

THE WHITE HOUSE  
WASHINGTON

~~SECRET~~

July 13, 1971

MEMORANDUM FOR

THE SECRETARY OF STATE

SUBJECT: FPC Request for State Department  
Views on Natural Gas Imports from  
Algeria

The President has approved your recommendation of  
June 25, 1971 and authorizes you to respond favorably  
to the Federal Power Commission's request for views  
on applications to import gas from Algeria.

  
Henry A. Kissinger

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Dispatched 7/14/71, Rcpt 2625, also LDX 7/14/71 @11:59 a.m.  
CC: Col Kennedy, Mr. Saunders, Peter Flanigan, Peter Peterson, Johnston  
sls

MEMORANDUM

THE WHITE HOUSE  
WASHINGTON

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ACTION

MEMORANDUM FOR: THE PRESIDENT  
FROM: HENRY A. KISSINGER *Hayju*  
SUBJECT: Natural Gas Imports from Algeria (El Paso)

Secretary Rogers (Tab A) recommends that you authorize State to inform the Federal Power Commission (FPC) that on foreign policy grounds it has no objections to the approval of the applications of three U. S. firms to import natural gas from Algeria.

Issues

There is general agreement that the U. S. will require natural gas imports from foreign sources to meet future requirements, that U. S. exports will benefit from the project (Ex-Im has already approved a preliminary commitment of \$256.5 million for construction of facilities for the project in Algeria), and that it would improve relations with Algeria while reducing Soviet influence and strengthening elements within Algeria who favor closer ties with the U. S. The security risk of depending on foreign supplies is minimal, since these imports from Algeria represent only about 1.5 percent of U. S. consumption, a large number of foreign sources are being actively considered as future sources of natural gas, gas is not essential to our military machine, and domestic gas by virtue of its lower price will be favored over foreign gas.

The major issue concerns the question of Algeria expropriation of foreign property, both U. S. and non-U. S. After discussing the expropriation problem with Secretary Connally you directed that we hold up on this project. However, I now believe that the expropriation issue should not stand in the way of our approval. Several important changes have occurred:

-- U. S. Expropriated Property - Algeria recently settled all expropriation claims with U. S. petroleum companies. Some smaller claims remain unresolved; but Algeria has indicated a willingness to settle these claims, making payments through El Paso revenues.

-- French Expropriated Property - Last February Algeria nationalized French gas interests, including part of the field which will be the origin of

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gas exports to the U.S. In March, President Pompidou asked that we take no action that would complicate Franco/Algerian relations while negotiations for nationalized properties were under way. In April (Tab B) you replied through Ambassador Watson that there would be no preliminary Ex-Im Bank commitment to Algeria for six or seven weeks, that State Department would have to give the FPC its views on gas imports from Algeria in response to a standard requirement of the FPC, and that we did not expect a final FPC decision until September. In response, Pompidou expressed disappointment but made no further request.

-- Since your April message:

. We have honored our word to Pompidou. (The Ex-Im Bank preliminary commitment for financing the El Paso project was not given until more than six weeks after your message was conveyed to Pompidou, and State believes that the French are reconciled to Ex-Im's assisting Algeria with the project and our importing the gas therefrom.)

. French companies have continued to invest in projects for new gas exports from Algeria to France and have continued to import gas into France from Algeria.

. Algeria has just completed an agreement settling the claims of one of the two expropriated French companies, and settlement with the other company is likely to follow. (Tab C)

#### Proposed Scenario

FPC hearings on the applications will be completed in early July. State therefore must submit its views as soon as possible, since the FPC staff cannot make its recommendations without them. Further delay might mean postponement of the FPC decision until after September, in which case construction costs -- totaling more than \$1 billion -- would increase and contracts might have to be renegotiated or canceled (cost increases will ultimately be passed on to U.S. consumers). A delay would cause serious frictions in our relations with Algeria and might jeopardize the entire project, which would be a serious setback for our relations with Algeria.

Because of the progress which has been made in negotiations between the French companies and U.S. petroleum interests, the expressed willingness of Algeria to settle with the other U.S. firms, and the important foreign policy

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gains of improving our relations with Algeria, I believe that Secretary Rogers' recommendation should be approved. Peter Flanigan and Pete Peterson concur.

RECOMMENDATION:

That you approve Secretary Rogers' request authorizing State to respond as soon as possible to the FPC that it has no objection on foreign policy grounds to approval of applications to import natural gas from Algeria.

Approve            *Aug for Aug for*  
Disapprove            *Pres.*

*FPC to be notified on  
Wed July 14*

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