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USSR Oil Problem: Views of the Soviet Leadership

An Intelligence Assessment

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USSR Oil Problem: Views of the Soviet Leadership (U)

An Intelligence Assessment

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on 1 March 1980.*

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This paper was coordinated with the National
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**USSR Oil Problem: Views
of the Soviet Leadership * (U)**

Key Judgments

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The accuracy of the Soviet leadership's appraisal of the USSR's oil production constraints in the 1980s could have serious implications for Soviet behavior, both domestically and internationally. But pinpointing what the leadership thinks is difficult, in part because its judgments may differ somewhat from the opinions it is getting from Soviet specialists [REDACTED] and in part because the leadership has an interest in concealing its true assessment of the oil problem.

Opinions of Soviet specialists that reach the leadership are divided. Some specialists—probably a minority—apparently believe that it will be possible to increase oil production through 1985 or 1990. Others believe that oil production will almost certainly peak some time between 1980 and 1985, but are uncertain over how long peak production can be sustained or how rapid the postpeak decline will be.

Uncertainty is also probably the central feature of Soviet leadership judgments about future oil prospects. This uncertainty probably is bounded on the high side by hopes among some leaders for at least a slight increase in oil production and on the low side by fears that public CIA projections might prove to be not far off the mark.

The leadership is extremely worried about the current oil situation, and individual leaders are almost certainly aware that the productivity gains upon which future increases in the oil extraction level depend are unlikely to be met. [REDACTED]

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[REDACTED] It is not unlikely that declared policy for the 1981-85 Five-Year Plan will aim at stabilizing oil production at approximately the 1980 level, although the leadership is well aware that five-year targets are often not fulfilled.

While the leadership is urging energy conservation and stepping up the rate of investment in oil production and other energy sectors, it apparently is unwilling to introduce or even discuss structural adjustments that might ease the transition to an era of far less oil.

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* This assessment is an overview of a study of the same title that will be published in the near future. [REDACTED]

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The leadership may well be convinced that if it is not able to keep oil production up through mobilizing all possible "reserves" (which is what it will surely attempt to do), it has the option of reimposing harsh labor controls and lower standards of living, and that such measures will be accepted by the population.

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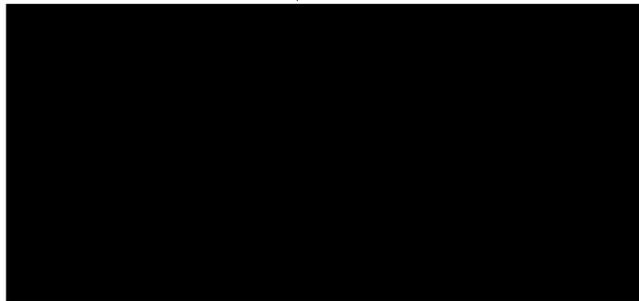
USSR Oil Problem: Views of the Soviet Leadership (U)

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Whether the Soviet leadership accurately judges the USSR's oil production constraints in the 1980s could have serious implications for Soviet behavior. An overestimation of these possibilities could lead domestically to the emergence of serious unanticipated bottlenecks, unplanned adjustments, and increased disruptions in the economy—all of which could still further reduce economic growth, depress living standards, and heighten political conflict within the leadership, quite possibly during a succession period. [REDACTED]

about oil production. Thus, the question is: What do the Soviets really think about the USSR's oil problem, and how much of a gap is there between our forecast and the judgments that underpin Soviet policy? [REDACTED]



Internationally, misjudgment of the seriousness of the oil problem could lead to abrupt cutbacks in oil deliveries to Eastern Europe, intensified economic and political tensions in this region, and possible adventurous actions directed toward acquiring new sources of oil. An accurate assessment of Soviet oil prospects (along the lines of our forecast) would lend a greater sense of urgency than now exists to attempts to gain quick access to more oil from OPEC countries. [REDACTED]

[REDACTED] many specialists only have access to limited information and, in any case, may conceal their worst fears from the leaders, lest they jeopardize their own careers. Likewise, both foreign and domestic interests motivate Soviet leaders to understate the seriousness of the oil problem in their public pronouncements. As oil production peaks or actually starts declining, important interests will be served by concealing such developments as long as possible; it is fully conceivable that when this moment occurs—which could be this year—the Soviets may resort to falsification of oil production figures or may set targets that they know will be underfulfilled. [REDACTED]

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US Predictions

We have forecast a bleak energy future for the USSR over the next decade. Soviet oil production will peak in 1980, and then decline from about 12 to 8-10 million barrels per day (b/d) by 1985. Between 1986 and 1990 oil output probably will drop still further to perhaps 7-8 million b/d. We anticipate that by 1982-83 the Soviets and their allies will jointly become sizable net importers of oil. The drop in oil production will have a severe impact on the rate of economic growth in the USSR and Eastern Europe: GNP growth rates could decline in the Soviet Union to 1 percent or less by 1985 and to levels low enough to jeopardize political stability in some East European countries. [REDACTED]

Expert Opinion

What the Soviet leadership collectively thinks about the oil problem depends substantially on what Soviet specialists have to say about it. Oil production matters are technical and complex, and the leadership has no choice but to turn in the first instance to experts for their assessment of the problem. [REDACTED]

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What Do the Soviets Think?

Soviet spokesmen, naturally, have impugned our motives in making such projections and, in general terms, have denied their validity. Yet it is obvious that Soviet officials from Brezhnev down are seriously concerned

In terms of assessing leadership judgments, the single most important feature of specialist opinion, however, is that it is divided on important issues. Consequently,

leaders can—indeed ultimately must—choose for themselves how to judge the oil situation. Leadership judgments are thus inevitably subject to influence by various interests at work in the political process and cannot simply be extrapolated from what specialists say. Leaders may well be tempted to listen to the more optimistic advisers and opt for courses of action that do not force difficult economic choices or political confrontation. [REDACTED]

- The problems that will arise in the 1980s from having to extract and process increasingly greater volumes of heavy oil.
- The inadequacies of Soviet-manufactured equipment and technology [REDACTED]

Some specialists, probably a minority, apparently believe that it will be possible to increase oil production through 1985 or even 1990. Of those whom we know to have expressed this opinion, most are well removed from the actual production process and probably do not have good access to the data required to reach an informed judgment. [REDACTED]

Debate continues among specialists and between West Siberian and State Planning Committee officials over the amount of recoverable oil reserves in West Siberia and the desirable level of investment in the region. Some local enthusiasts apparently believe that production can be increased in West Siberia. All those concerned with West Siberia, however, complain that a firm policy on development of the region has not been formulated. [REDACTED]

Other specialists believe that oil production will almost certainly peak some time between 1980 and 1985. These specialists appear to be uncertain about how long peak production can be held, or how rapid the postpeak decline will be [REDACTED]

Among specialists, there appears to be a good deal of optimism that new oilfields will be discovered in East Siberia and in various offshore areas, and that very substantial volumes of oil can be extracted in time through enhanced recovery techniques. It is likely that expectations from enhanced recovery are exaggerated. Exploitation of all these possibilities is seen by specialists to depend, however, upon a radical improvement in technology. Many specialists believe that large-scale acquisition of Western technology is critical in this regard. [REDACTED]

Some statements by specialists suggest that peak production can be maintained more or less indefinitely if a series of conditions are met. (These conditions, of course, may privately be considered unattainable.) Other statements seem to imply a perception—albeit a hazy one—of declining production. It is unlikely that any specialist has flatly predicted that Soviet oil production will drop from about 12 to 8-10 million b/d by 1985 (as we have forecast), although it is possible that figures have been presented from which such a range could—making certain assumptions—be inferred by a leader inclined to do so. [REDACTED]

Leaders' Statements

The USSR's gas, coal, and nuclear power resources have enabled Soviet leaders to make optimistic statements about the long-term energy prospects for the USSR. This optimistic assessment by the leadership of the energy picture should not be obscured by the existence of near-term energy difficulties. Nevertheless, signs of leadership anxiety over the immediate energy problem have multiplied over the past year; Soviet leaders are extremely worried by increasingly severe fuel and power shortages. The failure to meet oil, coal, and electric power targets in 1979 was probably one of the factors motivating the leadership to call for a serious reappraisal of Soviet energy policy—an undertaking currently assigned to a special commission created by the Politburo. [REDACTED]

Those specialists that take a more pessimistic view of Soviet oil prospects, in line with the CIA estimate, emphasize:

- The difficulties in offsetting depletion in the absence of any major new oil discoveries.
- The excessive use of waterflooding and density of infill drilling in older oil regions.
- The serious drilling and other constraints that limit the critical exploitation of new small fields in West Siberia.

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Uncertainty probably is the central feature of the leadership's outlook on future oil prospects. This uncertainty appears to span a range of possibilities, bounded on one side by hopes among some leaders for at least a slight increase in oil production, and on the other by fears that the CIA's projections might prove to be not far off the mark. Soviet leaders are familiar with these projections, and probably do not dismiss them lightly. It cannot categorically be ruled out that some top specialists who do have access to comprehensive data on Soviet oil production have privately warned leaders that the CIA is right, or that the leadership has secretly concurred with such an assessment. [REDACTED]

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restricted by investment and manpower constraints. Finding themselves in this situation, they may be prepared to grasp at straws. There appears to be a willingness to accept what probably are inflated estimates of the impact on oil production of enhanced recovery methods and other forms of technological innovation, as well as of equipment modification. [REDACTED]

Regime Behavior

Regime behavior—as manifested in policy-implementing actions in the areas of oil and gas exports, conservation, oil production plans, investment, technology imports, secondary refining, and substitution of other fuels for oil—does not give an overall impression that Soviet decisionmaking has been propelled by a judgment that a sharp drop-off in oil production is inevitable in the 1981-85 period. What the Soviets are doing does give the impression, however, that they recognize that previous rates of increase in oil production cannot be sustained, and that they anticipate serious difficulties ahead in meeting their oil needs and those of their allies. [REDACTED]

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[REDACTED] It is not unlikely that declared policy for the 1981-85 Five-Year Plan will aim at stabilizing oil production at approximately the 1980 level, although the leadership is well aware that five-year targets are often not fulfilled. [REDACTED]

[REDACTED] high officials in the Central Committee Secretariat link future increases in the level of oil extraction with productivity gains that they probably realize are unlikely to be met. The leadership is almost certainly aware that even under the best of conditions unconstrained demand for oil would outstrip its availability and that the share of oil in the energy balance will inexorably decline. It is also clear that the leadership understands that it will need to buy more oil in the 1980s than it now does. [REDACTED]

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Soviet leaders seem to have a "bifocal" image of the difficulties that confront them. They tend to focus either on immediate fuel and power shortages, or on distant changes in the energy balance. Apart from a concern with energy conservation, however, they do not appear to be focusing very sharply on the kind of middle-distance contingencies that would be suggested by a judgment that there will be a steep drop in oil production by 1982-83. [REDACTED]

At the December 1977 plenum of the Central Committee, Brezhnev proclaimed that Soviet energy policy for the next 10 years would be based on oil and gas production in West Siberia. Then, amid signs of disarray in the party line on energy matters, a special commission was established by the Politburo in late 1979 to "determine effective ways of solving the energy problem." This move suggests a leadership judgment that the 1977 policy line alone was not adequate—even though the leadership has recently decided to accelerate capital construction in West Siberia in accordance with the earlier policy. The creation of the commission could represent the first step in securing sufficient backing for drastic policy determinations designed to cope with the real situation. It could also mean, on the contrary, that the energy problem is not judged to be so urgent that immediate action must be taken without gaining the political cover provided by whatever agreed recommendations eventually emerge from the collective deliberations of this commission. [REDACTED]

The leadership is keenly aware that its options for dealing with the oil problem and other economic difficulties in the short-to-middle term are increasingly

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[REDACTED] their presence in Afghanistan now provides the Soviets with enhanced opportunities to seek Middle East oil through intimidation or through a strike at the Iranian oilfields by recently repositioned military forces, [REDACTED]

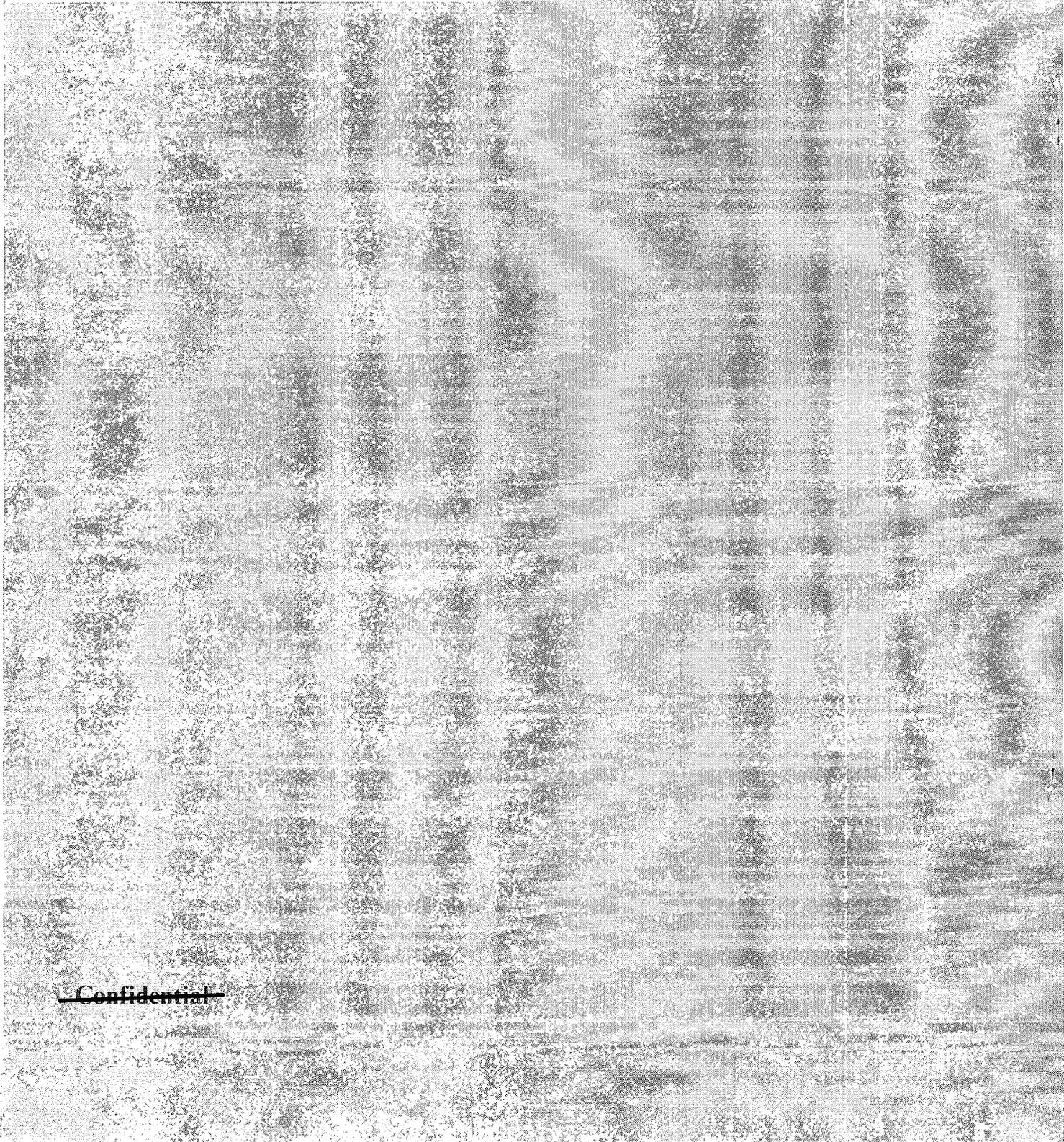
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The leadership to date does not appear to be sufficiently galvanized by its judgment of the oil future to make any radical or really innovative domestic policy determinations. It is insisting with ever greater urgency on energy conservation and is stepping up the rate of investment in oil production and other energy sectors. The leadership is apparently unwilling, however, to go beyond the tried-and-true "campaign" responses of exhortation and administrative pressure even to discuss, much less begin to introduce, the sort of structural adjustments in the economy that might ease the transition to an era of far less oil. In the back of leaders' minds there may well be a conviction, based upon the experience of the early Five-Year Plans and the wartime period, that if they are not able to keep oil production up through mobilizing all possible "reserves" (which is what they will surely attempt to do), they have the option of reimposing harsh labor controls and lower standards of living, and that such measures will simply be accepted by the population. [REDACTED]

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