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MEMORANDUM FOR: Mr. Peter Swiers
Special Assistant to the Director
Policy Planning Staff
Department of State

SUBJECT : Soviet Actions During the Recent Oil
Crisis

The attached is in response to your request for information for Ambassador Harriman on the way the Soviets behaved during the recent oil crisis. Please call on us if we can be of further assistance.

Director,
Economic Research

Attachment:
as stated

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Soviet Actions During the Recent Oil Crisis

During the recent oil crisis the USSR performed much like a Western oil producing and exporting firm. It tried to maintain deliveries to preferred customers and charged what the market would bear. Some Soviet oil deliveries to Western Europe (primarily Italy, France, and West Germany) were cut back in order to provide for the needs of Eastern Europe. Also Soviet oil prices to Western customers were quadrupled to conform to world market prices. Nevertheless few, if any, Soviet shipments of oil were diverted from regular Western importers to take advantage of higher spot prices. Soviet deliveries of oil to the US were increased during late 1973 and early 1974, mostly via a backhaul associated with the US-USSR grain trade. However, such deliveries were never large.

During the Arab-Israeli conflict the USSR was forced to reduce deliveries to Italy to compensate Eastern Europe for a partial cut-off of Iraqi oil exports. In 1973 the Soviets did not completely fulfill contractual obligations for delivery of oil to France and West Germany, but the shortfalls were relatively small. The slowdown in oil deliveries probably stemmed from the USSR having to make up for reduced deliveries of Middle East oil to Eastern Europe during the Arab oil embargo.

During 1974 some West European importers have resisted Soviet attempts to charge top dollar for oil in annual contract talks. French and West German firms refused to pay \$13 to \$14 per barrel for Soviet crude oil and, after lengthy negotiations, settled on prices averaging \$11 to \$12 per barrel. Finland, which depends on the USSR for about 70% of the oil it consumes, has been particularly unhappy about the high price of Soviet oil and the resulting severe imbalance in its trade with the Soviet Union. As a result, the Finns have failed to agree on a price for Soviet crude oil during the 2nd half of 1974 although deliveries are continuing.

Because of a tighter domestic oil supply position and an increased need to supply more oil to Eastern Europe, the USSR probably will not be able to export to Western Europe during 1974 much more than the 870,000 barrels per day delivered in 1973. With higher oil prices and reduced consumption, West European countries are not seeking more oil. Even if the quantity of Soviet oil sold to Western Europe remains at the 1973 level, Soviet hard currency earnings from oil exports could jump from \$1.2 billion in 1973 to some \$3 billion in 1974.