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USSR Oil Problem: Views of the Soviet Leadership

A Research Paper

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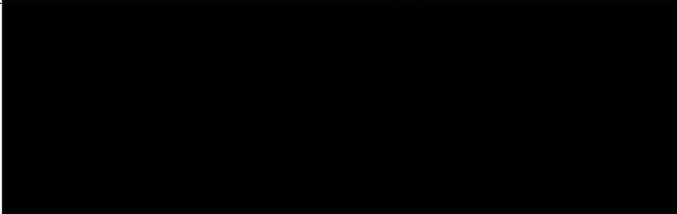
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USSR Oil Problem: Views of the Soviet Leadership (U)

A Research Paper

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

Overview ¹

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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]

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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]

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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]

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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 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]

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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.

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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.

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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.

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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.

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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.

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Some statements by specialists suggest that peak production can be maintained more or less indefinitely if a series of conditions are met. (The 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 for which such a range could—making certain assumptions—be inferred by a leader inclined to do so. [REDACTED]

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

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

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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乐观 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]

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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, 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]

Leaders' Statements

The USSR's gas, coal, and nuclear power resources have enabled Soviet leaders to make optimistic statements about the long-term energy prospect 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

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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]

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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.² 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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[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. There is evidence that 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]

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² This judgment reflects the evidence available up to the 1 March 1980 cutoff date for research on this paper. Accumulating evidence since then suggests growing pessimism among Soviet leaders, as they have been compelled by preparation of the 1981-85 Five-Year Plan to confront unpleasant realities. By now the chances are high that the very best the leadership hopes for is a stabilization of production at the current level. [REDACTED]

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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 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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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]

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

Introduction

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 will probably drop still further to about 7-8 million b/d. By the end of the decade, heavy oil will constitute a substantial share of production, necessitating a drastic increase in secondary refining capacity simply to maintain the existing proportion of light fractions in the refinery mix, let alone to meet the rising needs for more high-quality light products. We anticipate that by 1982-83 the Soviets and their allies will jointly become sizable net importers of oil. [REDACTED]

Future Implications. The accuracy of judgments by the Soviet leadership about the USSR's oil production constraints in the 1980s could have serious implications for Soviet policy. An accurate assessment might facilitate planned adjustments and minimize dislocations in the economy, although vested political interests and structural features of the economy would surely hinder such a response. It would probably lead to intensification of internal political controls and measures to strengthen labor discipline in the face of stagnating living standards. [REDACTED]

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. There is little chance of improvement in the energy problem by 1985 through conservation measures or substitution of gas or coal for oil. [REDACTED]

Internationally, such a perception could provide a basis for an energy policy toward Eastern Europe that would enable regimes there to adjust to future cutbacks in Soviet oil deliveries. It might also provide more time to make appropriate changes in patterns of Soviet foreign trade. Most significantly, it could lend a greater sense of urgency to attempts to gain access right away to move oil from OPEC countries, and possibly to attempts to involve Western countries in more rapid development of Soviet energy resources. [REDACTED]

This paper accepts our projection of the Soviet energy future and examines how the Soviets themselves view their own oil problem. Although Soviet leaders and specialists are aware that the CIA thinks oil production in the USSR will soon begin to decline, there is no reason to assume that they believe this prediction is correct—even though we know that they take it more seriously than their propaganda suggests. Their judgments may be either "accurate" or "inaccurate," as measured by the CIA. The judgments also may foresee either a steady worsening of the energy problem, or some temporary difficulty in the 1980s followed by improvement. This paper explores what the Soviets are thinking along both these lines. It also examines whether there has been a shift in Soviet thinking over the past several years. [REDACTED]

An inaccurate judgment, on the contrary, could lead to unanticipated bottlenecks, unplanned crash adjustments, and greater dislocations 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. Internationally, a misjudgment could lead to abrupt cutbacks in oil deliveries to Eastern Europe which would accentuate economic and political tensions in this region. Over the near term a false sense of security might encourage the Soviets to maintain foreign trade at current levels while continuing to negotiate energy-related deals without urgency. As these realities began to strike home, this behavior could give way to more adventurous actions directed toward acquiring new supplies of oil—especially in the Middle East. [REDACTED]

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Perceptions, Judgments, Policies, and Actions. What are the definitions of the oil situation that are sufficiently agreed upon within the top Soviet leadership to drive policymaking and policy implementation? Such *judgments* of the oil problem grow out of but are not necessarily identical with, the *perceptions* of individual leaders. These *perceptions* of the problem are an important starting point in the process that leads eventually to action. [REDACTED]

More important to understanding what actions will be considered and taken, however, are the judgments of the oil problem that arise from interaction among some or all the members of the leadership—opinions that have been verbalized and that are at least passively accepted by the dominant element in the leadership. Such judgments are based only partly upon the individual leaders' perceptions of the oil problem itself. They also incorporate estimates of the broad political and administrative consequences of defining the problem one way rather than another, and of personal career interests. They necessarily entail political as well as technical cognitions. [REDACTED]

Judgments, in turn, must be distinguished from *policy determinations* and *implementing actions*. Policy determinations require some sort of consensus between the leadership and higher party and governmental circles; they require exploration of realistic options and some sort of cost/benefit calculus. The ultimate choices integrate leadership judgments about the oil problem, the career interests of leaders and high administrative officials, the institutional concerns of the major bureaucracies affected, and objective calculations based on constraints that limit policy decisions. [REDACTED]

Implementing actions involve not only the leadership and higher administrative echelons, but the entire economic and political bureaucracy as well. Visible actions, which are initially set in motion by policy determinations, run the gauntlet of such distorting influences as malperformance of the economic system, technological constraints, and resource shortages. As a result, they may only dimly reflect preceding judgments and policy determinations. [REDACTED]

Specialists and Leaders. To grasp the leadership's judgments of the oil problem, we must first try to understand how Soviet specialists view it. The issues involved in oil production and energy in general are so complex, and hinge so much upon technical calculations, that the leadership has no other recourse but to turn first to the specialists for their definition of the problem. The opinion of the experts plays an important—but not definitive—role in defining for the leadership what is possible. [REDACTED]

Specialists, including production ministers, are likely to share their perceptions of the oil problem with the political leadership only up to a point. Bureaucratic self-interest compels them to point out how difficult it will be to meet high output targets in the future, but personal career interest probably motivates them not to bear the very worst tidings. [REDACTED]

A specialist bold enough to declare flatly that the CIA was right and that Soviet oil output will decline between 1981 and 1985 at the steep rate we project might well be charged with "defeatism." Prudence would dictate that he present his warning in the form: "Unless we undertake the following measures [which might be impossible to put into practice], it will be difficult or impossible to prevent a decline in oil output." This strategy could easily be rationalized in terms of the possible occurrence of any one of a number of unpredictable contingencies (such as a big new oil discovery, or technological breakthroughs). In addition, many specialists below the very top realize that they do not have access to all the information needed (for example, on reserves) to venture a definitive forecast of future oil prospects, even apart from these contingencies. [REDACTED]

Leaders, of course, tend to suspect that specialists exaggerate the difficulties to attain lower production targets and higher resource allocations, or to establish alibis ahead of time for poor performance. The leaders also have their own reasons to keep targets up. They might be unwilling for political or personal reasons to accept oil projections that would imply the need to cut

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back on economic growth targets in the 11th Five-Year Plan (1981-85) and make inconvenient decisions on resource allocation. Pessimistic judgments might be avoided either out of unwillingness to challenge vested institutional interests (by forcing cutbacks in military spending or agricultural investment, or direct foreign participation in oil development), or out of a sense that goals should be kept high regardless of circumstances simply to mobilize the maximum exertion by all concerned. Thus it is necessary to consider the evidence for both specialist and leadership appraisals of the energy problem. [REDACTED]

Questions of Evidence. We have two types of evidence about Soviet views of the oil problems: indirect evidence presented by objective situations and the actions intended to deal with them; direct evidence in statements of Soviet officials. Indirect evidence is open to misinterpretations that can arise from mentally "putting oneself in another's position," or from attempting to reconstruct underlying leadership judgments of the oil problem through inferences from the visible end results of bureaucratic policy implementation. The latter type of evidence is flawed by uncertainty as to whether it reflects the actual perceptions of leaders and by the possibility that the evidence it purports to present about their judgments is distorted: all available statements of leaders are potentially infected with extraneous political intent and are subject to deliberate manipulation. [REDACTED]

A number of interests are served by distortion and the concealment of honest opinions about the seriousness of the energy problem. These interests encourage underestimating the gravity of the problem. Some private interests have been suggested above: specialists may shrink from offering candid assessments in order to protect careers or defend their own bureaucratic needs, while leaders may tailor their statements to what they feel the traffic will bear within the leadership collective. There is a domestic interest in mobilizing the population to save energy (which might call for some exaggeration of the problem), but there is a stronger interest in avoiding giving the impression that the leadership does not have the problem under control. [REDACTED]

Toward foreign audiences, the regime does not want to give an impression of vulnerability or possible need to take desperate action. Such an impression might create problems in Eastern Europe. It might also undercut the Soviet bargaining position in the negotiation of energy-related deals with Western partners, and raise the cost of borrowing from the West not only for the USSR but for its East European clients as well. Finally, it might intensify Western concerns about Soviet intentions toward oil-producing countries, while strengthening the bargaining position of the latter. [REDACTED]

Thus, it is possible that there is an element of orchestrated prevarication, or even disinformation, in some Soviet statements. [REDACTED]

As oil production peaks or actually starts declining, important interests will be served by concealing such developments as long as possible. It is conceivable that when this moment occurs the Soviets may resort to falsification of oil production figures or may set targets that they know will be badly underfulfilled. [REDACTED]

Indirect Evidence

Our indirect evidence suggests that Soviet economic policymakers do not believe a sharp dropoff in oil production in the 1981-85 period is inevitable. What they are doing does give the impression, however, that they think previous rates of increase in oil production cannot be sustained, and that they anticipate serious difficulties ahead in meeting the USSR's oil needs. [REDACTED]

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Oil exports. Perhaps the clearest sign of their lack of confidence in a future increase in oil production is provided by Soviet behavior in the area of oil exports.

beginning in 1979 oil exports by the USSR would be sharply cut back, except to Communist states, because of declining production. In 1979 evidence accumulated that the Soviets were indeed reducing hard currency export volumes, and this trend has continued in 1980.

in December 1979 a deputy chairman of the Soviet oil exporting organization, Soyuznefteksport, had observed that the USSR would export 150 million tons of oil in 1979, or 8 percent below the 1978 level. We estimate that Soviet exports of crude oil and refined products to all non-Communist countries fell by 14 percent in 1979, while exports to hard currency trading partners declined by 23 percent.

The Soviet leadership has apparently felt sufficiently comfortable about its future oil supplies to grant at least one non-Communist country—Finland—a substantial increase in promised oil deliveries over the 1981-85 period. Nevertheless, the strong interest of high Soviet officials in the construction of a giant new natural gas pipeline from West Siberia to Western Europe suggests a calculation that even with the higher income that can now be derived from lower volumes of hard currency oil sales, there will be a need within the next five years to develop an alternative source of hard currency earnings to compensate for falling oil sales.

Within the Council of Mutual Economic Assistance (CEMA), the Soviets so far have firmly insisted that Eastern Europe as a whole cannot expect any major increase in oil deliveries over the 1980 level between 1981 and 1985. The Soviets have given the impression to other Communist states that deliveries would not fall below the 1980 level, although on occasion they have indicated that a decline was not inconceivable—especially if East European states were unwilling to accept Soviet terms. This posture could of course be adopted for bargaining purposes, as the details of the 1981-85 bilateral trade agreements between the USSR and each of its Communist clients are negotiated.

There has been some evidence over the past year that the Soviets might be flexible on deliveries, especially if these were paid for on a current world market-price, hard currency basis.

the Hungarians have been "assured" annual increases of about 5 percent in Soviet oil shipments between 1981-85.

the Soviets will increase oil shipments to Poland over the same period by about 6 percent annually. Finally, the Soviets have agreed that annual oil deliveries to Romania will rise from 1.2 million tons in 1980 to 3 million tons in 1983. In each of these instances the hard currency cost to the East Europeans has not been clarified,

But they do suggest that, at present, the Soviets may believe it possible to ease slightly rather than tighten up on supplies to Eastern Europe. The apparent Soviet intention not to reduce oil deliveries to Eastern Europe between 1981-85 while cutting back gradually on hard currency exports would be compatible with a Soviet leadership perception of a stabilization or, perhaps, a gradual decline in oil production.

Production and Conservation. Domestically, a series of measures taken in 1979 betray a growing sense of urgency over the energy problem.

in early 1979 a high party official gave the impression that the energy problem was "really tough" and "very frightening," although it was not expected to get any worse.

In June 1979, the party Central Committee and the Council of Ministers adopted a resolution "On Providing the National Economy and the Population with Fuel, Electricity and Heat in the Fall-Winter Period of 1979-1980." In contrast with the resolution adopted by the Council of Ministers alone a year before, this document not only called for conservation but also admitted that fuel production was lagging behind the plan and criticized some of the responsible agencies. An *Izvestiya* editorial of 15 June declared that "both energy and fuel are continuing to limit the national economy," and a 16 June *Socialist Industry* editorial admitted that "the situation in the oil industry is causing alarm."

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In early July 1979 the Council of Ministers issued still another decree "On Measures to Cut Heat Losses in Residential and Public Buildings, Production Premises and Heating Systems." A *Soviet Russia* article of 14 September castigated drilling shortfalls and underfulfillment of oil production plans in Tyumen, rhetorically asking: "Why has such an alarming situation arisen here?" A 24 October Central Committee conference on fuel and energy, addressed by Central Committee secretary for heavy industry Vladimir Dolgikh, heard complaints that energy production plans were not being fulfilled, and it called on the oil and coal ministries to eliminate "grave shortcomings" in their work [REDACTED]

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A 12 November *Pravda* editorial accused the oil and coal industries of "serious errors in planning, production management, and utilization of capital" and censured the coal miners of the Kuzbass and Karaganda and the oil workers of Tyumen for not fulfilling their production plans. The editorial also criticized the railroad ministry for delays in fuel deliveries "which disturb the rhythm of work and cause considerable losses." It criticized other ministries for failing to deliver equipment needed in the energy industry and for allowing large construction projects to fall behind schedule. To cope with the resulting shortages, the editorial called for the "strictest possible economy in the use of fuel and energy resources." Then, after the Central Committee plenary meeting at the end of November, the unusual step was taken of publishing the text of Brezhnev's speech at the plenum (which contained highly critical remarks about energy) with the actual names of ministers he attacked—a departure from the past practice of removing the names of such officials from Brezhnev's published plenum speeches. [REDACTED]

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Other indirect evidence also suggests very serious leadership concern with the energy problem. Nonetheless, the leaders have not taken the kind of actions—a sharp scaling back of energy requirements or an all-out mobilization of resources—that would seem called for by the prospect of a drop in oil production of from 2 to 4 million b/d by 1985 as forecast by the CIA. Indeed, the plan for oil production in 1980 provides for a rise in output of 3.4 percent (which is down from the original

five-year goal of a 4.9 percent rise). It would not be surprising if a target were published for the 1981-Five-Year Plan that also projected a modest increase in oil production, although this would not necessarily mean that all top leaders believed this goal to be achievable. [REDACTED]

Investment. In recent years the annual rate of growth in total energy investment has increased rapidly, bringing with it a more gradual increase in energy's share of industrial and total investment. More strikingly, energy's share of *incremental* investment fell from 25 to 58 percent of industrial investment and from 12 to 20 percent of total incremental investment between 1977 and 1978. [REDACTED]

Drilling targets for oil exploration have been stepped up (an implicit acknowledgment of weakness in the reserve base), and additional production drilling has been shifted from older oil regions to West Siberia on an emergency basis. Yet at the same time the number of new small fields scheduled for development in West Siberia has apparently been scaled down. There is good evidence of contention over energy investment. A Gosplan department chief [REDACTED]

[REDACTED] in 1980 that the question of energy was delaying completion of the draft of the 11th Five-Year Plan (1981-85). [REDACTED]

Technology Imports. After several years of protraction and haggling over terms, the Soviets signed a deal with the French and are pushing fairly hard for the installation by 1981 of a gas lift system of enhanced recovery in the Samotlor and Fedorov fields of West Siberia. Despite their strong verbal commitment to enhanced recovery, however, Soviet authorities have decided not to contract abroad for some of the work on a carbon dioxide project at the large Volga-Urals field, Romashkino, and have delayed putting into operation Western-bought steam generators intended to increase recovery from fields in the Caucasus. [REDACTED]

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Soviet interest in offshore production has increased over the past year or so. This interest probably lay behind the transfer of responsibility for offshore oil operations and for negotiations with Western firms over offshore exploration and development assistance (especially in the Barents Sea) from the Ministry of Oil to the Ministry of Gas in January 1979. The clearest sign of interest in stepping up offshore work (and onshore oil activities as well) was the eagerness with which the Soviets were negotiating—before the invasion of Afghanistan—a very large deal with a prospective [redacted] partner for both offshore and onshore assistance that involved payment in crude oil on a risk-sharing basis—a concession that heretofore the Soviets have not been willing to make. After several years of negotiations, the Soviets finally signed a \$120 million contract in March 1980 with a French firm for construction of a fabrication yard to produce offshore drilling rigs for use on the Caspian Sea—the offshore region with the greatest potential for additional near-term production. [redacted]

Refining and Fuel Substitution. In other critical areas, such as the expansion of secondary oil refining capacity, there has been much talk but no sign of rapid action. There is good evidence that the USSR is planning to build much of its refinery capacity through multilateral cooperation within CEMA rather than through deals with the West—which must be perceived as a slower and less effective approach. Moreover, for all the talk about the need for substituting coal or gas for oil under boilers, only a few oil to gas conversions have been made and none to coal as far as [redacted] is known. [redacted]

Naturally, these examples and the others cited above may indicate more about the capacity of the Soviet political and economic systems to respond to challenges than about the judgments of leaders or their willingness to grasp at straws. One test of conclusions drawn from this type of data is whether they jibe or not with inferences drawn from what specialists and leaders have to say in articles, speeches, and conversations [redacted]

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Specialist Views

Future Oil Production. During 1979 some specialists expressed optimistic views about future Soviet oil

production, although most specialists were more pessimistic. In March a West Siberian specialist, L. P. Guzhnovskii, referred publicly to “optimists” who believed that “a sufficiently high level of extraction of oil in the country was possible,” although “only under strictly defined conditions.” In May Pasha Arushanov, head of the Foreign Relations Department of the USSR Ministry of Oil Industry, stated [redacted] that oil production would continue to grow during the 11th Five-Year Plan, although at a “somewhat” slower rate than in the past. One of the Soviet Union’s leading energy specialists, Academician Mikhail Styrikovich, stated publicly in June that the possibilities of West Siberian oil deposits were such that a stable growth in oil extraction for the country was ensured. In East Siberia, he said, oil was not now being extracted on an industrial scale, but evaluations indicated that significant reserves were also located here. Styrikovich also discussed publicly in November the need to substitute gas for oil in power plants in order to free oil for export purposes, and he referred to the absolute growth of world oil production until the year 2000. [redacted]

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In September Deputy Minister of Oil Industry D. A. Takoyev (responsible for the ministry’s foreign operations) told [redacted] that [redacted] that [redacted] Western studies projecting a decline in Soviet oil production by 1985 were journalistic speculations. In fact, he said, Soviet oil production was increasing and would continue to do so “at least until 1990.” He stated that Soviet specialists unanimously agreed that development of untapped reserves in East and Northwest Siberia, accelerated offshore production, and intensification of deep drilling and enhanced recovery would provide the basis for continued expansion of oil output. Exploration would be facilitated by increased use of satellite data. Soviet authorities did not doubt that the USSR would reach the lower limit of the 10th Five-Year Plan target. (The official target approved for 1980 is 606 million tons, well below the 620-million-ton lower limit projected in the 10th Five-Year Plan.) The year 1979, Takoyev observed, had been “very unusual,” featuring record cold and heavy snowfalls followed by record spring heat, resulting in abnormal flood conditions—all of which had had a negative impact on oil output. [redacted]

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[REDACTED]

within [REDACTED] the Ministry of Oil Industry a drop in overall oil production was not anticipated until at least 1988-90. New proven areas, such as those at the Fedorovo field in West Siberia, could be drilled to get more oil, and East Siberia was believed to have significant oil deposits. CIA estimates of future Soviet oil production, he felt, were too "pessimistic." [REDACTED]

Other statements by specialists, however, have been far less optimistic about overall Soviet oil prospects.

[REDACTED]

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- Operating conditions of wells will become more complicated with development of deposits of oil with higher formation temperatures and increased corrosion activity, incrustation of salts and paraffin, deeper wells and an increased number of slant hole, aging wells, and harsher natural and climatic conditions.

- In particular, problems will be created by the rising viscosity of oil extracted. In 1978, over 80 percent of all oil being extracted had a viscosity of less than 10 centipoise; in 1990 the production of such oil would be cut in half, and more than half of all oil produced would have a viscosity of 10-50 centipoise or more.

- Employment of enhanced recovery methods will account for modest volumes of oil production even by 1990.

- The inadequate technical level of most types of basic oil industry equipment, together with the persistent tendency of equipment manufacture to lag behind demand, has made it necessary to use antiquated equipment and to spend unjustifiable amounts of materials and labor on repairs. Because of slowness in developing the petroleum machinebuilding base, the oil industry is now entering a period in which technological processes must be intensified before the industry has been suitably reequipped.

- The quality of Soviet equipment lags well behind that of US equipment. [REDACTED] EO 12958 6.1(c)>10<25Yrs (U)

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- By 1980 all the major oil deposits in the USSR will have reached peak production, and an intensive decline will begin at a majority of them (it has already begun at some).

- In order simply to stabilize oil extraction in the 11th and 12th Five-Year Plans at a level of 582 million tons (to which presumably would be added the small volume of oil produced by the Ministry of Gas, now running at 20 to 30 million tons per year), it would be necessary to more than double drilling operations—from 19.1 million meters in 1980 to 39 million meters in 1990.

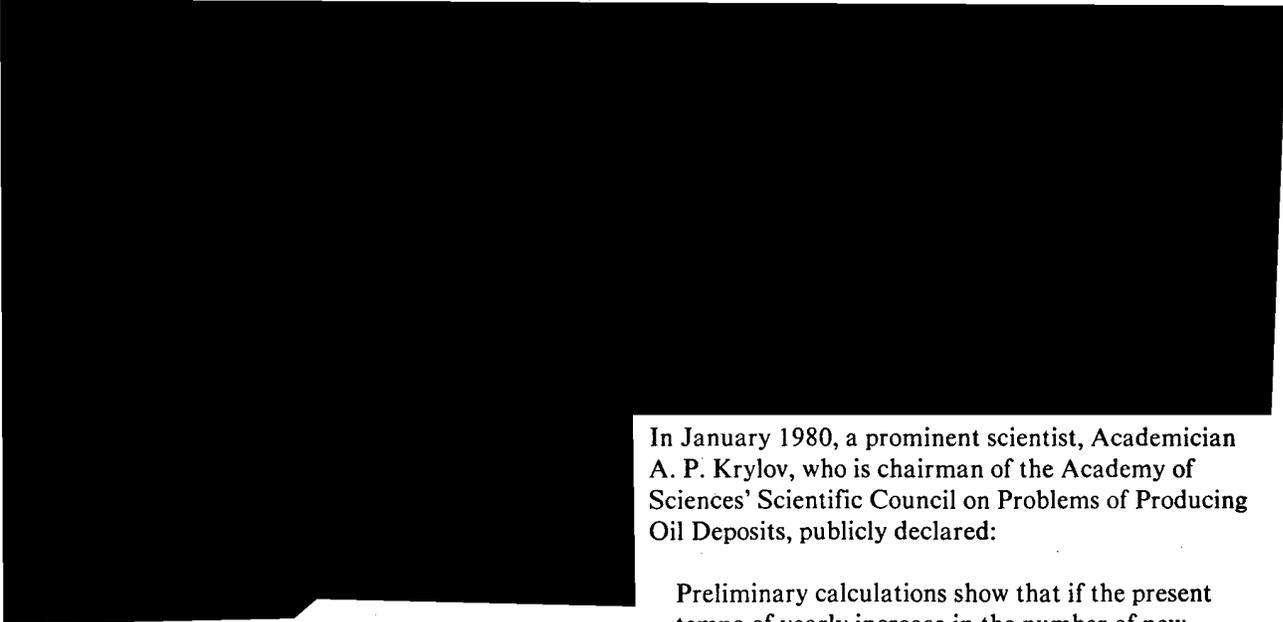
- The extraction of oil from most deposits would be accompanied in the future by a significant increase (on the average, by a factor of 2.4) in the number of operating wells to cope with low-production formations; by a rise in water content from 54 percent in 1978 to 68 percent (75 percent in the case of developed deposits) in 1990, and a rise in the volume of liquid extracted from 1.2 billion cubic meters in 1978 to 1.9 billion in 1990; by a reduction in the proportion of oil extracted by natural flow (from 47 percent in 1978 to 28 percent in 1990); and by a corresponding increase in the proportion extracted by artificial lift.

[REDACTED]

[REDACTED] the demands [REDACTED] explicit or implicitly on new small field development, drilling fluid extraction, heavy oil extraction, expansion of the secondary refining industry (to cope with more heavy oil), and technological modernization of the oil machinebuilding industry are unlikely to be met over the next decade, meaning that oil production will decline. A nonspecialist might or might not draw such conclusions, depending on his inclinations— [REDACTED]

[REDACTED]

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In January 1980, a prominent scientist, Academician A. P. Krylov, who is chairman of the Academy of Sciences' Scientific Council on Problems of Producing Oil Deposits, publicly declared:

Preliminary calculations show that if the present tempo of yearly increase in the number of new exploitation wells and the present tempo of increase in the coefficient of decline are maintained, then *the extraction of oil in the country will reach its maximum in a comparatively short period of time, after which it will begin to fall.* To alter this course of events and achieve the planned volume of extraction one can either increase the tempo of growth of new wells (which is connected with increased capital investments and expenditure of pipe), or shift to technologically and economically justified systems of production, which will lead to a lessening of the density of the network of wells and a reduction in the coefficient of decline (this will not be connected with supplementary capital investments). (Emphasis added.)

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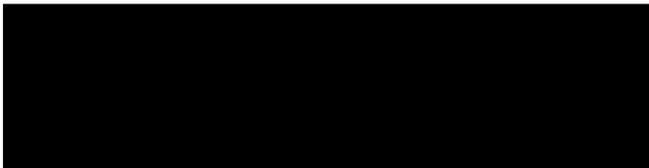
In the past, Soviet officials had consistently overestimated the USSR's total proven oil reserves by as much as 25 percent. The 1978 Swedish Petrostudies report that called attention to 300 oil discoveries in the European USSR failed to indicate that these deposits were too small or the formations too tight to be worth developing before the world price of oil reached at least \$50 a barrel. [redacted]

Less specific statements by other Soviet officials also suggest pessimism. At a June 1979 meeting of the US/USSR Trade and Economic Council, high Soviet foreign trade officials openly acknowledged that the USSR was running out of oil at about the same rate as the United States. In November, Yuriy Pekshev, an official responsible for CEMA affairs, publicly stated that during the 1980s the USSR would be obliged to make enormous capital investments in the oil industry merely to maintain the existing level of oil extraction, and in this context he urged CEMA member states to expand oil purchases from developing countries. [redacted]

Krylov, of course, was using the danger of a decline in oil production to promote his own position in a longstanding debate over the proper density of infill drilling, "success indicators," and organizational arrangements in oil production.³ [redacted]

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³ Krylov's emphasis on the existing density of infill drilling undermines the Swedish Petrostudies analysis, which bases its projection of huge untapped oil reserves precisely on the argument that Soviet field management principles have led to an excessively broadly-spaced pattern of wells. [redacted]



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West Siberian Prospects. With output declining now in all major producing regions outside West Siberia, prospects for increasing or at least stabilizing Soviet oil production over the next five to 10 years depend heavily on the West Siberian fields, especially Samotlor—which now produces about one quarter of total Soviet output. [REDACTED]

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[REDACTED]

Recent investigations had shown that Samotlor, in particular, had much smaller reserves than had been predicted, so that higher priority had to be given to developing enhanced recovery techniques in order to increase production in older fields. [REDACTED]

In the summer of 1978 a round table on development problems in West Siberia sponsored by the Central Committee's Propaganda Department and the Tyumen regional party committee provided an opportunity for candid discussion—some of which was later published. At one of the sessions an oil production official in Tyumen, N. M. Nikolaevskiy, made the following gloomy observations:

Interbranch disproportions do not permit . . . achieving a high level of extraction. First, oil extraction has pulled ahead, but the preparation of reserves and the processing of crude oil lag behind. Secondly . . . the volume of exploitation drilling must rise to 19 million meters (from 5.5 in 1978). But this means that ferrous metallurgy (taking account of the yearly construction of 2.5-3 thousand kilometers of pipelines) will have to increase sharply the supply of pipe, and machinebuilding—the supply of equipment.

On the other hand, West Siberia today has a comparatively small locally distributed number of known deposits which—with intensive exploitation—may be exhausted quite rapidly. And from 1980 . . . the water cut will begin to rise progressively, while the extraction of oil will steadily

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decline. At present, extraction is growing, basical thanks to Samotlor. But the higher the tempo of output, the earlier also will begin the decline of extraction, and this will occur at Samotlor . . . in 2 3 years.

Unfortunately, there is still no second Samotlor. 1 40 most promising deposits for which systems of production have recently been confirmed, are scattered over an enormous territory, the mastery of which is exceedingly laborious. But the demands the plan here are severe: if the first billion tons of in West Siberia was obtained in 12 years, then the second must be obtained twice as quickly. [REDACTED]

[REDACTED]

Samotlor was expected to peak in 1980. When it peaks [REDACTED] it would remain at that level several—perhaps five—years and then decline. [REDACTED]

[REDACTED]

[REDACTED] this field had virtually peaked by 1978. Production would reach about 145 150 million tons per year in 1979 and then stay at that level until 1982 or 1983, when output would begin to fall off at a rate of 10 to 15 million tons annually.

However, production at the other fields in the Nizhnevartovsk area was scheduled to rise rapidly from 27 million tons in 1978 to double this amount in 1980, and a big future lay with these fields [REDACTED]

[REDACTED]

[REDACTED] 150 million tons of oil were being extracted annually from Samotlor, and that it was hoped that through more drilling and the introduction of gas lift this level of production could be maintained for three to five years. Future development efforts would be concentrated gradually west and north from the deposits currently being exploited, rather than attempting to go immediately to prospective Arctic offshore areas. [REDACTED]

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[REDACTED]
[REDACTED] the [REDACTED] official [REDACTED]
[REDACTED] acknowledged that Samotior had already peaked and that production had begun to decline. [REDACTED]

Throughout the history of West Siberian oil exploration and development there have been arguments over the size of recoverable reserves in the region, and technical controversies have been directly linked with disputes over the volume of investment that ought to be directed to West Siberia. These disputes, in which some Gosplan officials have tried to hold the line against demands by local officials to accelerate investment, surfaced sharply in 1979-80. [REDACTED]

At the Tyumen roundtable meeting mentioned above, the conflict was clearly visible. Academician Abel Aganbegyan implied that there could be no trade-off between investment in new coal basins and investment in West Siberian oil production:

The entire growth, including offsetting the inevitable decline of oil extraction in the old regions, is taking place and will continue for a long time yet to take place from Tyumen soil.

A representative of Gosplan's Council on Production Forces, Ya. Mazover, on the contrary, emphasized the need to move more rapidly toward substituting coal for oil. He observed:

Evidently, one must elaborate the tactics and strategy of the Tyumen complex proceeding from changes projected in the fuel-energy balance of the country. However, so far the future goals of the complex are unclear. The strategy of oil extraction in West Siberia has evoked sharp arguments. There is no single opinion on this score even among Tyumen specialists. [REDACTED]

L. P. Guzhnovskii of the Siberian Division of the Academy of Sciences stated that mathematical modeling demonstrated

the expediency of orienting action toward a high level of extraction of oil in West Siberia; this level, in the opinion of scientists, can be stable for a long

time. Unfortunately . . . it is difficult to refute the statements of some specialists to the effect that there is no reliable resource base in West Siberia; it is difficult because we have no such concept as strategic reserves in extractive industry. Without these one cannot confidently develop the extraction of oil. We need a system of production . . . in which a failure of extraction in one, or even in several regions, does not hinder fulfillment of the plan as a whole.

One of the leading West Siberian optimists, the geologist I. I. Nesterov, pointedly complained:

It is necessary to increase the scale of exploratory drilling sharply, but Gosplan goes about this unwillingly. For years the Tyumen geologists have tried to convince the community that the Siberian depths have not been exhausted, and that exploratory work must be stepped up. [REDACTED] EO 12958 6.1(c)>10<25Yrs
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One representative of Gosplan's Scientific Research Institute on Complex Fuel-Energy Problems, V. I. Kleshchev, agreed that exploratory drilling should be increased in Tyumen and that the Tyumen Geological Administration should be "turned into a mighty industrially-supplied organization." The reason for this action, however, was that "otherwise the country will not be able confidently to make the next step—to East Siberia, where the new oil extracting potential is concentrated." [REDACTED] EO 12958 6.1(c)>10<25Yrs
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Nonetheless, the deputy chief of the Tyumen Geological Administration, A. A. Geniush, observed in his speech that planners had consistently underestimated possible oil production levels in West Siberia and the corresponding requirements for discovering new reserves, which explained the "unheard-of situation" that for two consecutive years Tyumen geologists had not fulfilled their growth-of-reserves plan. As Academician Aganbegyan had warned:

A reduction in the extraction of oil in West Siberia . . . could have a serious impact on the fuel-energy balance of the country. In order that this not happen, an accelerated preparation of reserves is necessary. It is planned even now to extract half of the oil at deposits that have not yet been opened up.

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Summing up the discussion, the editor commented:

The figure for future extraction is the subject of differences of opinion, discussions and even arguments among professional people. Who is right in the argument? We lack the boldness and competence to make a judgment on this. But one must emphasize that in the desire to know a precise figure for 1985 or 1990 is expressed a striving to operate on the basis of firmly formulated goals for the long-term development of the entire complex. Clear goals, detailed programs and elaborated means of realizing them—this is what, judging by the round table discussion, many participants in mastering the riches of West Siberia lack today

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This argument over West Siberian prospects continues. In a March 1980 issue of the Central Committee's organ *Ekonomicheskaya gazeta*, I. I. Nesterov, a corresponding member of the Academy of Sciences and Director of the West Siberian Scientific Research Institute for Oil Exploration, implied that "evaluation conducted at a low scientific level will lead to wrong notions about the potential of the earth, and in the final analysis to an incorrect determination of the volume of exploratory operations, to a lowering of tempos of extraction of oil and gas" in West Siberia. Presenting a series of historical and technical justifications for believing that more oilfields will be discovered, Nesterov reaches the "bottom line" for policymakers: "The second oil-gas Tyumen will be discovered . . . in Tyumen, and West Siberia will retain its role as the main base of the country in the extraction of oil and gas."

Other Prospects. Onshore, the Soviets might hope to expand oil production through both enhanced recovery efforts and discovery of new oilfields. Some Soviet officials have admitted that they lack experience in enhanced recovery techniques other than water-flooding.

little was known about tertiary oil recovery in the USSR, but that experiments were being conducted

Some Soviet specialists may be deluding themselves about the difference new enhanced recovery techniques could make; Western experience suggests that

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these methods are unlikely to raise recovery rates by more than 10 percent under the very best conditions (for example, from 25-30 to 35-40 percent of recoverable reserves). For instance, the leading West Siberia geologist, I. I. Nesterov, has publicly speculated that "in laboratory conditions we are already successful now in extracting 90 to 95 percent of oil reserves. One may hope that in 15 to 20 years the laboratory percentage will become the regular norm."

A critical recovery task is posed by the rapidly increasing proportion of heavy oil in Soviet reserves. The deputy minister of the Oil Ministry responsible for enhanced recovery, E. Khalimov, has publicly acknowledged that "in recent years a majority of explored and developed large fields contain viscous, highly viscous and entirely nonflowing oil." Only 3 to 10 percent of this oil, he states, can be extracted by relying on formation pressure, and waterflooding is useless. Nevertheless, far more of this oil can be extracted: "Today it has been proven both in theory and practice that through the artificial creation of thermohydrodynamic processes in the formation one can raise the output of flowing oil to 80 to 90 percent and of nonflowing viscous oil to 50 percent."

Gosplan had approved a major recovery project designed to boost oil production by 140,000 to 200,000 b/d from onshore fields in the Caspian area, and the long-term national objective was to increase total Soviet oil output by two million b/d using steam injection systems. Progress toward the ambitious recovery targets projected by Khalimov and Sokolov likely to be far slower than they apparently think.

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Comment by Soviet specialists about the possibility of discovering new giant or supergiant oil regions outside West Siberia is optimistic but vague. Thus, for example, a deputy minister of Geology, Valery Igrevskiy, was publicly quoted in 1979 as saying there were "great prospects" for East Siberia: "A large new oil- and gas-producing center of the USSR is to be created in eastern Siberia, which will have a big role to play in the future, especially after 1990." In October 1979 Igrevskiy expressed optimism about finding oil

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outside of West Siberia in East Siberia, the pre-Caspian depression, and Turkmenia. Implicit in his discussion of technical problems encountered in these areas, however, was the sense that without Western technology the potential of the regions could not quickly be realized. He noted that the Soviets needed Western seismic and logging equipment, drilling equipment, well testing equipment, blowout preventers, Christmas trees, mud materials, and computers.

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Similarly, Soviet authorities have expressed great hope of finding large offshore deposits. A deputy minister of Foreign Trade, Vladimir Sushkov, told [redacted] in November 1979:

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We now know that the offshore oil reserves are two and one-half times those on our territory. But they are hard to get at. It takes heavy capital investment and equipment. On land, we also now know that we can get 30 percent more production from existing wells by drilling deeper and using the four methods of enhanced recovery: chemical flooding, thermal treatment, miscible flooding and waterflooding. The United States, especially in offshore exploration, is the world's leader. Again, we have oil deposits under tar sands near the Caspian Sea. Elsewhere, salt covers the oil. Of course, we could produce the oil without help. But we do not intend any more to invent the bicycle when it already exists elsewhere in the world.

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It should be noted that the Soviets have also been discussing plans for offshore oil exploration and development with their East European clients within

the CEMA framework.

Technology Transfer. For many years there has been profound dissatisfaction among Soviet oil industry specialists with equipment produced by the Soviet machinebuilding industry, and it is clear that specialists think the chances of meeting ambitious oil production goals in the 1980s are slight unless the oil industry receives more and better equipment. The director of the Tyumen Oil Institute and one of the best informed specialists in the industry, Yakov Kagan, has said publicly that "a revolution is needed in our domestic oil machinebuilding."

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Unless major purchases of US equipment and technology were made, the Soviet Union would not come close to meeting its projected oil production goals.

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[REDACTED]

Oil Imports. Over the past decade the USSR has annually "imported" roughly 7 million tons of oil, a good part of it from Iraq. Most of this oil has either been resold for hard currency or transferred through clearing arrangements to developing countries, and none has physically been brought into the USSR. We anticipate that in the future, however, there will be a need to raise the volume steeply and deliver substantial amounts directly to the Soviet Bloc market. In the past the Soviets have publicly referred only in the most general way to this contingency, but in 1980 Soviet officials have begun to broach the issue more directly.

In commentary designed to drive a wedge between the United States and its West European allies and to assert Soviet interests in the Middle East, a well-connected journalist, Nikolay Portugalov, implied rising Soviet imports when he stated in February that the USSR "is itself interested in the security of oil routes in the Persian Gulf region. Chancellor Schmidt . . . stated that the USSR, as a potential purchaser of Near East oil, has a legitimate right of access to its sources."

[REDACTED]

Leadership Judgments

As noted above, Soviet leaders do have an interest in giving an impression to domestic and foreign observers of measured but not alarmed concern over the energy and oil problem.

[REDACTED]

We know, of course, that Soviet leaders are familiar with the CIA oil forecast, and probably they take it seriously even if they do not accept it. At the very least, it may reinforce suspicions that the

situation is more precarious than Soviet officialdom is prepared to acknowledge

Ambivalent Attitudes. In 1978, Soviet Minister of Foreign Trade Nikolay Patolichev (a full Central Committee member since 1941, and former party secretary and candidate member of the Presidium—now Politburo—who has high political status and enjoys easy access to the current Politburo membership) conveyed an ambivalent

[REDACTED] that might well reflect a general outlook among leaders of his generation reared in the Stalin era:

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Some circles in the United States have been arguing that the US should not sell oilfield technology and equipment to the USSR. Some have stated, 'Let us make it difficult for the USSR to extract oil.' What a misinterpretation! What a mistake! There was a time when the USSR produced only 20 million tons of oil per year. Then Stalin said, 'Raise the oil production to 60 million tons per year.' Today the Soviet Union produces 500 million tons per year. If we want to extract more oil, we will. But we may not want to extract more oil. On the other hand, we may enter the market to buy some oil, perhaps just a little. So will Poland, so will Czechoslovakia, so will East Germany, so will Hungary; and then we will spoil the market for the United States. . . . If the Soviet Union, and Poland, and Hungary, etc. went into the market, even to buy a little oil, it would hurt the United States.

You know, during the war steel output was only 5 million tons per year. How was it possible to defeat the Germans? This is where our system works. This is where our system is flexible. During the war nobody in this country was allowed to use even one kilogram of steel for anything but war purposes. I know, I worked in the Urals region during the war. I know how easy it is to conform the methods we use in the war to today to really economize. We could meet our energy requirements and even have enormous surpluses of oil; and besides that, we are building a vast network of nuclear power stations and power plants. As far as our coal reserves are concerned, they are inexhaustible. I know our Five Year Plans can do miracles. . . . You know, when

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Leonid Brezhnev says, "Tighten the belts by one notch," everyone will do it, and the effect will be tremendous. Such negative comments merely encourage us. We will do it faster and faster!



If the Soviet leadership is wont to judge the seriousness of today's problems by comparing them with those of the early Five-Year Plans and the Second World War, even a fairly substantial shortfall in oil production might not seem that critical a matter, especially taking into account the huge proven gas and coal reserves perceived to be there in Siberia.

In a September 1979 interview published in the Bulgarian press, Baybakov's deputy for energy affairs, Arkadiy Lalayants, was invited to refute "unfounded hypotheses regarding alleged reductions in oil prospecting and the oil output level that have recently been widely spread in the West, sometimes even in the form of reports issued by official institutions." Lalayants replied:

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Baybakov's Position. Among top economic officials, none has had more experience in dealing with energy issues, and none probably enjoys a higher reputation as an energy adviser, than the longtime Minister of Oil and current chairman of Gosplan, Nikolay Baybakov. Since at least the early 1970s Baybakov has closely followed general energy issues and evidently been seriously concerned with both the quantitative and cost dimensions of the energy problem. His interest in holding the line on investment in West Siberia has led him into repeated conflict with proponents of faster West Siberian development, and has probably also stimulated his strong support for enhanced recovery methods capable of getting more oil out of already-developed fields (he has even lent his name as coauthor to a book on enhanced recovery published in 1977).

In 1980 and up to 1990 oil output will also increase, although at lower tempos. As for the discovery of oil deposits in the USSR, generally speaking for the whole country, they not only are not diminishing, but are even increasing, thanks to the new oil deposits discovered by Soviet geologists in West Siberia, the Komi ASSR, and in other areas. Reserves offshore and in East Siberia and Kazakhstan represent a great, still unutilized resource, which will allow us to keep up the level attained in oil production and even to increase it. . . . We are guided by our policy of reducing the share of oil in the fuel and energy balance of the country in favor of an increase in the output of gas, coal, hydro-power and nuclear energy. We are also facing the task of increasing the intensified processing of oil, so that the same amount of oil can produce more oil products and raw materials for the chemical industry. (Emphasis added.)

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In a September 1978 [redacted] Baybakov stated that when he was Minister of Oil he was recovering approximately 33 percent of the oil in place. Now, as chairman of Gosplan, he was interested in 80 percent recovery, although he realized that this was extremely ambitious. (The seriousness of Baybakov's commitment to enhanced recovery is suggested by the reported inclusion of about 100 enhanced recovery projects in the draft 1981-85 Five-Year Plan.)

In the oil trade area, Lalayants continued, the USSR had "always fulfilled and always will fulfill our obligations" to supply oil to CEMA member countries. Leaving unclear what these "obligations" would be in the future, he raised the issue of escalating capital investment costs of oil exploration and development and pointedly informed his Bulgarian audience that "all this demands that we search for new forms of effective cooperation, permitting us to cover the economically justified needs of the CEMA member countries for oil and oil products."

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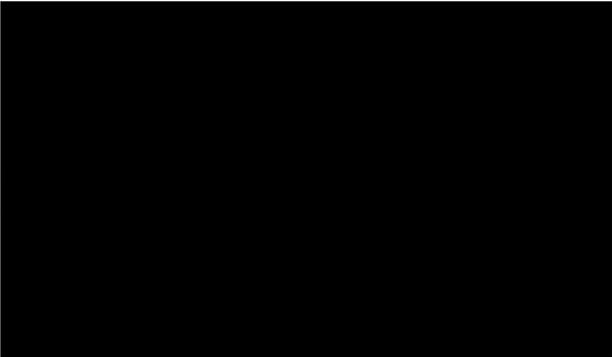


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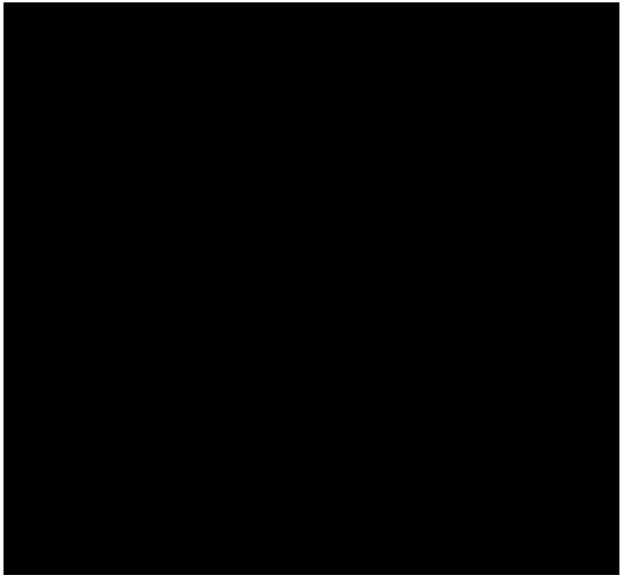
Lalayants also mentioned that

the Soviet Union is interested in purchasing oil and gas as well, wherever it is advantageous for us, letting ourselves be guided by geographical and other conditions. We are importing oil from Iran and Iraq. Recently the oil deliveries from Iran have been reduced in connection with events in that country; but we hope that in the future, along with the increase of oil output, the planned quantities will be obtained from that country.



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The relatively optimistic outlook suggested by the Lalayants interview appears to be reflected also in Baybakov's comments on energy in his report on the annual plan to the Supreme Soviet in November 1979. Despite Brezhnev's biting attack on energy performance at the Central Committee meeting several days before, Baybakov limited himself to observing that the oil and coal ministries were to "blame" for plan nonfulfillment in 1979, and he assured the leadership that Gosplan had already responded in the 1980 plan to party decisions adopted on Brezhnev's initiative:



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The need to insure stable growth in the fuel and energy complex . . . has been acknowledged. The main increase in oil extraction will be obtained in the regions of West Siberia, which compensates for the natural fall-off in extraction at old deposits and insures a certain increase in its extraction. Extraction will also increase in the regions of the Komi and Udmurt ASSRs, the Georgian SSR and Sakhalin Oblast.

Growth targets in oil production, Baybakov emphasized, could only be met through a "considerable" increase in capital investments and an accelerated commissioning of new production capacities and infrastructure.



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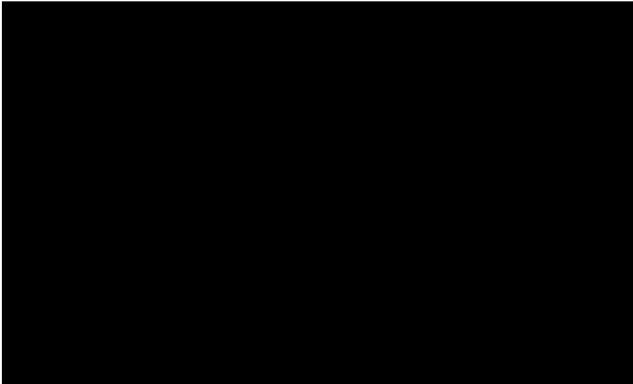
More recently, in April 1980, [redacted] a Gosplan research institute [redacted] 1981-85 commodity table for foreign trade [redacted] projected a leveling off of Soviet oil production during this period. It was unclear, however, whether the actual draft of the five-year foreign trade plan would be based upon such an assumption.

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Kosygin and Kirilenko. In several interviews during 1979, Premier Kosygin, who has been the top leader directly responsible for energy policy, downplayed the seriousness of the energy problem. Kosygin told [redacted] that Soviet oil production was growing by about 20 million tons per year, that the USSR had large gas and coal reserves, and that it was exporting oil to Eastern Europe and gas to West Germany, France, Austria, and Italy. [redacted]



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Kosygin's implied warning to the East Europeans at the June 1979 CEMA session that they could expect little increase in *oil* deliveries from 1981 to 1985 suggests, however, that he was deliberately shading the image he presented to his American interlocutors. Simply on the basis of his travels to oil-producing regions we can guess that Kosygin has been very concerned about coping with fuel deliveries and shortages in the USSR. [redacted]

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We know that steps were undertaken by the party leadership during the summer and fall of 1979, perhaps in anticipation of the poor yearend results in oil, coal, and electric power, to improve performance in the energy sector. Government and party resolutions on energy were adopted in June. At the June 1979 summit meeting with President Carter, when asked what the greatest internal Soviet problem was, Brezhnev responded: "Energy!" In October a major conference on fuel and energy was convened by the Central Committee and both before and after this gathering major press editorials were published that manifested heightened anxiety about energy and probably reflected unpublished leadership decisions. [redacted]

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In his report in November on the anniversary of the Revolution, Andrey Kirilenko revealed something of the leadership's judgments and intentions:

In order to achieve further successful economic development and the creation of the material and technical base of Communism, the party Central Committee, on the initiative of Leonid Il'ich Brezhnev, has adopted major new measures. This refers primarily to the building of the capacities of the fuel and power complex and the improvement of its structure. Emphasis is laid on increasing fuel extraction and developing atomic and hydroelectric power generation. The scientific search for new, nontraditional sources and methods of obtaining electricity is being conducted intensively. Work is being stepped up to save fuel, electricity and thermal energy and reduce consumption for the output of production. *A scientifically and economically based all-state energy program is now being developed.* Its aim is to provide for the accelerated development of power generation and to improve the entire technical base of the national economy. (Emphasis added.)

These comments by Kirilenko indicated leadership displeasure with progress in the energy sector, a recognition of the need to press ahead in shifting the energy balance, and a greater commitment to energy conservation. [redacted]

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Brezhnev. All three themes were articulated at much greater length in Brezhnev's speech to the Central Committee Plenum at the end of November. Brezhnev began by declaring that the growing energy needs of the economy were "being satisfied only with difficulty," and that for this reason the entire range of energy problems had to be reassessed. The immediate task, Brezhnev stressed, was to mobilize "not only economic organizations, but all party and administrative organs from top to bottom" to "create sufficient reserves of fuel for the winter." In the 1980s the strategic task was "primarily to reduce the share of oil as a fuel for power stations." [redacted]

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Argumentatively, Brezhnev asserted that "calculations show that this is perfectly practical." The key lay in adopting a "more resolute approach to increasing rates of extraction of gas, particularly in West Siberia," speeding up nuclear power generation, and accelerating the commissioning of new capacity in the Ekibastuz, Kansk-Achinsk, and Kuznetsk coal basins. For the longer term, he argued, power-saving technology should be introduced and "long-term plans should envisage the broad construction of nuclear power stations with fast neutron reactors, development of work on controlled thermonuclear synthesis, production of synthetic liquid fuel and use of solar and geothermal energy"—all post-1990 solutions to the energy problem. To facilitate matters, Brezhnev concluded, "a special commission has been set up to determine effective ways of solving the energy problem." [REDACTED]

Two years earlier, at the December 1977 plenum of the Central Committee, Brezhnev had proclaimed that Soviet energy policy would be based for the next 10 years on oil and gas production in West Siberia. The establishment of the special commission by the Politburo, and Brezhnev's stress on natural gas, nuclear power, and coal, appeared to indicate a more pessimistic appraisal of the prospects for oil and a partial return to the official energy policy line approved by the 25th Party Congress in 1976 which—with Kosygin's evident support—had called for greater emphasis on coal and nuclear power. Yet the revelation in April 1980 that the Politburo and the Council of Ministers had "recently" approved an acceleration of capital construction in West Siberia suggested possible further shifts in energy policy. [REDACTED]

The creation of the commission could represent the first step in securing sufficient backing for drastic policy determinations designed to cope with the real impending difficulties. But it could also reflect either leadership conflict, or drift over energy policy and the subordination of resolute action to the personal interest of leaders seeking the political cover of whatever recommendations emerge from the collective deliberations of this commission. [REDACTED]

Dolgikh. Brezhnev's speech was followed in January 1980 by an article on the fuel-energy complex signed by Vladimir Dolgikh, the Central Committee secretary for heavy industry. Dolgikh acknowledged the direct link between "high tempos of economic growth" (which he seemed to imply would be maintained) and the "still faster development of the fuel-raw material base, the raising of the mechanical and energy-intensity of the economy." Economic growth, in turn, was the decisive factor in military preparedness and consumer welfare. Unfortunately, fuel shortages and power cutoffs were already affecting economic growth [REDACTED]

The solution to these difficulties lay in implementation of Brezhnev's "propositions and conclusions" presented at the late November 1979 Central Committee plenum. These had a "programmatic character": they entailed "perfecting the fuel-energy balance, accelerating scientific-technical progress, reliably providing for the growing needs of the economy for fuel and power, and raising the level of all work in economizing on them." Tasks for the future included broader utilization of atomic, solar, and geothermal energy, and production of synfuels. A projection of the Soviet economy to the end of the century showed that "with sharp growth in the extraction and production of fuel-energy resources, the share of oil and gas in the general balance, evidently, will decline." Thus, "the task confronts us of elaborating a precise program for the further development of the fuel energy complex." [REDACTED]

In the old oil regions of the USSR, Dolgikh argumentatively stated, enhanced recovery methods would permit the extraction of large additional quantities of oil and "give the state a multimillion ruble saving." A for West Siberia:

The growth of extraction of oil in West Siberia now is occurring basically through the exploitation of earlier-opened large deposits. In order to replace them in the future, it will be necessary to bring into production dozens of small fields. Calculations show that in 1985 to meet the needs of the country it will

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be necessary to more than double the volume of drilling. If this were done with current equipment and at present tempos, it would require increasing the number of workers engaged in drilling by hundreds of thousands. But this is hardly realistic. This means there is only one path—new equipment, the perfection of technology, the raising of labor productivity. [REDACTED]

There is undoubtedly optimism within the leadership about the Soviet long-term energy future, based upon the enormous proven reserves of coal and gas, the likelihood of future oil discoveries, and the potential for expanding nuclear power and bringing on fast breeder reactors. Compared with the prospects of most Western countries, those of the USSR look rosy. [REDACTED]

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In this passage Dolgikh explicitly recognizes at least several of the basic constraints that lead CIA analysts to predict a decline in Soviet oil production (that is, the need to begin developing many remote small fields in Tyumen Oblast, the associated steep rise in drilling required, and manpower shortages). He acknowledges that there is no solution to the dilemma of West Siberia other than increased productivity, but he then avers—sincerely or not—that productivity does still offer a way out. [REDACTED]

Current fuel and power shortages, however, are obviously becoming extremely worrisome to the Soviet leadership. The failure of the oil, coal, and electric power industries to meet their targets in 1979 has apparently provoked an “agonizing reappraisal” by Soviet officialdom of the USSR’s energy policy. It is clear to the Soviet leadership that economic growth, and everything that goes with it, is jeopardized by poor performance in the energy sector. [REDACTED]

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Both Dolgikh and his professional audience are fully aware that in past Five-Year Plans productivity gains of the sort he is talking about have never been attained, and that for a variety of reasons productivity indicators in West Siberia are currently falling rather than rising. In the last four Five-Year Plans the oil drilling target has not been fulfilled; and the chances that it can be fulfilled in 1981 to 1985 with the kind of manpower shortage he indicates are dim. [REDACTED]

Uncertainty about future oil prospects is probably the dominant feature of the outlook of the leadership as a whole. This uncertainty appears to span a range of possibilities, bounded on the high side perhaps by hopes for at least some increase in oil production, and on the low side by fears that the CIA’s projections might prove to be not far off the mark. [REDACTED]

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Not surprisingly, Dolgikh does not address the question of how, concretely, such gains in productivity can be achieved. Rather, he shifts the discussion in the remainder of the article to quite conventional organizational and personnel measures aimed at “improving leadership” and “raising the responsibility of cadres.” A sophisticated Soviet reader of Dolgikh’s article might well conclude that *some* decline in oil production is inevitable (how much and how fast would remain unclear), and that Dolgikh himself must perceive this—whether or not he is prepared to admit it or make the corresponding policy recommendations. [REDACTED]

Soviet leaders are familiar with these projections, and probably do not dismiss them lightly. One cannot rule out the possibility 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 the possibility that the leadership has secretly concurred with such an assessment. [REDACTED]

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Leadership Judgments Summarized

The picture one can draw from the evidence presented above is cloudy, and conclusions could be altered by clearer insights into what the specialists have been telling the leaders privately, and how much of this is being accepted and really acted upon. [REDACTED]

There is evidence, however, that 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 will outstrip its availability, and that the share of oil in the energy balance will inexorably decline. It is also

* See footnote 2, p.

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clear that the leadership understands that it will need to buy more oil abroad in the 1980s than it now does. [REDACTED]

Given this perspective, the leadership now appears to be defining its problem as one of overcoming technical obstacles in oil production in order to maintain desired rates of economic growth, rather than as one of coping with the likely consequences for the entire economy of critical oil shortfalls [REDACTED]

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At least from the statements we are privy to, 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 the concern with energy conservation and an increase in investment in energy branches, however, they do not appear to be focusing very sharply on middle-distance contingencies that will confront them if there is a steep drop in oil availability by, say, 1982-83. It is entirely possible, of course, that these contingencies are being considered secretly; but to a significant degree, secrecy would be self-defeating [REDACTED]

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Soviet leaders are keenly aware that their options for dealing with the oil problem in the short-to-middle term are increasingly 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 are probably inflated estimates of the impact on oil production of enhanced recovery methods and other technological innovations, as well as of equipment modification. [REDACTED]

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The establishment of a "special commission" by the Politburo to "determine effective ways of solving the energy problem" strongly suggests not only that policy implementation has been deficient, but that previous leadership in judgments about the oil problem and policy determinations, have not faced up to the gravity

of the situation. If past practice is any guide, the commission in all likelihood is composed of the same individuals who are already responsible for administering energy policy or advising the government and central party apparatus on energy issues. Whether such a commission will recommend the strong medicine indicated, and whether the leadership will summon up the political courage to swallow it, remains to be seen. [REDACTED]

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

[REDACTED]

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Nor does the leadership to date 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. But it is apparently unwilling to go beyond the tried-and-true responses of exhortation and administrative pressures even to discuss, much less to begin to introduce, the sort of structural adjustments in the economy that might ease the transition to an era of 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. They probably expect that such measures would simply be accepted by a passive population [REDACTED]

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