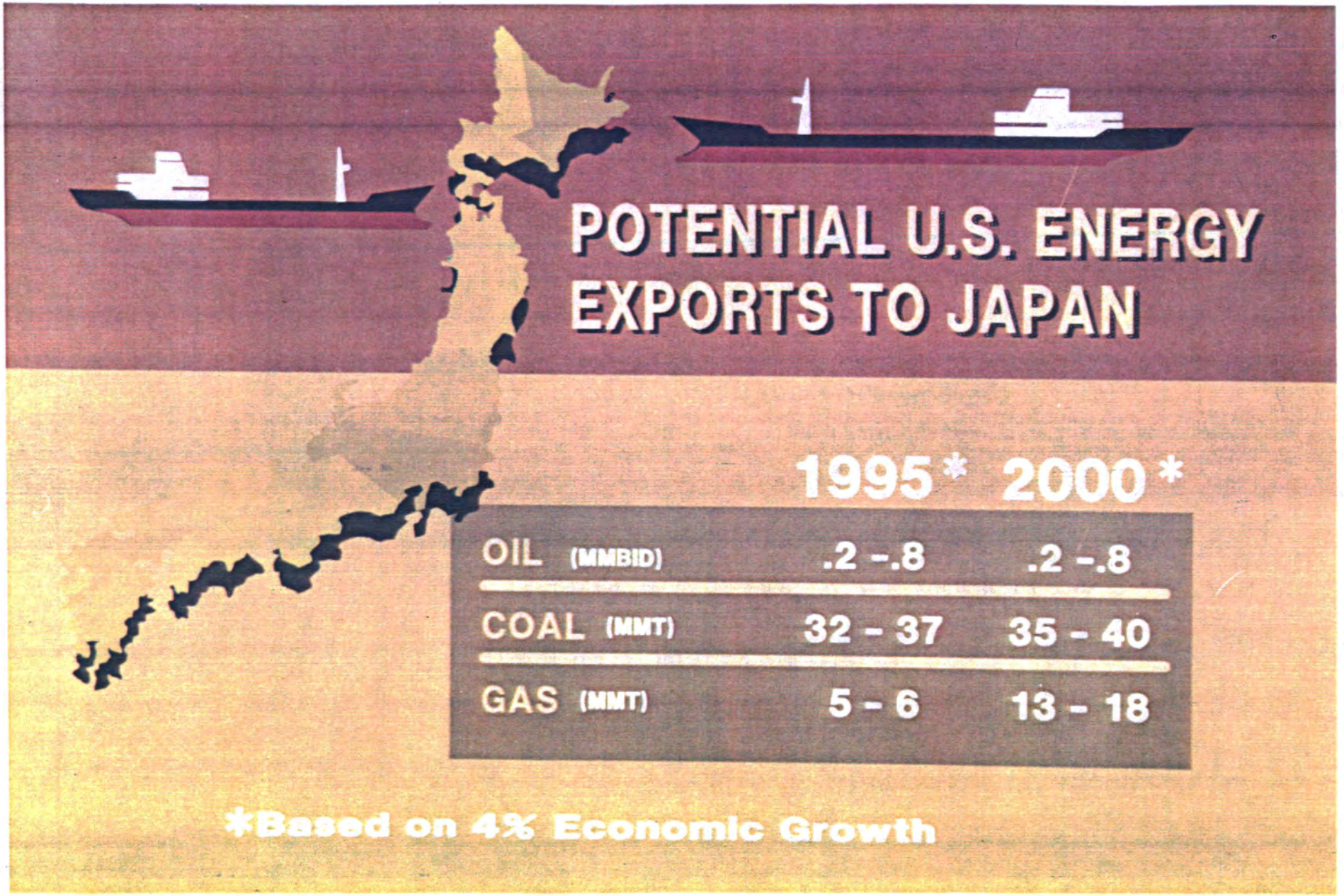


U.S. ENERGY SUPPLY POTENTIAL

- THE U.S. HAS ENORMOUS RESERVES OF OIL, COAL, AND GAS BOTH IN THE LOWER-48 AND ALASKA--A PARTICULARLY ATTRACTIVE U.S. SUPPLY SOURCE FOR JAPAN GIVEN ITS RELATIVE GEOGRAPHIC PROXIMITY.

- THE U.S. IS IN A POSITION TO SUPPORT GREATER EXPORTS OF OIL, COAL, AND GAS WHICH WILL PROVIDE JOBS, CAPITAL INVESTMENTS, AND REVENUES WITHOUT AFFECTING U.S. NET ENERGY IMPORTS.

- IN FACT, GREATER ENERGY EXPORTS COULD REDUCE U.S. NET ENERGY IMPORTS TO THE EXTENT THAT EXPORTS PROVIDE INCENTIVES FOR EXPLORATION AND DEVELOPMENT OF U.S. RESOURCES.


POTENTIAL U.S. ENERGY EXPORTS TO JAPAN
1995* 2000*
OIL (MMBID) .2 -.8 .2 -.8
COAL (MMT) 32 - 37 35 - 40
GAS (MMT) 5 - 6 13 - 18
*Based on 4% Economic Growth

JAPANESE ENERGY OUTLOOK

- UNLIKE THE U.S., JAPAN IS RESOURCE POOR. IT IMPORTS VIRTUALLY ALL OF ITS ENERGY NEEDS. KEY GOALS OF JAPAN ARE TO DIVERSIFY ITS ENERGY MIX AND SEEK SECURE SOURCES OF SUPPLY.

- THE U.S. ALREADY SUPPLIES, PRIMARILY THROUGH COAL EXPORTS, ABOUT 5% OF JAPAN'S ENERGY NEEDS.

- BASED ON JAPANESE AND U.S. GOVERNMENT FORECASTS, WE ESTIMATE THAT IF OUR ENERGY IS COMPETITIVELY PRICED THE U.S. COULD SUPPLY TO JAPAN BY THE YEAR 2000 ABOUT 35-40 MILLION METRIC TONS OF COAL; 13-18 MILLION METRIC TONS OF GAS; AND 200-800 THOUSAND BARRELS PER DAY OF OIL-- IN ALL POSSIBLY 10-20 PERCENT OF JAPAN'S ENERGY NEEDS.

DIRECT ECONOMIC BENEFITS OF U.S. ENERGY EXPORTS TO JAPAN BY THE YEAR 2000*

Economic Measure	Oil (Thousand Barrels/Day	Natural Gas (Million Metric Tons)	Coal (Million Metric Tons)	Total (Thousand bpdoe)
Proposed U.S. Export	200-800	13-18	40	1,050-1,770
Price (1982 $)	$57/bbl	$7/Mmbtu	$64/Metric Ton	–
Revenues (Billion 1982 $)	$4.2-$16.6B	$3.8-$5.3B	$2.6B	$10.6-$24.5
Capital Investment (Billion 1982 $)	15-80B**	$19.0-$26.3B	$2.5B	$36.5-$108.8
Jobs Created ***	800-3,300	12000-16,500	26,000	38,800-45,000

*Preliminary estimates based on possible U.S. energy export levels to Japan by the year 2000.

**Associated with exploration and production of new reserves (other than Prudhoe and Kuporuk) starting in 1988.

***Direct energy employment only. Secondary effects would create about 50 percent more jobs, resulting in a total of 85,200 - 95,700 jobs.

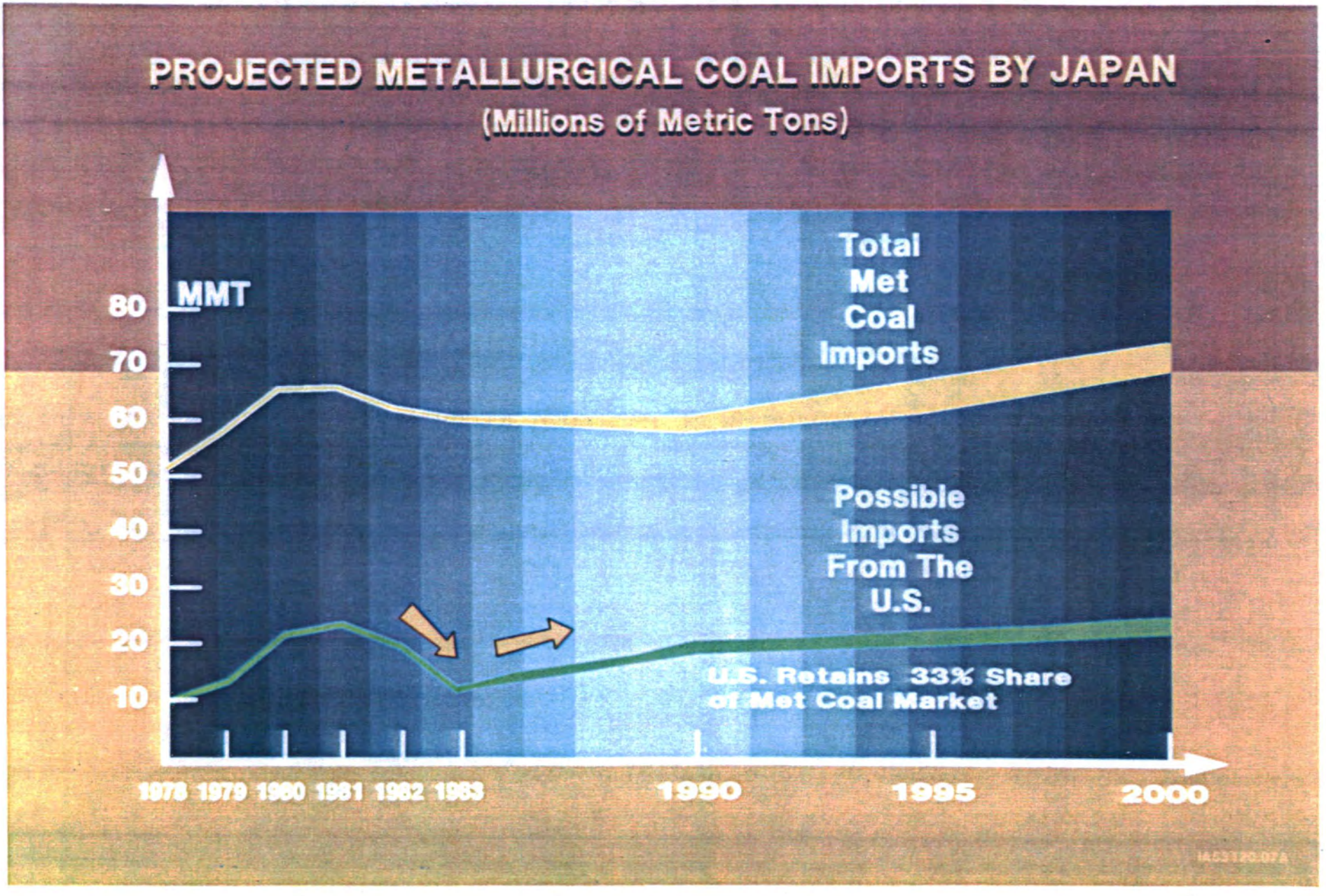
IA53120.05c

IMPACTS OF U.S. ENERGY EXPORTS

- GREATER U.S. ENERGY EXPORTS TO JAPAN COULD HAVE A POSITIVE EFFECT ON OUR TRADE BALANCE WITH JAPAN; INCREASE U.S. JOBS; INCREASE CAPITAL INVESTMENT IN THE U.S.; RAISE FEDERAL AND STATE TAX REVENUES; ENHANCE U.S. ENERGY RESOURCE DEVELOPMENT AND THEREBY IMPROVE NOT ONLY JAPANESE ENERGY SECURITY BUT OUR OWN.

- WE ESTIMATE THAT EACH ADDITIONAL 10 MILLION TONS OF COAL EXPORTS WILL INCREASE U.S. EMPLOYMENT BY ABOUT 17,000 JOBS; INCREASE REVENUES TO THE U.S. ECONOMY BY $660 MILLION; AND REPRESENT OVER $1 BILLION IN CAPITAL INVESTMENT.

- U.S. ENERGY EXPORTS AND POTENTIAL JAPANESE INVESTMENTS WILL HELP DEVELOP THE U.S. ENERGY INFRASTRUCTURE AND PROVIDE JOBS FOR U.S. CITIZENS.


PROJECTED METALLURGICAL COAL IMPORTS BY JAPAN
(Millions of Metric Tons)
MMT
80
70
60
50
40
30
20
10
Total Met Coal Imports
Possible Imports From The U.S.
U.S. Retains 33% Share of Met Coal Market
1978 1979 1980 1981 1982 1983
1990
1995
2000

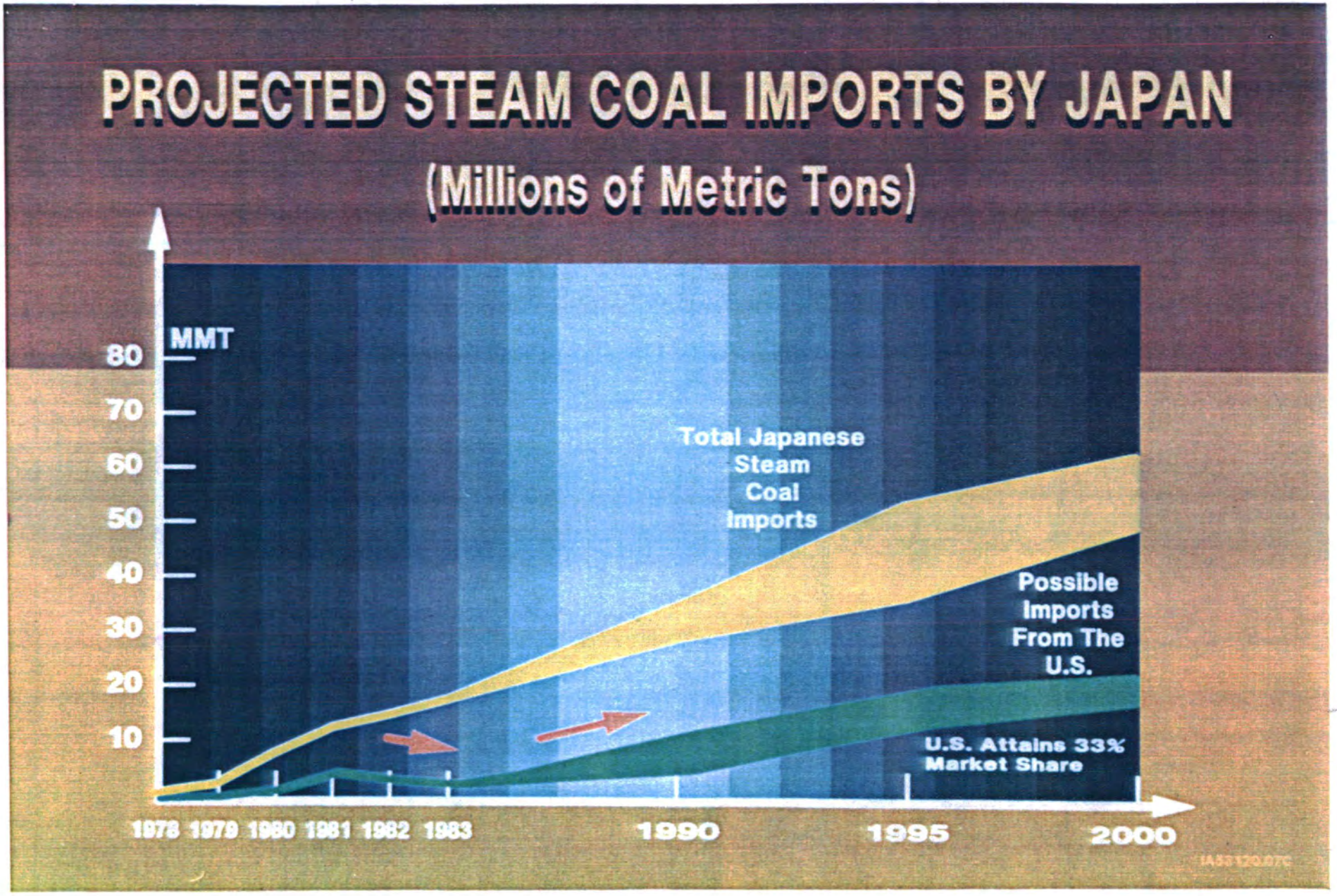
CURRENT COAL SITUATION

- THE U.S. HAS BEEN A MAJOR SUPPLIER OF METALLURGICAL COAL TO JAPAN FOR OVER 30 YEARS--PROVIDING ABOUT ONE-THIRD OF ITS IMPORTS IN RECENT YEARS.

- THE U.S. HAS BEEN DISADVANTAGED BY JAPAN'S POLICY OF SECURING LONG-TERM CONTRACTS WITH U.S. COMPETITORS (AUSTRALIA, CANADA, AND OTHERS) BUT NONE WITH THE U.S.

- THIS POLICY HAS CONTRIBUTED TO A STEEP DECLINE IN U.S. METALLURGICAL COAL SALES TO JAPAN, PERHAPS BY 40-50 PERCENT IN 1983.

- THIS TREND, IF NOT REVERSED, WOULD REDUCE THE U.S. TO A MARGINAL SUPPLIER OF A FEW MILLION TONS, LEAD TO THE LOSS OF UP TO 25,000 JOBS AND OVER $1 BILLION IN CAPITAL INVESTMENTS.


PROJECTED STEAM COAL IMPORTS BY JAPAN
(Millions of Metric Tons)
MMT
80
70
60
50
40
30
20
10
Total Japanese Steam Coal Imports
Possible Imports From The U.S.
U.S. Attains 33% Market Share
1978 1979 1980 1981 1982 1983
1990
1995
2000

COAL OUTLOOK

- In the U.S.-Japan Energy Working Group, the U.S. is seeking both to enhance our historical role as a supplier to the Japanese metallurgical coal market and enlarge our share of the growing steam coal market.

- We have stressed to Japan that U.S. coal supplies are plentiful, secure, and can be competitive under long-term supply agreements.

- Due to reduced forecasts of steel output, Japan's metallurgical coal needs are expected to remain flat throughout the century.

- Japanese steam coal import demand is expected to rise steadily to perhaps 45-60 million metric tons by 2000. This is the big growth area for the U.S. which last year supplied only 1 million metric tons.

- With the competitive advantage offered through long-term contracts, total U.S. coal exports to Japan even in a low economic growth scenario could be in the vicintiy of 35-40 million metric tons by 2000, compared to 21 million metric tons last year.

JAPAN: LNG SUPPLY/DEMAND

(Million Metric Tons)

	1982 Actual	1990 MITI	1995 MITI	2000 (USG Estimate)
DEMAND	17.5	37-39	42-43	45-50*
SUPPLY	17.5	37	37	32
Indonesia	9.1	14	14	14
Brunei	5.2	5.1	5.1	
Abu Dhabi	2.2	2.1	2.1	2.1
Alaska	1.0	1.0	1.0	1.0
Malaysia	–	6.0	6.0	6.0
Australia	–	6.0	6.0	6.0
Canada	–	2.9	2.9	2.9
SUPPLY (SHORTFALL)		0.0-(2.0)	(5)-(6)	(13-18)

* 45mmt assumes same increase in LNG demand in period 1995-2000 as MITI estimates for 1990-1995

50 mmt assumes a growth rate similar to projected GNP growth of 4% - still well below the MITI annual rate of increase in LNG use for 1982-1995

IA53120.05A

GAS OUTLOOK

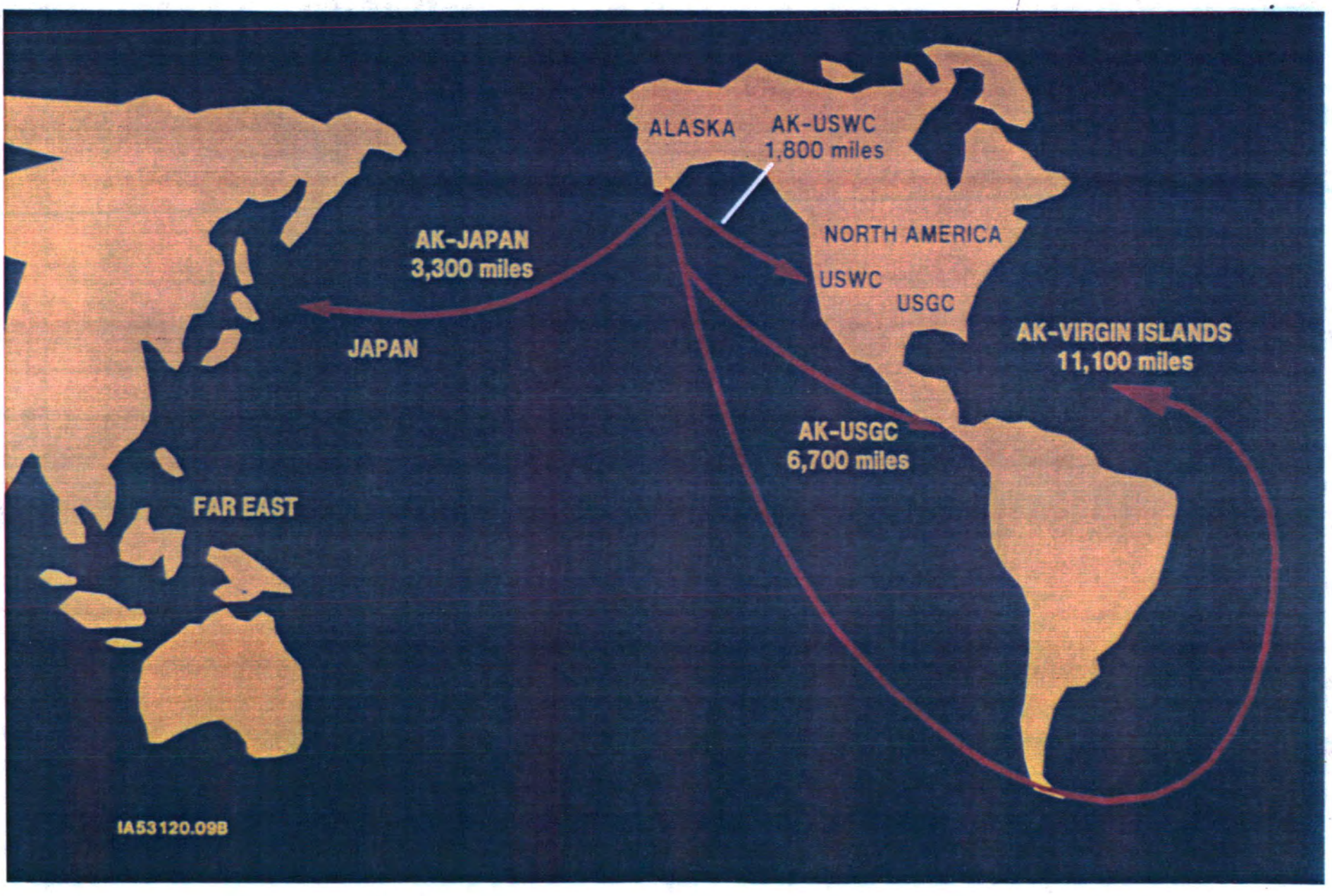
- The U.S. was Japan's first LNG supplier and since 1969 has continued to supply about 1 million metric tons of LNG from the south coast of Alaska.

- Recent forecasts suggest that a potentially large LNG supply gap will exist for Japan in the late 1990's in the range of 13-18 million metric tons per annum by the year 2000.

- A supply gap of this size would provide a market for projects such as the Trans-Alaska Gas System (TAGS) or the Alaska Natural Gas Transportation System (ANGTS). The TAGS project for example is premised on the ultimate marketing of 14.5 million metric tons per year of gas.

- Japanese participation in developing Alaskan gas might allow a combined TAGS/ANGTS type project to proceed earlier than either would alone and thereby accelerate the construction of a pipeline south.

- In addition to Japan, other Pacific Rim gas markets are emerging--in Korea, Singapore and Taiwan.


ALASKA
AK-USWC
1,800 miles
AK-JAPAN
3,300 miles
NORTH AMERICA
USWC
USGC
JAPAN
AK-VIRGIN ISLANDS
11,100 miles
AK-USGC
6,700 miles
FAR EAST
IA53120.09B

OIL OUTLOOK

- THE U.S. COULD DERIVE SUBSTANTIAL NET BENEFITS THROUGH EXPORTS OF ALASKAN OIL TO JAPAN, LARGELY ATTRIBUTABLE TO TRANSPORTATION COST SAVINGS.

- THE POTENTIAL IS THERE. ALASKAN OIL PRODUCTION IS CURRENTLY 1.6 MILLION BARRELS PER DAY, ONE HALF OF WHICH IS SHIPPED TO THE GULF/EAST COASTS, AND IS EXPECTED TO RISE TO 2.0 MILLION BARRELS PER DAY BY 2000.

- THE JAPANESE GOVERNMENT HAS SHOWN A STRONG INTEREST IN DIVERSIFYING OIL SUPPLY SOURCES, AND JAPANESE REFINERS HAVE EXPRESSED AN INTEREST IN INITIAL PURCHASES OF 50,000 BARRELS PER DAY.

- GOVERNOR SHEFFIELD OF ALASKA HAS NOTIFIED THE PRESIDENT THAT IF LEGAL BARRIERS COULD BE RELAXED, ALASKA WOULD BE WILLING TO EXPORT 50,000 BARRELS PER DAY OF STATE ROYALTY OIL TO JAPAN.

BENEFITS OF LIFTING U.S. CRUDE OIL EXPORT CONTROLS

- Savings in U.S. Petroleum Transport and Refining Costs
- Increased Investment in U.S. Oil Exploration and Development
- Increased Value of New Oil Discoveries in Alaska and on West Coast
- Federal and State Revenue Gains
- Possible U.S. Oil Production Increases
- Enhance Energy Security of Key Ally

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COSTS AND BENEFITS OF ALLOWING CRUDE OIL EXPORTS

- THERE ARE NUMEROUS LEGAL BARRIERS TO CRUDE EXPORTS. IF THE CRUDE OIL IS FROM THE NORTH SLOPE, PASSES THROUGH THE TAPS PIPELINE OR CROSSES CERTAIN RIGHTS OF WAY, ITS EXPORT IS VIRTUALLY IMPOSSIBLE WITHOUT POSITIVE CONGRESSIONAL ACTION. THE MOST ONEROUS RESTRICTIONS ARE IN THE EXPORT ADMINISTRATION ACT NOW BEFORE THE CONGRESS FOR RENEWAL.

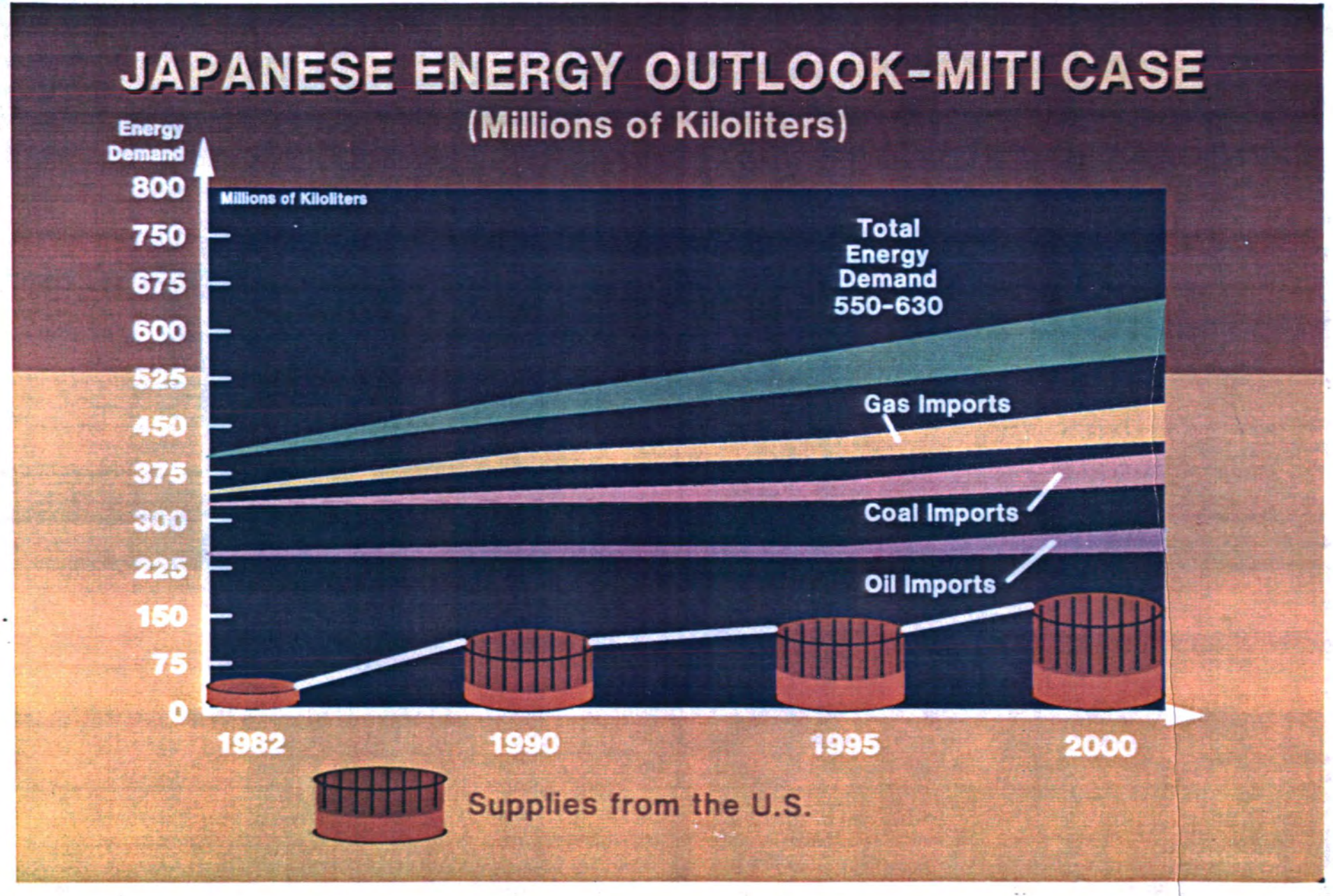
- WE HAVE WEIGHED THE COSTS AND BENEFITS OF REMOVING EXPORT CONTROLS, LOOKING AT OPTIONS RANGING FROM EXPORT ONLY OF OIL FROM NEW DISCOVERIES TO A FULL LIFTING OF THE BAN.

- THERE ARE SOME COSTS TO LIFTING THE BAN, AS THERE ALWAYS ARE WHEN VARIOUS SECTORS OF THE ECONOMY ADJUST TO THE ARTIFICIAL INCENTIVES THAT REGULATIONS IMPOSE.

- THERE WOULD BE SOME IDLING OF TANKERS (SOME USEFUL FOR DEFENSE NEEDS) AND ATTENDANT LOSS OF SOME MARITIME JOBS. HOWEVER, MUCH OF THIS WOULD HAPPEN ANYWAY DUE TO THE COMBINED EFFECTS OF PHASING OUT THE PORT AND TANKER SAFETY ACT AND THE WINDFALL PROFITS ACT AND POSSIBLE RE-ENTRY OF VLCC's INTO THE DOMESTIC ALASKAN TRADE.

- THE BENEFITS OF LIFTING THE BAN ARE SUBSTANTIALLY GREATER THAN THESE COSTS. THE MOST IMMEDIATE AND DIRECT BENEFIT IS THE SAVINGS IN TRANSPORTATION COSTS: THE COST PER BARREL OF SHIPMENT TO THE PACIFIC RIM IS LESS THAN $1.00 WHILE THE COST TO THE GULF COAST IS ABOUT $4.50.

- SUBSTANTIAL ADDED BENEFITS ACCRUE AS THE VALUE OF NEW ALASKAN AND WEST COAST LEASES INCREASES; OIL EXPLORATION AND DEVELOPMENT (AND JOBS IN THAT INDUSTRY) INCREASE; AND FEDERAL AND STATE REVENUES ARE ENHANCED FROM THESE ACTIVITIES. U.S. ENERGY SECURITY WILL IMPROVE AS INCREASES IN DOMESTIC PRODUCTION CAUSE NET IMPORTS TO DROP, AND THE DIVERSIFICATION OF SUPPLIES WILL ENHANCE THE ENERGY SECURITY OF KEY PACIFIC RIM ALLIES.


JAPANESE ENERGY OUTLOOK-MITI CASE
(Millions of Kiloliters)
Energy Demand
800
750
675
600
525
450
375
300
225
150
75
0
Millions of Kiloliters
Total Energy Demand 550-630
Gas Imports
Coal Imports
Oil Imports
1982
1990
1995
2000
Supplies from the U.S.

CONCLUSIONS

- THE U.S.-JAPAN ENERGY WORKING GROUP IS DEVELOPING POLICY RECOMMENDATIONS FOR PRESIDENT REAGAN AND PRIME MINISTER NAKASONE. THE FOLLOWING INITIATIVES ARE UNDER CONSIDERATION:

  -- IN OIL, THE U.S. WILL CONTINUE TO CONSULT WITH THE CONGRESS TO MAKE AVAILABLE A LIMITED SUPPLY OF ALASKAN OIL TO HELP DIVERSIFY JAPAN'S ENERGY SOURCES, (THIS WOULD MINIMIZE THE ADVERSE EFFECTS ON MARITIME INTERESTS AND IMPROVE THE ENVIRONMENT FOR GREATER SALE TO JAPAN OF U.S. COAL AND GAS);

  -- IN GAS, BOTH GOVERNMENTS WILL ENCOURAGE THEIR PRIVATE SECTORS TO UNDERTAKE FEASIBILITY STUDIES OF THE JOINT COMMERCIAL DEVELOPMENT OF ALASKAN GAS;

  -- IN COAL, THE FOLLOWING STEPS ARE ENVISIONED:

    - AN EXPRESSION OF JAPANESE INTENT NOT TO LOWER PURCHASES OF U.S. METALLURGICAL COAL BELOW RECENT LEVELS AND TO CONSIDER FAVORABLY PURCHASES OF U.S. STEAM COAL TO MEET FUTURE DEMAND, IF PRICED COMPETITIVELY. JAPAN WILL ENDEAVOR TO PURCHASE MORE U.S. COAL AS RECOVERY PROCEEDS;

    - ENCOURAGEMENT OF OUR PRIVATE SECTORS TO DISCUSS THE CONCLUSION OF LONG-TERM CONTRACTS AND JOINT DEVELOPMENT OF MINES AND TRANSPORTATION SYSTEMS TO MAKE AMERICAN COAL MORE COMPETITIVE IN JAPAN;

    - ORGANIZATION OF A HIGH-LEVEL JAPANESE COAL TRADE MISSION TO THE U.S. TO EXPLORE PROSPECTS FOR EXPANDED COAL TRADE AND SOLICIT INTEREST IN A JOINT PRIVATE SECTOR STUDY OF REDUCING THE DELIVERED COST OF U.S. COAL TO JAPAN;

    - AN INTENSIVE STUDY BY JAPAN OF THE POSSIBILITY OF INCREASING THE SUBSTITUTION OF COAL FOR OIL IN ELECTRICAL GENERATION.

PREPARED BY

DAVID BURNS - DOS

MARIO CARDULLO - DOE

DENISE DWYER - DOE (COORDINATOR)

WILLIAM MARTIN - NSC

WILLIAM SILVEY - DOE

KAARN WEAVER - DOS

JOSEPH YANCIK - DOC

Alaskan Oil

Nancy in B

Treas / D.C
Quid pro Quo

Congress
Maritime;
won't happen; why use chips?

Stevens / Murkowsky (Alaska Senators)
want to ship / ~~EAA~~ hostage

NSC ~~(i. Navy)~~
- should be able to work deal w Maritime.

DoT, Navy (DoD)

Int'l Energy Sec Group
ad hoc / est by Clark
to rept to
State chair
~~NSC~~ Vice

North Slope Oil

THE WHITE HOUSE

WASHINGTON

January 5, 1988

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER EM

SUBJECT: Agenda and Papers for the January 7 Meeting

The agenda and papers for the January 7 meeting of the Economic Policy Council are attached. The meeting is scheduled for 11:00 a.m. in the Roosevelt Room.

The first agenda item will be a report from the Working Group on Space Commercialization regarding a proposed commercial space initiative. The Council considered this issue at the December 17 meeting. A revised paper outlining the proposals to be reviewed is attached.

The second agenda item will be a proposed Presidential finding to permit the export of natural gas from Alaska's North Slope. A paper outlining this issue and a proposed Presidential finding are attached.

Attachments

ECONOMIC POLICY COUNCIL

January 7, 1988

11:00 a.m.

Roosevelt Room

AGENDA

1. Report of the Working Group on Space Commercialization
2. TAGS

January 7, 1988

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: The Working Group on Space Commercialization

SUBJECT: Commercial Space Initiatives

A quarter of a century ago, U.S. technological leadership in landing a man on the moon and returning him safely to Earth pushed back the frontier of space, providing opportunities for new scientific discoveries and a myriad of commercial activities in Earth's orbits and potentially on the lunar surface as well.

The Administration remains committed to pushing back farther the frontier of space through continued exploration of the solar system. The technology development necessary for future missions will contribute importantly, as it has done in the past, to the U.S. commercial sector's competitiveness in space activities. However, vigorous commercialization of space -- as well as U.S. leadership in space overall -- ultimately will depend upon the United States' ability to assure reliable, low cost, and continual access to space and reduce the cost of space systems and infrastructure. These aims can be accomplished through traditional belief and reliance on the vitality and productivity of the U.S. private sector. In effect, the free enterprise system must be expanded to space.

The Working Group on Space Commercialization has developed an initiative for the Council's consideration. This initiative has three components:

- Building a Solid Talent and Technology Base
- Assuring a Highway to Space
- Promoting a Strong Commercial Presence in Space

I. PROPOSALS TO BE DECIDED

After reviewing several proposals at its meeting December 17, the Council requested the Working Group develop and discuss further the following:

Proposal 1:

The Administration will announce a Federal commitment to the Industrial Space Facility (ISF) developed by the commercial sector. The Federal commitment will include the following:

A. The Federal Government will commit to lease 50 to 70 percent of the facility per year for five years. (Note: ISF has proposed the Government commit to leasing 70 percent of the facility or $140 million for 5 years beginning in 1991. According to ISF, this would cover their debt service.)

B. The Federal lease agreement will begin on the date that NASA has agreed to launch the facility, regardless of whether the launch occurs, contingent upon the facility being otherwise ready for launch on that date.

C. Within thirty days, NASA will negotiate an agreement with ISF regarding launch date and lease terms and forward that plan to the Economic Policy Council.

D. The funding for the commitment to the ISF will be (i) added to NASA's budget or (ii) from within NASA's budget.

E. The launch dates will occur between 1991 and 1993.

NASA will make a "best effort" to service the industrial facility (three times per year) using the Shuttle system. NASA has already agreed to defer payments for these launches until two years after the initial launches.

Because this proposal contemplates a non-competitive bid, an Administration commitment may require separate legislation, which may be desirable given Congressional support for ISF.

The Industrial Space Facility (ISF) is a privately financed, constructed and operated space facility for microgravity research and manufacturing developed over the past five years and currently owned by Space Industries, Inc. and Westinghouse. The Congress included in its Conference Report accompanying the Continuing Resolution language endorsing ISF and directing NASA to "conclude a satisfactory funding arrangement that will lead to a workable leased ISF vehicle in the 1991/1992 time-frame."

-- The ISF partnership has raised $30 million for design and development work. It plans to raise an additional $200 million in equity and $475 million in debt for a facility that would be ready for launch in 1991.

-- NASA has already committed to provide ISF with three launches on the Shuttle to be repaid on a deferred payment basis.

-- If the venture sells no additional space, other than what it proposes to lease to the Federal Government, it stands to lose $400 million (representing equity and operations costs over the first five years.) A paper discussing demand is attached.

This proposed commitment is not intended to diminish the Administration's commitment to the Space Station. The ISF and the Space Shuttle may be complementary:

-- ISF is intended to be operational as early as 1991 and would be automated. The Space Station will be launched post-1995 and will have a permanent manned presence. A manned presence will permit unique kinds of experiments to be conducted.

-- The ISF is intended for industrial purposes -- manufacturing, assembly, power sourcing or storage. The Space Station is intended to be a research facility.

-- ISF, if deployed in the early 1990's, may benefit the Space Station as a test bed. This may provide knowledge that is helpful for the operation of the Space Station.

Advantages

- o ISF lessens the chance of national reliance on a single facility, perhaps analogous to the U.S. decision 15 years ago to rely on the Shuttle as the sole national space transportation system.

- o ISF offers a test case for privatization and automation of space infrastructure, reducing national costs for future space endeavors.

- o ISF would help the U.S. in materials research, an area where the U.S. arguably could be third internationally by the beginning of the next decade.

- o The Treasury Department estimates that the annual cost to the Federal Government of committing to ISF, as proposed above, would amount to less than one-twentieth the annual Federal interest cost of a deployed Space Station.

- o While it is difficult to state a firm demand estimate for ISF before the facility is given the green-light, existing demand estimates are no less firm than what existed in 1983 when the Administration gave a go-ahead to the Space Station.

Disadvantages

- o Any commitment to ISF should be driven by established Federal requirements in the early 1990's. We have not identified requirements, only potential uses.

- o A Federal commitment to a private sector venture should be done through a competetive bid process. There are no alternative private sector proposals similar to ISF outstanding, and it might be preferable to wait for alternatives.

- o A commitment to ISF should be part of an integrated plan for the optimum development and use of the nation's other space infrastructure and launch facilities.

- o ISF will require periodic servicing by the Shuttle.

Proposal 2:

The Administration will establish a new board or advisory group to encourage and coordinate a broader range of opportunities for research in microgravity conditions.

A. The Administration will establish a National Microgravity Research Board through Executive Order. NASA will chair this board which will include senior-level representatives from DOC/NBS, DoT, DoE, DoD, NIH, and NSF. This board will consult with the university and commercial sectors.

OR

B. NASA will establish a senior-level advisory group within NASA with representation from all interested Federal agencies and a cross section of pertinent commercial firms and universities.

This organization will have among its activities the following:

1. Encouraging and facilitating Government leases and subleases of commercial vehicles and facilities, e.g. Spacehab and ISF, with microgravity environments;

2. Developing a central mechanism to facilitate Federal, university, and commercial researchers' access to commercial R&D services, including payload design consulting and launch services;

3. Facilitating through peer review access to limited research opportunities in the Shuttle and Space Station;

4. Examining and recommending proposals for a Federal commercial launch voucher program, enabling Federal agencies to facilitate a broader level of microgravity research in space.

Proposal 3:

NASA, in consultation with OMB, will revise its Guidelines on commercialization of the Space Station to reaffirm, clarify and strengthen its commitment to private sector investment in the Space Station program.

To underscore this commitment, NASA will take steps to provide the greatest possible dissemination of the Guidelines including a Statement in the Commerce Business Daily early in 1988.

The revised Guidelines will include the following elements: (1) a clear statement of policy; (2) criteria for evaluating privatization and commercial proposals; and (3) procedures for submitting and reviewing these proposals. Among the criteria NASA will consider in evaluating proposals are the amount of private sector investment proposed, the degree of risk sharing, cost effectiveness and the proposal's conformity with performance, safety and schedule requirements.

NASA has already solicited and received proposals for commercial involvement in the development of the approved Phase I Space Station. These proposals will be carefully considered in the preliminary requirements review (PRR). NASA will give positive consideration to proposals to accelerate private sector investment in Space Station development and operations in the form of either goods or services not already contracted for. Areas which appear especially suitable for commercialization include:

- Logistics services;
  - -- fluid resupply
  - -- waste disposal
  - -- produce changeout and return
- Logistics vehicles and carriers;
- Payload checkout facilities and services;
- Man-tended free flying laboratories;
- Orbital storage facilities;

- o Co-orbiting experiment and applications platforms;
- o Repair, calibration and test facilities; and/or services.

Where private sector investment capabilities are insufficient, joint Government-industry ventures could also be considered. In all cases, the commercial partner would own all rights to resulting technologies, with royalty-free use by the Government for its own purposes.

Proposal 4:

NASA will seek to rely on private sector design, financing, construction, and operation of future Space Station requirements, including those currently under study.

Proposal 5:

NASA will make expended Shuttle external tanks available to all feasible U.S. private sector endeavors, without necessarily recovering the cost of the tanks, over the next five years, subject to national security, international obligations, and public safety restrictions. NASA will provide any necessary technical or other assistance to these endeavors on a direct cost basis. If private sector demand is sufficient, NASA may auction the external tanks.

Proposal 6:

The Government will foster a more competitive environment in satellite telecommunications by lifting restrictions on separate satellite system access to the "public switch network."

The public switch network (PSN) is essentially the telephone, telegraph, and telex connection network. Current U.S. policy excludes U.S. separate satellite systems and those terminating in the United States from PSN to which INTELSAT has access. Cable networks providing identical services, however, are not excluded. In addition, private satellites that provide primarily U.S. domestic service have been given permission through the INTELSAT consultation process to operate between the United States, Canada, Mexico, and the Caribbean.

Separate international satellite systems cannot have access to or provide their own customers access to INTELSAT's large global customer base. This policy protects INTELSAT's telephone, telegraph, and telex market and severely disadvantages private communication satellite systems, such PanAmSat, which are trying to provide international services. PanAmSat has a service agreement with Peru, and a key obstacle to signing on countries

such as the Dominican Republic is that PanAmSat cannot offer telephone and telex connections to the United States. Other nations have also expressed serious interest in purchasing telecommunications services from PanAmSat if it can provide interconnections to the U.S. PSN.

Presidential Determination 85-2 stating that "separate satellite communications systems are required in the national interest" instructed the Secretaries of State and Commerce to develop the criteria for authorizing such systems. Their letter to the FCC embodies the separate systems policy excluding separate systems from the PSN. The Senate Report on the Foreign Relations Authorization Act for FY 1987 states that the President will review the Determination "from time to time...to ensure an efficient and responsive international telecommunications system." While no Congressional action is needed to alter this policy, a reversal of the position in the letter of November 28, 1984 from the Secretaries of State and Commerce to the FCC would be necessary.

These alterations in domestic policy should not entail any abrogation of U.S. obligations under the INTELSAT treaty.

Advantages

- This would remove the U.S. support for a monopoly position of INTELSAT with respect to the PSN.

- Permitting private separate satellite systems to offer connections to the U.S. telephone and telex network would significantly enhance their ability to convince other nations to use their systems and to end exclusive use of INTELSAT.

- A number of domestic satellite systems compete to provide U.S. service, and this rivalry results in high quality service at low prices. A competitive international system would presumably achieve lower costs and greater efficiency than the current system.

- PanAmSat wants to offer service to Peru and other nations at lower cost than INTELSAT, thereby bringing benefits to developing countries.

Disadvantages

- Predictable hostile foreign reactions to removal of the restrictions are likely to close off any existing opportunities to widen access and will instead diminish space commercialization.

- Abrupt reversal of U.S. policy would make it extremely difficult to obtain favorable action on other satellite

systems as required by international agreement and U.S. law; would put outstanding system at risk; and undermine diplomatic effort to sell policy to other nations.

- o INTELSAT provides one half of DOD's commercial international circuits, and is a primary provider of international services for the Diplomatic Telecommunications System, which carries all USG non-military traffic including State and CIA. For both military and civilian traffic, INTELSAT provides the redundancy necessary to ensure system survivability. Action placing continued viability of INTELSAT in question could be seriously detrimental to national security by threatening global connectivity.

Note: Several agencies and the NSC have national security and trade related concerns regarding changing the Administration's policy at this time. The Senior Interagency Group (SIG) on Communications and Information Policy has on its agend a comprehensive review of the three-year-old restrictions on these international communications satellite systems. It will at the same time consider related questions regarding U.S. policies governing transborder satellite systems, progress in obtaining access overseas for U.S. communications networks (including satellite networks and value added networks), and ongoing discussions with U.S. industry and foreign governments on the future role and structure of INTELSAT.

II. PROPOSALS ALREADY APPROVED BY THE COUNCIL

Proposal 7:

All U.S. Government agencies will procure necessary ELV launch services directly from the private sector to the fullest extent feasible. (Implementing guidance will be contained in the forthcoming NSDD.)

Proposal 8:

The Administration will fund the Pathfinder technology development program beginning in FY 1989.

Project Pathfinder is a research and technology program that will enable a broad range of manned and/or unmanned missions beyond Earth's orbits. The Administration proposed initiating in the FY 1988 a predecessor to Pathfinder: the Civil Space Technology Initiative (CSTI). This initiative is intended to foster development of technologies critical to U.S. missions in the Earth's orbits.

In announcing Pathfinder, the Administration will stipulate a number of commercialization policies to apply to both the Pathfinder and CSTI programs:

- consistent with Administration policies and related statutes, federally funded contractors, universities and Federal labs will own the rights to any patents and technical data including copyrights resulting from this program;

- proposed technologies and patents available for licensing will be housed in a designated Pathfinder library; and

- when contracting for commercial development of technological products, NASA will specify its requirements in a manner that provides contractors with maximum flexibility to pursue innovative and creative approaches.

Project Pathfinder will be organized around four major focuses:

- Exploration Technology, including U.S. capability to develop:

  (a) planetary rover;
  (b) sample acquisition, analysis and preservation;
  (c) surface power; and
  (d) optical communications.

  These technologies would be important to gathering data for robotic and manned missions to the moon, Mars, or other planets.

- Operations Technology, including U.S. capacity to develop:

  (a) autonomous rendezvous and docking;
  (b) resources processing pilot plant;
  (c) in-space assembly and construction;
  (d) cyrogenic fluid depot; and
  (e) space nuclear power.

  These technologies would augment existing U.S. capabilities, while reducing the cost of space infrastructure and operations for Earth orbit missions or the robotic and manned exploration of the Solar System.

- Humans-in-Space Technology, including:

  (a) extra-vehicular activity;
  (b) human performance; and
  (c) closed-loop life support.

  These technologies would provide essential engineering systems to enable effective performance and good health during long-duration missions.

- Transfer Vehicle Technology, including:

  (a) chemical transfer propulsion;
  (b) cargo vehicle propulsion;
  (c) high-energy aerobraking;
  (d) autonomous lander systems; and
  (e) fault-tolerant systems.

  These technologies would provide critical logistics capability, while reducing the cost and risk for advanced transportation systems essential for a range of missions including Earth-orbiting science and the robotic and manned exploration of the Solar System.

Proposal 9:

NASA will expand its two week workshop program for high school science and math teachers to include junior high and elementary teachers. This will provide competitive opportunities for teachers to visit NASA field centers and selected aerospace industrial and university facilities.

Proposal 10:

NASA, NSF, and DoD will contribute materials and classroom experiments for coordination and distribution by the Department of Education to requesting schools for use in school development of "tech shop" programs and courses. NASA's Office of Commercial Space Programs will encourage corporate cost sharing of this program.

Proposal 11:

As part of a possible Education Initiative, Federal agencies will encourage employees, including scientists, engineers, and technicians in aerospace and space related fields to take a sabbatical year to teach in any level of education in the United States under the Program.

Proposal 12:

The Administration will consult with the commercial sector on the construction of commercial launch facilities separate from facilities owned by the DoD and NASA, and the potential use of such facilities by the Federal Government. The Department of Justice would provide guidance exempting such firms from antitrust liability.

NASA and DoT will explore the possibility of providing a one time launch voucher that can be used to purchase private sector launches by requesting owners of secondary payloads that have a current agreement for a Shuttle launch. The voucher cannot be applied to payloads requiring the unique capabilities of the man-rated Shuttle.

Proposal 14:

The Administration will also take administrative actions and offer statutory proposals to address the insurance concerns of the commercial launch industry.

A. Third-party Liability: Consistent with Administration tort policy, the Administration will propose a cap of $200,000 on non-economic damage awards to third parties (i.e. for punitive and pain and suffering) resulting from commercial launch accidents.

B. Government Property Damage Liability: The liability of commercial launch operators for damage to Government property arising from a launch accident shall be limited to the level of insurance required by DoT pursuant to the Commercial Space Launch Act. Above this level, the Government will waive its right to recover for damage to Government property. Below this level, the Government shall waive its right to recover for damage to Government property where such damage is caused by the willful misconduct or reckless disregard by the Government.

Proposal 15:

The Administration will announce a Federal commitment to a commercially developed, owned, and managed pressurized Shuttle middeck module: Spacehab. The Federal commitment will include the following:

A. A "best effort" to manifest the modules on the Shuttle up to three times per year, depending upon customer demand for Spacehab.

B. A NASA commitment to lease part or all of the Spacehab facility primarily to work off its backlog of secondary R&D payloads.

Spacehab modules are pressurized metal cylinders that fit in the Shuttle payload and connect to the crew compartment through the orbiter airlock. These modules take up approximately two tenths of the payload bay and increase the pressurized living and working space of orbiters by approximately 1,000 cubic feet. The area of the Shuttle where Spacehab fits is ideal for microgravity research. In addition, the modules can serve as additional

habitation for crew and specialists. The facility is intended to be ready in mid-1991.

FURTHER WORK

Infrastructure Financing: In addition, the forthcoming NSDD commissions a study to explore the means whereby the nation's private capital resources can be enlisted in order to support the space goals that lend substance and credibility to (continuing) United States space leadership.

Moon Base: The Working Group will be working over the coming months to assess the feasibility of a lunar base developed and managed by the private sector.

Attachment

POTENTIAL AGENCY DEMAND FOR THE ISF

NASA.--In response to a Congressional request for a report by December 31, NASA has undertaken a "bottoms-up" review of its potential requirements for ISF. NASA believes that it has no requirement for ISF, but if it were available, NASA would make use of the facility. The NASA review indicated 14 planned experiments in materials, life sciences and advanced technology that could be conducted on ISF, 16 candidate experiments from JEA's and CCDS, and an undefined number of experiments in support of Space Station operations. Some of these experiments are currently planned for Space Station and have limited funding.

The NASA assessment generally reflects the results of previous studies conducted within NASA. However, the assessment may not fully reflect all of the possible proposals under review in a consultant study for the NASA Office of Commercial Programs by Teledyne Brown Engineering. This study will be completed in January 1988.

DOD.--In a letter of December 9, 1987 to Representative Aspen, Assistant Secretary Welch indicated that 5 of 100 experiments under consideration in the Space Test Program (STP) could directly benefit from ISF. None are currently funded. The Strategic Defense Initiative Office (SDIO) informally advised OMB that it would be interested in sponsoring 3-4 experiments per year on ISF.

NSF.--NSF informally indicated that they have no specific current plans for the use of the ISF. NSF has received interest from academic researchers for materials science research, biological research, and earth observations that would benefit from an ISF-type space facility, depending on the cost of such a facility.

DOE.--Six DOE National laboratories indicated a total of 27 proposed experiments that could be placed on ISF, 3 of which are classified. None of the 27 experiments are currently funded, but all 27 are within approved DOE programs and could compete for future funding in their respective program areas.

Commerce.--The National Bureau of Standards (NBS) indicated an interest in 7 proposed materials processing experiments and 4 proposed experiments to test theories about various processes. In addition, Commerce has received expressions of interest from six companies in sponsoring experiments on the ISF. The extent

of interest is not known, and there are no firm commitments. The six companies are:

-- Microgravity Research Associates, Inc.;
-- International Space Corporation;
-- Instrumentation Technology Association, Inc.;
-- 3M Corporation;
-- McDonnell Douglas Astronautics Company;
-- Boeing Aerospace Company; and
-- Payload Systems, Inc.

International Competition.--The ISF could play a major role in allowing U.S. researchers and industry to remain competitive with both our allies and with the Soviet Union in the ten years prior to the availability of the U.S. Space Station. The Europeans have set aside 30% of the 1991 Spacelab D-2 mission for commercial research. The Japanese are developing, with commercial investment, their own free-flyer platform which will be launched by either the unmanned H-2 launch vehicle or by the Space Shuttle. The Chinese have announced their own 22-ton space station, which is planned to be in orbit by 1998. The Soviets are planning to deploy a man-tended module similar to the ISF, in addition, of course, to their current operational status of two space stations.

July 19, 1987

[redacted]

FOR: THE ECONOMIC POLICY COUNCIL

ISSUE: Should the President issue a finding which would permit the export of North Slope Alaskan natural gas.

SUMMARY

Section 12 of the Alaska Natural Gas Transportation Act (ANGTA) provides that before North Slope Alaskan natural gas can be exported to nations other than Canada or Mexico, the President must find that such exports will not diminish the total quantity or quality nor increase the total price of energy available to the United States.

The 1983 Reagan-Nakasone Joint Policy Statement encouraged a pre-feasibility study by Japan and U.S. firms on the joint development of North Slope gas. The pre-feasibility study has been completed. The Trans-Alaska Gas System (TAGS), a private sector project based on that pre-feasibility study, is now being proposed to export North Slope gas to Japan, Taiwan and Korea. The TAGS sponsor is requesting a Presidential finding.

An analysis of world oil and gas markets shows that the export of Alaskan North Slope gas would not diminish the quantity or quality nor increase the price of energy available to the United States primarily because adequate supplies of natural gas are potentially available in the lower 48 states, Canada, and Mexico at a lower delivered cost.

Issuance of a Presidential finding is consistent with the Administration's policy of removing regulatory impediments to allow the full utilization of our domestic energy resources.

A finding might hamper current efforts to negotiate a U.S.-Canadian free trade agreement and might invite a legislative override by members of Congress who oppose exporting U.S. energy resources. A finding would also generate opposition and litigation from sponsors of the Alaska Natural Gas Transportation System (ANGTS), a competing pipeline proposal, dormant since 1982, designed to bring North Slope and Canadian gas to the lower 48 states through an overland pipeline in Alaska and Canada.

BACKGROUND

Since the initial discovery in 1968 of large natural gas reserves in the Prudhoe Bay region of Alaska's North Slope, numerous proposals have been made to develop those reserves and transport them to markets.

In 1976, Congress passed the ANGTA authorizing the President to select from among competing proposals that pipeline system which would transport North Slope gas to the lower 48 states and become the ANGTS.

A U.S. - Canada agreement on principles relating to the transportation of North Slope gas was signed in 1977.

President Carter selected the pipeline project now known as ANGTS, consisting of an overland pipeline from Prudhoe Bay through Fairbanks and south through Canada, splitting into eastern and western legs to serve the Lower-48. Construction of the second leg was completed in 1982 and Canadian gas is now flowing through both legs to the U.S.

Approval for the "prebuild" portion of ANGTS was a matter of intense political controversy in Canada during the late 1970s. However, the Federal Energy Regulatory Commission (FERC) provided special regulatory treatment to the "prebuild" which ensured the recovery of "prebuild" costs. The FERC has also exempted the "prebuild" from certain regulations that might have jeopardized recovery of "prebuild" costs.

In 1981, President Reagan sent to Congress a proposal to waive certain laws (the "waiver package") to allow gas producers to participate in the project and to facilitate private sector financing. The U.S. House of Representatives and the U.S. Senate approved the waivers of law requested by the President.

Further work on the ANGTS project was suspended by the project sponsors in 1982 because the high cost of completing the project to carry North Slope gas would make the gas unmarketable. The project sponsors argue that ANGTS will become economical in the future, and that construction on the uncompleted portion will resume at that time.

The ANGTS sponsors have incurred substantial expenses in engineering and other pre-construction project costs that cannot be recovered unless the remaining segment of ANGTS is completed. Although completion of ANGTS is uncertain, the opportunity to recover sunk costs on the remaining segment is foreclosed if a more economic project to market North Slope gas is implemented.

In November, 1983, the President and Prime Minister Nakasone issued a Joint Policy Statement on Japan-U.S. Energy Cooperation. With respect to natural gas, the Statement provided that

> The U.S. and Japan will encourage private industry in both countries to undertake now the pre-feasibility or feasibility studies necessary to determine the extent to which Alaskan natural gas can be jointly developed by U.S. and Japanese interests.

Subsequently, a joint pre-feasibility study was undertaken by ARCO, Japan, and Yukon Pacific for an Alaska Asian Gas System (AAGS) to export North Slope natural gas to Japan. The study assumed an 800 mile pipeline to transport the gas to a port facility where it would be liquefied and shipped via tanker to buyers. The AAGS pre-feasibility study was completed June 1, 1987.

Yukon Pacific Corporation was formed in 1983 to finance and build the TAGS project. (Yukon Pacific does not own North Slope Alaskan gas.)

The TAGS project consists of the 800 mile pipeline and liquefaction facilities examined in the AAGS study project. TAGS will require numerous permits and authorizations at the Federal level, including a Presidential finding under section 12 of ANGTA. The relevant portion of section 12 provides that

> ...before any Alaska natural gas in excess of 1,000 Mcf per day may be exported to any nation other than Canada or Mexico, the President must make and publish an express finding that such exports will not diminish the total quantity or quality nor increase the total price of energy available to the United States.

Yukon Pacific estimates the TAGS project (pipeline, liquefaction plant and conditioning plant on the North Slope) will cost $8.6 billion. The TAGS sponsors forsee a market of 3 to 3.5 million tons of liquefied natural gas (LNG) demand in Japan by the year 1995. Yukon Pacific states that an additional 3.5 to 4 million tons LNG demand from Korea and Taiwan in the same time frame would be needed to establish the project's economic feasibility.

Yukon Pacific is applying for the necessary U.S. Government authorizations and approvals. In addition to the section 12 finding, these include

- Export authorization from the DOE's Economic Regulatory Administration under section 3 of the Natural Gas Act;

- o Right-of-way grant from the DOI's Bureau of Land Management under section 28 of Mineral Leasing Act of 1920;

- o Export exemption from the Department of Commerce under section 103 of the Energy Policy and Conservation Act;

- o Federal Energy Regulatory Commission "place of export" approval under section 3 of the Natural Gas Act; and

- o Wetland permit from the U.S. Army Corps of Engineers under section 404 of the Clean Water Act.

The TAGS project appears to pose no unusual substantive problems in securing these necessary approvals, but litigation may be expected.

The only concrete project other than TAGS which proposes to get North Slope gas to a market is the ANGTS project, which would move the gas across Canada and into markets in the U.S. The ANGTS project could not recover construction costs in the current competitive gas market. One impediment to export projects is the requirement for a Presidential finding under section 12 of ANGTA. A generic section 12 finding by the President would open the possibility that North Slope gas can be produced for export, while not foreclosing the possibility of production for domestic consumption.

JUSTIFICATION FOR A PRESIDENTIAL SECTION 12 FINDING

Analysis shows that the President has the flexibility to make a finding which satisfies the three criteria specified in section 12 of ANGTA:

Quantity of energy available to the U.S. If North Slope gas is produced, that gas will increase energy available to the United States. This is true whether the gas is exported or consumed domestically. The production of North Slope gas increases the supplies of gas available worldwide. Since gas is traded in international markets, an increase in the availability of gas anywhere increases the available supply to all importing countries. Assuming no barriers to free trade, the gas will move to its most efficient and economic use. If, for example, North Slope gas were exported to the Pacific Rim, gas from Canada, Mexico, Indonesia and other sources that would otherwise have gone to the Pacific Rim market would become potentially available for transport to the United States.

In addition the Energy Security study and other analyses show that, even without North Slope gas, adequate gas supplies exist to meet projected U.S. natural gas demand for the forseeable future. These supplies include lower-48 gas production and Canadian gas. If demand were higher than currently projected, additional gas supplies are potentially available from Canada, Mexico and unconventional gas supplies, including deep gas in the lower-48.

Quality of energy available to the U.S. Natural gas is a high quality, uniform product. Unlike crude oil, there is little quality difference among lower-48, North Slope, Canadian, Mexican, or other forms of natural gas. Export or domestic use of North Slope gas would likely have no effect on the quality of energy available in the U.S. Quality of energy can also refer to the security of supply of the energy. Production of North Slope gas increases the world's availability of a secure energy source that will likely displace less secure energy, including oil in the Persian Gulf. By increasing the likelihood of production of North Slope gas, a Presidential finding increases the security of supply of energy to the U.S. and our allies, regardless of whether the gas is exported or consumed in the U.S.

Price of energy available to the U.S. Natural gas and other energy prices in the United States are determined primarily by the world oil price and by the cost of production of domestic energy sources. Future oil prices depend largely on OPEC behavior which depends to a large extent on the market for OPEC crude oil. Lower future oil demand would likely result in a lower future oil price.

A generic or blanket section 12 finding would increase the probability that North Slope gas will get to world gas markets. By increasing world availability of natural gas, which is the closest substitute for crude oil, there will be less demand for crude oil and lower world oil prices. Lower world oil prices will reduce energy prices in the U.S. This likely consequence of producing North Slope natural gas is true, to the same extent, whether or not the North Slope gas is exported to the Pacific Rim or consumed in the U.S.

DISCUSSION

The TAGS project proposal is derived in part from the 1983 U.S. - Japanese Government encouragement of private industry to determine the extent to which Alaskan natural gas can be jointly developed by U.S. and Japanese interests.

TAGS project supporters include Yukon Pacific (the sponsor), and

the Governor and the entire Congressional delegation of Alaska. Alaska's primary interest is the timely development of North Slope natural gas reserves.

ANGTS project sponsors have stated that approval of the TAGS project would violate U.S. commitments to ANGTS. It has been suggested that North Slope gas reserves are insufficient to support both projects. Proved reserves are believed to be in the range of 26-31 Tcf. Reserves of 31 Tcf could probably support both projects assuming 20 year project lives. Lesser reserves or longer project lives could raise the sufficiency question, but actual North Slope gas resources may exceed the estimated "proved reserves" figure. The U.S. Geological Survey estimated that there is more than 100 Tcf in undiscovered recoverable natural gas in Alaska. This raises the possibility that vast quantities of North Slope gas could remain undeveloped if they are accessible only by the ANGTS project. It is likely that suits will be brought by ANGTS sponsors.

THE CANADIAN GOVERNMENT has expressed concern that the U.S. respect its previous agreements on ANGTS. The "prebuild" portion has been promised special regulatory treatment on the recovery of prebuild costs and is currently being used to transport Canadian gas to the lower 48 states. DOE and others have gone on record that U.S. commitments to ANGTS have been fulfilled, but formal reassurances can be made to Canada that a Presidential finding will not change the minimum revenue guarantees and special regulatory treatment of the "prebuild", even if ANGTS is never completed. Canada desires consultations before any authorizations are granted that would affect North Slope gas.

THE JAPANESE GOVERNMENT, in a press statement accompanying the release of the pre-feasibility study, indicated they are more interested in importing Alaskan oil, but they have not rejected the possibility of importing Alaskan LNG. However, it is up to the U.S. private sector to find additional demand outside Japan to support the project as originally conceived or to develop an alternative project configuration. Japan is also continuing discussions with other countries for LNG imports. In June 1987, Japan reopened longstanding discussions with the Soviets on a Sakhalin Island oil and gas project. We have repeatedly urged the Japanese not to commit to Sakhalin gas until they have fully evaluated the alternative of supplies from Alaska. The first phase of the TAGS project would be comparable in size to, and thus a possible substitute for, the Sakhalin gas project. Any sign of Administration reluctance to permit North Slope exports could be seized on by the Japanese as a reason for proceeding with the Sakhalin project.

CONGRESSIONAL CONCERNS. Although the Alaskan Congressional delegation supports the TAGS project, some members of Congress may view the export of North Slope gas unfavorably on the grounds that (1) U.S. consumers may need that gas at some point in the future; (2) we should not be exporting U.S. energy if our domestic needs require the development of the Arctic National Wildlife Refuge (ANWR); and (3) an adverse reaction from Canada could burden our ongoing trade negotiations. Congress may attempt to override the finding as the House sought to do in H.R. 3, which if adopted would override a recent Presidential decision allowing export of Cook Inlet oil.

The following considerations also bear on a Presidential finding:

- The U.S. Government has committed itself to the expeditious completion of the ANGTS project (by facilitating private sector initiatives) and to the economic viability of the "prebuild". These commitments do not exclude the eventual development of North Slope gas via an alternative project. While it is arguable whether the U.S. has under ANGTA an implementing agreement with any legal obligation to consult, given our 10 years of close cooperation on the issue, consultation prior to a U.S. decision potentially affecting ANGTS is essential. Failure to consult in advance would impact adversely other important aspects of U.S.-Canadian relations, particularly the FTA negotiations.

- The State Department had made an offer of consultation with Canada on this issue, but received no response. The offer was renewed on July 15 by the Departments of State and Energy in a meeting with Mitchell Sharp. The EPC should consider the issues and options raised in this memorandum but should await the conclusions of consultations with Canada before proceeding with a finding. These consultations, however, should not become a basis for delaying the project.

- While many considerations bear on the successful negotiation of an export arrangement, a section 12 finding would facilitate that process. Natural gas exports to Japan, Korea, and Taiwan would ultimately have a beneficial effect on the U.S. balance of trade with Pacific Rim countries.

- A section 12 finding would be a tangible action to show our continuing commitment to the gas export issue. Such action would also be consistent with current legislative efforts to remove regulatory impediments and trade barriers, and would require no separate legislative effort.

DRAFT

PRESIDENTIAL FINDING CONCERNING ALASKA NATURAL GAS

My Administration has been dedicated to encouraging free trade and to removing regulatory impediments that inhibit the development of our Nation's natural resources. Proven natural gas reserves in the Prudhoe Bay area of Alaska's North Slope represent approximately 15% of total U.S. gas reserves. In addition, undiscovered, recoverable supplies of natural gas from Alaska's North Slope may exceed 100 trillion cubic feet. There can be no doubt the development of Alaskan oil has played an important role in ensuring adequate energy supplies at reasonable prices for American consumers. I believe efficient development of Alaska natural gas will provide similar benefits. Leaving this resource undeveloped benefits no one.

Efficient development of Alaska natural gas on the basis of market financing could encompass the export of some of this gas to other countries. Because world energy markets are interrelated, our nation will benefit from an enlarged international gas supply. Production of Alaska reserves will increase the amount of secure energy sources available at market prices and, thus, displace less secure or more expensive energy sources, including oil from the Persian Gulf.

Before Alaska natural gas can be exported to nations other than Canada or Mexico, Section 12 of the Alaska Natural Gas Transportation Act requires me to find exportation "will not diminish the total quantity or quality nor increase the total price of energy available to the United States." In order to make this finding, it has been necessary to assess the relationship of Alaska natural gas to the United States energy market.

There exist adequate, secure, reasonably-priced supplies of natural gas to meet the demand of American consumers for the foreseeable future. This demand can be met by lower-48 production and already-approved Canadian imports. If necessary, this demand also can be met at lower delivered energy cost by coal, oil, imported LNG, natural gas from Mexico, and other energy sources.

Given these facts, exports of Alaska natural gas would represent a judgment by the market that the energy demands of American consumers can be met adequately from other sources at comparable or lower prices. Exports of Alaska natural gas would not diminish the total quantity or quality of energy available to U.S. consumers because world energy resources would be increased and other more efficient supplies would thus be available. Finally, exports would not increase the price of energy available to consumers since increased availability of secure energy sources tends to stabilize or lower energy prices.

Accordingly, I find that exports of Alaska natural gas in quantities in excess of 1,000 Mcf per day will not diminish the total quantity or quality nor increase the total price of energy available to the United States.

DRAFT

This finding removes the Section 12 regulatory impediment to Alaskan natural gas exports in a manner that allows any private party to develop this resource and sets up competition for this purpose. It is my belief that removal of this impediment to private sector development of Alaska's vast natural gas resources, using private sector resources with no government subsidy, will benefit our entire nation.

This finding represents a determination that the effects of exports of Alaska natural gas on American consumers would comply with the market criteria of Section 12 in the context of current and projected future energy markets and that such exports would be consistent with our comprehensive energy policy. It does not assess the merits or feasibility of a particular project, but rather lets the marketplace undertake a realistic consideration of various options concerning Alaska natural gas. The operation of market forces is the best guarantee that Alaska natural gas will be developed efficiently and that there is an incentive to find additional reserves.

I do not believe this finding should hinder completion of the Alaska Natural Gas Transportation System. My Administration supports the timely, economic development of Alaskan natural resources. To this end my Administration has removed all regulatory barriers to the private sector's expeditious completion of this project. In particular, I want to reaffirm our support for the special regulatory treatment of the "prebuild" portion of ANGTS, including the minimum revenue stream guarantees.

5/

THE WHITE HOUSE

WASHINGTON

October 20, 1983

MEMORANDUM FOR: JACK SVAHN

FROM: WENDELL W. GUNN

SUBJECT: Statutory and Regulatory Background on Export of Alaskan Oil

There are several statutory provisions which may restrict the exportation of Alaskan crude oil, depending on the origin of the oil and whether it is transported by pipeline over certain Federal rights-of-way:

1. Section 7(d) of the Export Administration Act, as amended by the Trans-Alaska Pipeline Authorization Act, essentially forbids the export of Alaskan North Slope (ANS) crude oil transported through the Tran-Alaskan Pipeline unless the President finds that within three months an equal amount of imports received in exchange for the ANS oil will lower U.S. refiner acquisition costs, and 75 percent of those savings will be reflected in wholesale and retail prices of the resulting products. Also, the statute ways that the President must report his findings to the Congress, and within 60 days Congress must pass a concurrent resolution of approval.

2. Section 203(c) of the TAP Act has effect of making Section 28(u) of the Mineral Lands Leasing Act (MLLA) applicable to ANS oil, subjecting it to the EAA's requirements and necessitating a Presidential finding that the exports will not diminish the total quantity or quality of oil available to the U.S. and are in the national interest. The statute provides that the President must report his findings to Congress; if within 60 days Congress passes a concurrent resolution of disapproval, further exports are prohibited.

3. Section 103(b) of the Energy Policy and Conservation Act (EPCA), requires the President to promulgate an export control regulation, under which he may permit crude oil exports if he determines that such exports are consistent with the national interest and with the purposes of the EPCA.

4. Finally, under the Outer Continental Shelf Lands Act (OCS) any oil produced from the OCS may be exported only on the basis of a published Presidential finding that such exports will not increase reliance on imported oil or gas, are in the national interest, and are in accord with the EAA.

The first two of these provisions involve Congressional approval or veto provisions which are affected by the Supreme Court's recent decision in INS v. Chadha holding unconstitutional a one-House veto. This and all other statutes affected by Chadha are being reviewed by the Justice Department, and at this point, it is not clear that Chadha has had any favorable effect on permitting exports of Alaskan oil.

In addition to these statutory provisions, the Commerce Department has adopted "Short Supply Control" regulations under the EAA. These regulations impose stricts limits on the export of any crude oil, but the EAA allows them to be amended without following the procedures prescribed in the Administrative Procedure Act.

cc: Porter

THE WHITE HOUSE

WASHINGTON

October 17, 1983

MEMORANDUM FOR WENDELL W. GUNN

FROM: ROGER B. PORTER RBP

SUBJECT: Selling Alaskan Oil to Japan

The subject of selling Alaskan oil to Japan, as you know, has surfaced once again. At this morning's executive secretaries meeting it was agreed that we needed a clear and precise answer to the question of what legislative changes are necessary in order to sell Alaskan oil to Japan.

Some thought that it would require a change in the Export Administration Act; others that it would require changes in other statutes also.

I would appreciate if you would prepare a brief paper outlining the specific legislative changes required for such sales by close of business on Tuesday, October 18.

Thank you very much.

cc: Jack A. Svahn

February 16, 1984

MEMORANDUM FOR DAVID PLATT

FROM: ELAINE L. CHAO

SUBJECT: Export Of Alaskan oil

This memo responds to your question on which maritime unions support Senator Frank Murkowski's bill to allow the export of Alaskan oil.

As far as I know, no maritime union supports this bill. And, I would have to add that this kind of consensus within the maritime industry is very rare. Messrs. Jesse Calhoon of MEBA I, Frank Drozak of SUI, and Ray McKay of MEBA II, all oppose any compromise on the issue of export of Alaskan oil.

The major reasons for their position are the following:

1. Even though Senator Murkowski's bill would only allow export of 200,000 barrels a day, the union leaders fear that any allowance would set a precedent which would contribute to the eventual repeal of the Jones Act.

   The Jones Act is the life-line of the American merchant fleet which cannot compete internationally without government subsidies. The Jones Act reserves all intercoastal and domestic trade for the U.S. ships. The only domestic trade route to speak of is the Alaskan oil.

2. Although Senator Murkowski's bill would allow the export oil to be carried on U.S. bottoms, the resultant change in trade pattern would affect the types of ships utilized and the number of seamen employed.

   Currently, Alaskan oil is transported down the west coast of the U.S. A portion goes into Californian refineries on Very Large Crude Carriers (VLCC); the remainder goes through the Panama Canal on Panamax vessels and gets transshipped on 20,000 to 40,000 ships for the trip up to the Gulf and East Coast. This process uses three different types of ships.

   If Alaskan oil were exported to Japan, the Alaska to Japan trip is shorter, and only VLCC's would be utilized. Crew sizes on these VLCC is smaller and thus seagoing employment would be adversely affected.

This memo covers only the union reaction. You may know that the majority of the unsubsidized U.S. ship operators are against this bill also.

Sen EAA S979

AFL-CIO agnr any export

AMOB

F&B - precedent
- 1st ~~door~~ foot in door

Longsh. US Flag
- shorter trips

Ladies - larger vsls
- VLCC

NMU smaller tankers - militarily useful.

MEBA I Murko removed sec B of
- Congress out of Sec. 7?

SIU joint

Auto- Pres.

Steel - eliminate protecting Consumer interest - lower consumer

Congress

joint ME

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With Stage Set for Export Act Vote, Calhoon, Leff Say Don't Change Script

A proposal for "limited" Alaskan oil exports makes provisions for U.S.-flag ships, but still misses the boat, according to American maritime leaders.

"Now is not the moment to reverse ten years' prudent policy," NMEBA President Jesse Calhoon wrote to every U.S. Senator last week. He and JMC Executive Director David Leff urged their support for the venerable Alaskan oil export restrictions embodied in the Export Administration Act, and asked them to oppose firmly *any* attempts to dilute the tough requirements. One such attempt will be an amendment by Sen. Frank Murkowski (R-AK) to allow 200,000 barrels a day to be carried to Japan on U.S.-flag tankers. The Alaskan has promised to raise this issue when the Senate begins consideration of the EAA (soon after Congress's February recess), but the many Senate supporters of the original law must stand firm, Mr. Leff said.

> *"We cannot be fooled by the suggestions for 'limited' exports. The truth is that these proposals are really designed to facilitate eventually the export of unlimited amounts of Alaskan oil."*

He and Mr. Calhoon pointed out that the Federal government would gain very little from small-scale sales because most of the export supply would be royalty oil, not

Original Cunard Bill Bites Dust on House Floor

(Tuesday, February 7th) Cunard Bill, Sr., passed away today on the floor of the House after a lengthy illness on the private calendar. The death was not unexpected, but backers of the Jones Act violation had apparently hoped that they could pull H.R. 2883 through the House without dissent to avoid a fight over Cunard, Jr. -- public bill H.R. 4333. (See *Washington Letter,* February 6, 1984.) Pronouncing final rites was dissenter Rep. Rick Boucher (D-VA). Under House rules, opposition by one member sends a private bill back to committee.

4th Arm of Defense Gets Back of Hand at Budget Time -- *see inside*

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subject to Federal taxation. If the Treasury would gain little, America's military and economic security would gain nothing -- in fact, even a limited arrangement could do great harm to our national stability, the leaders wrote. Said Mr. Leff:

> *"The requirement to keep domestic oil in this country is not new and the need to maintain a secure source of oil has not changed. Indeed most experts believe that it is even more important today than ever before. Iran's attacks and military maneuvers in the Persian Gulf area that is crucial to the production and distribution of much of the world's oil supply make stronger the argument that America needs a reliable source of oil not subject to international tensions and disruptions."*

In his letter, too, Mr. Calhoon emphasized that his steadfast opposition to oil exports was not negotiable. The wide range of dangers long associated with the sale of Alaskan oil unfortunately would be present under *any* sort of scenario, regardless of the number of barrels in question.

> *"THERE WILL BE PROPOSALS FOR "COMPROMISES" ON THE ALASKAN EXPORT ISSUE....* WE FIRMLY AND UNEQUIVOCALLY OPPOSE ALL OF THESE SO-CALLED COMPROMISES. *THEY OFFER FEW OF THE ALLEGED BENEFITS OF UNRESTRICTED EXPORTS YET CONTAIN MOST OF THE LIABILITIES. THEY WOULD REQUIRE A COMPLEX REGULATORY BUREAUCRACY TO ADMINISTER.*
>
> *"AND, MOST IMPORTANT OF ALL, THESE 'LIMITED' EXPORTS ARE JUST A FOOT-IN-THE-DOOR, A SMOKESCREEN CRAFTED WITH THE GOAL OF* UNLIMITED *EXPORTS IN MIND...."*

Members of the Senate had hoped to take up the multi-faceted Export Administration Act bill (S. 979) before they adjourned Thursday for a mid-month recess. But consideration had to be put off until the Congress reconvenes on February 20th. The current extension of the EAA expires on February 29th: the Senators hope to agree on a comprehensive export policy package that can be reconciled with the House-passed version of the EAA before the end of the month.

Reagan Chiefs See Ships as Key, But Offer Budgets that are Wee

MarAd: DEJA VU?

(Wednesday, February 8th) Just in case you forgot, the Merchant Marine and Fisheries Committee has been unable to enact a maritime authorization bill for the past three years. When the Subcommittee on Merchant Marine met today to receive testimony on H.R. 4706, the FY '85 MarAd Authorization bill, it was clear that the ridicule over their inability burned anew in most member's minds. However, many wonder whether the traditional February determination for a clean bill will give way to a Christmas tree of amendments in the spring.

Leadoff witness MarAd Administrator Harold Shear gave little more than a blithe recitation of the budget figures proposed by the Administration. (See *Washington Letter*, February 6, 1984.) It was little more than "what you see is what you get." However, the Admiral did point out that the Administration is foursquare in back of build abroad legislation; but he could offer few specifics when it came to any other MarAd initiatives.

MSC Commander Admiral Rowden was far from bullish about the ability of the U.S.-flag fleet to respond in the event of an armed conflict.

He cited a recent DOD examination of sealift capability needed to support the forward deployment of U.S. forces. The study concluded that we only have a "marginal" capability. The Commander also noted that the Ready Reserve Force has grown partly due to U.S.-flag shortfalls. That merchant deficiency is "further sharpened [since] the DOD examination of contingency plan sealift did not make allowance for economic shipping required to sustain our country in wartime."

A representative from the Council of American Flag Ship Operators took a different approach, looking at some of the specifics of the FY '85 MarAd Budget -- particularly those dealing with CDS and ODS monies. He stated that in the absence of CDS, U.S. subsidized operators must be able to build and acquire ships abroad to replace their obsolescent and inefficient vessels. He argued that "resolution of this issue will absolutely determine the future of our industry." For ODS he had praise, observing that dozens of government studies prove that the "system is the cheapest and the most effective way of equalizing wage costs so that U.S. carriers can compete while employing citizen seamen."

The Shipbuilders Council of America also took some potshots at the budget, contending that the Administration is under the misapprehension that CDS is "evil." The Council said that Navy building will *not* be adequate to support the country's shipyard mobilization base and therefore national security. Its short-term plan includes: extension of the Jones Act to 200 nautical miles, extension of CCF statute to shipyards, and authorization of $450 million to MarAd for U.S. construction of militarily useful foreign trade vessels.

DOT LEARNS A LESSON

More duties without more dollars -- the Administration's Coast Guard budget package came as no surprise to those who have followed the deterioration of the beleaguered agency. What did come as a surprise was the fact that USCG user fee plans do not appear anywhere in the DOT budget. After two years of having its user fee plans blown off the Hill, DOT decided to let the waters settle. "It's a matter of learning to walk before you can run," commented one DOT aide. The USCG proposal is for $2.6 billion, just $80 million more than FY '84.

DOD: PROMISES, PROMISES...

Usually the onslaught of budget hearings each winter brings no mention of CIVMAN to the Hill. This year, Navy Secretary John Lehman felt obligated to say something. But what will the Navy *do?*

> *"In a major Reagan Administration effort to reinvigorate the maritime industry and the merchant mariner profession, a total of 34 ships...will be offered for contract manning in the current year...."*

Maritime observers, who have long pressed for more civilian contract operation of Navy support ships, greeted this statement with guarded enthusiasm. They noted that the ships offered were MSC, not Navy (where the largest savings in men and money can be achieved.) They also are waiting to see whether the bidding process for these 34 ships would be similar to the T-1 tanker bid in 1982, which many charged was "rigged" and on which the Navy itself was forced to do an about-face and set aside after a devastating report from the Navy Inspector General. (See *Washington Letter*, August 1, 1983.) And finally, as of today this Reagan Administration effort is still in the planning stage: no new mariner is yet at sea because of it.

Perhaps the depth of Sec. Lehman's dedication to viable sealift was best revealed in his response to one Congressman's question about funneling a trickle of dollars from the flood of Pentagon monies to aid commercial building: "It is beyond DOD capability to cope with those economic factors," he said.

CONCERN, BUT STILL NO CONSENSUS ON PORT DEVELOPMENT

(Tuesday, February 7th) Legislation to put port dredging projects on a fast track has been in the slow lane for six years on Capitol Hill. Today, one year after he introduced the Port Development and Navigation Improvement Act (a rerun of a bill from the previous Congress), Chairman Mario Biaggi (D-NY) held a House Merchant Marine Subcommittee hearing to talk about dredging, user fees, and "bureaucratic red tape and dilatoriness." Representatives of U.S. ports, shippers, and operators who once again articulated the need for accelerated action to deepen America's hull-scraping harbors have been treated to the same sluggishness by Congress that has stretched the average start-to-finish time for dredging jobs to 21 years. (Nor could the last several witnesses today have been thrilled that their testimony was addressed to a dais devoid of any Congressmen.) Industry spokesmen and experts agreed that the Federal government should play a major, if not exclusive role in maintaining existing U.S. harbors. The issue of port expansion, however, brought various answers. A coalition of liner operators said they would not pay for new dredging "under *any* circumstances" because containerships don't need it. One economic analyst said user fees might force down total revenues: another said dredging would bring big benefits to "hinterland" consumers far from any coast. And ports can't decide how to set fee scales. It will be hard to fashion a bill to please everyone. (See *Washington Letter*, February 28, 1983.) The Omnibus Public Works and Transportation Committee bill (H.R. 3678), which would put Federal customs receipts toward port development, will be sequentially referred to the MM&FC "within the next few weeks," said an aide to Rep. Biaggi.

...Why Dredge?

Foreign-flag coal ships have been forced to choreograph an elaborate deepwater pas de deux because U.S. ports are too shallow. February 13th is the scheduled rendezvous between a gigantic 120,000 ton Japanese collier (too large to exit any U.S. coal port fully loaded) and a Canadian self unloader off Nova Scotia. There, the big ship will be "topped off" by the little one so it can sail to the Orient with a brimming hold. The good news: all the coal will come from U.S. fields. The bad news: neither ship in this liaison, nor in any planned for the future, will fly the U.S. flag. The fact that super-colliers must play ring-around-the-rosie for a pocketful of American coal is a shame: but in the long run, it will do little good for U.S. ports to be dredged if there are only foreign colliers to visit them.

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Export Alaska Oil To Japan

2/20/84

By Charles K. Ebinger

WASHINGTON — This week, Congress will debate whether to rescind the Export Administration Act's ban on the export of Alaska oil, allowing the crude to flow to markets in the Far East. It is in the national security and economic interest of the United States that the ban be lifted.

Arguments for removing the ban are compelling. The export of just 200,000 barrels of Alaskan oil a day would improve our trade deficit by $2 billion a year; it would promote free trade at a time of rising calls for protectionism; it would spur new Alaska exploration and production, thus increasing Federal windfall profit taxes and helping to reduce the Federal deficit. Most importantly, lifting the ban would demonstrate to a major trading partner and global ally the seriousness with which the United States views Japan's energy vulnerability.

The arguments behind lifting the ban have won the support of President Reagan, the government of Alaska, the Alaska Congressional delegation, the Japanese and Korean Governments, major environmental groups and one of the three major oil producers in Alaska. Nonetheless, opponents cite the adverse effects that lifting the ban would have on the United States maritime industry, as well as potential threats to American energy and national security.

Currently, because of legal constraints on exports and a surplus of oil on the West Coast, about one-half of Alaskan production (850,000 barrels a day) has to pass through either the Panama Canal or the newly constructed Northville pipeline in Panama to reach Gulf Coast markets. A small amount of oil also travels from Alaska around South America to the Virgin Islands. The transportation costs of oil from Valdez to the Gulf Coast are between $4 and $5.25 a barrel, while from Valdez to Japan the costs are only 50 cents a barrel. The higher costs to the Gulf Coast arise from longer shipping distances, the unloading and off-loading of cargoes in Panama and the Jones Act, which requires cargo moving between United States ports to be carried in high-cost American ships.

The argument for Alaska exports is furthered by California's projection that new, outer-continental-shelf production will rise to 100,000 barrels a day in 1987 and to 200,000 barrels a day by 1992, worsening the West Coast oil glut. With crude oil production from Alaska also expected to increase, the surplus could reach 1.5 million barrels a day by 1990.

A lifting of the ban on Alaskan exports would increase allied energy security by reducing transit through the politically-volatile Panama Canal and the Northville pipeline. The Alaska oil displaced on the Gulf Coast could be purchased from nations such as Mexico, Venezuela, and Nigeria, neither of which has embargoed the United States and all of which have heavy debts which it is in our interest to help them pay.

Allowing Alaskan oil to be exported would provide an incentive for oil producers to engage in new North Slope exploration and production, since under the complex taxation system for Alaska oil, company profits will increase with reduced transportation costs. Even with larger Federal windfall profit taxes and state taxes, company profits will increase.

A lifting of the ban would strengthen bilateral ties with Asian allies such as Japan, Korea, and Taiwan while meeting shared energy and national security goals. For instance, a demonstrated commitment to share Alaskan resources would not only spark Japanese investment but might also convince Japan to increase the number and range of naval patrols arising from the new requirement to defend tanker routes against expanding Soviet naval deployments in the North Pacific.

Finally, opponents of lifting the ban must answer some questions. First, why shouldn't the United States export oil to Asian allies in a non-crisis situation, when under the International Energy Agreement signed in 1974, we have agreed to supply Japan between 350,000 and 500,000 barrels a day in the event of a serious petroleum shortfall?

Second, why does the United States oppose the sale of oil to the Far East when both Jimmy Carter and President Reagan have made it a stated American defense commitment to spend nearly $80 billion by 1987 to build up our military capability to protect the flow of oil from the Middle East, both to ourselves and to our Asian and European allies?

When it considers the issue this week, Congress should put aside parochial interests and address the vital energy and national security concerns confronting both ourselves and our allies in Japan by voting to rescind the export ban on Alaska oil.

Charles K. Ebinger is director of the energy and strategic resources program at Georgetown University's Center for Strategic & International Studies.