

22493

~~SECRET~~
(When filled in)

| | | | |
|--|--|---|-----------------------|
| Support Project Initiation Memorandum (for Non-Scheduled Intelligence Production) | | Type B | Control Number ERM |
| TO: Production Control Staff. | | | |
| 2. Title or Subject (31) Line 1 Status of the Yakutsk and Line 2 Sakhalin Natural Gas Fields Line 3 Line 4 Line 5 | | 3. Analyst(s) & Other Contributors (31) Line 1 Line 2 Manhours: 10 Completion Date (y m d) 1977 02 23 | |
| 4. Requester and Purpose (39) Line 1 Robert Adam, Maritime Commission. Line 2 For use in a briefing package for the Line 3 Chairman of the US Maritime Commission. Line 4 Line 5 Line 6 | | Classification (39) CONFIDENTIAL | |
| 5. Precis (39) Line 1 Overview US and Japanese involvement Line 2 in the development of the Yakutsk and Line 3 Sakhalin natural gas and oil fields. Line 4 Line 5 Line 6 Line 7 Line 8 | | | |

APPROVAL:

| | |
|--|------------------|
| | Date 3 Feb 77 |
| | Date 2/24/77 |
| | Date |

Note: Numbers in parentheses indicate the maximum number of characters and blanks to be inserted in a line—i.e., (16) means no more than 16 spaces.

~~SECRET~~

MEMORANDUM FOR: Mr. Robert Adam
Office of Economic
Analysis
Federal Maritime Commission

Attached, per your request, are
several items for use in the preparation
of a briefing package for the Chairman
of the Maritime Commission.

Office of Economic Research

Attachments

23 February 1977
(DATE)

ER M 77-10107

FORM NO. 101 REPLACES FORM 10-101
AUG 54 WHICH MAY BE USED.

(47)

~~CONFIDENTIAL~~

Yakutsk Natural Gas

In 1971, Moscow proposed that the US and Japan participate in development of Yakutsk gas reserves in East Siberia. El Paso Natural Gas, Occidental Petroleum, and Bechtel Corporation formed a consortium on the US side. Initial discussions envisaged development costs of \$4-5 billion for exploration, construction of a pipeline from the Yakutsk deposits to the port of Nakhodka, gas liquefaction facilities at Nakhodka, and 20 LNG tankers to transport gas to Japan and to the US west coast. These costs were to be repaid by delivery of 28 million cubic meters a day of LNG to each country for 20 years.

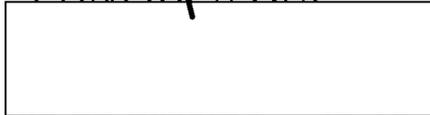
Progress on the Yakutsk LNG project has been slow, largely because of the lack of US Eximbank credits and uncertainty about US energy import policy. Eximbank legislation passed in 1975 limits total credits for Soviet energy projects to \$40 million. US government approval for the project has been sought by all parties, but has not been granted. Japan has been reluctant to undertake the project without US participation.

Proved reserves at Yakutsk are not adequate to support full development, so that further exploration is needed. The exploration was originally to cost \$400 million -- \$200 million to be supplied by the Soviets and \$100 million each from the US and Japan. The Soviets subsequently decided that as a result of exploration progress they had already made, only \$25 million each from Japan and the US would be required. Loans were extended by Bank of America and Japanese banks in March 1976. The Soviets accepted bids for the \$50 million in equipment needed for exploration late last year. No contracts are known to have been let, but US firms will likely supply a substantial portion of the equipment.

Once the equipment is purchased, the field survey will take 3-5 years. Thus, it is likely that sufficient information to make a go-ahead decision on Yakutsk will not be available before 1980 at the earliest. At that time, Tokyo will have to have a clear idea of the US role in the project in order

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~



to decide whether or not to proceed. If the US accepts a large role, then Japan will likely push ahead with the project. If Japan finds that it must undertake the project alone, it may decide to reduce the scale of the project or scrap it altogether. If the decision is affirmative, several years of planning and construction will be required, so that the project probably will not be completed before the mid-1980 at the earliest.



~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

Sakhalin Oil and Gas

Discussions between the Soviets and Japanese concerning exploration and development of gas and oil reserves in the Sea of Okhotsk off Sakhalin Island began in 1972. In January 1975 an agreement was initialed for joint exploration by the Soviets and a consortium called the Sakhalin Oil Development Company (SODECO). Gulf Oil Corporation has a small equity share in SODECO; the rest of the members are Japanese firms.

SODECO agreed to extend \$150 million in credits to the Soviets to finance exploration costs, construction of a shore base, and purchase of Japanese consumer goods to be sold in the USSR to cover local Soviet costs. SODECO is to be repaid by exports from the oil and gas produced. If deposits located are not adequate, the credits need not be repaid.

If and when the parties involved decide to develop the reserves, Japan will provide on credit the equipment necessary to achieve full production. These credits, valued at some \$1 billion, would be repaid by oil deliveries for ten years. SODECO would also be granted an option to buy 50% of Sakhalin oil production for ten years after the credit is repaid. The oil exported to Japan reportedly will be at a substantial discount from OPEC prices.

Western offshore technology is essential to the Sakhalin project, but for security reasons Moscow has strictly limited the number of foreigners permitted in the area. As a result, most of the exploration work is being done by Western-trained Soviet crews on ships leased from the West. In 1976 two Japanese ships and another leased from a French firm conducted geophysical surveys of the Sea of Okhotsk. Full-fledged exploration will begin when the ice melts this April. Offshore International, a US offshore drilling company, and Japan Drilling have been retained by SODECO to train twenty Russian technicians to operate offshore drill rigs. They hope to drill two or three test wells this year.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~



The US role in Sakhalin has been small. After joining SODECO, Gulf seemed a likely choice for a major role in the exploration. However, negotiations with the Soviets fell through, and Gulf has apparently shown little interest since. The prospect is that Sakhalin will continue as essentially a Japanese-Soviet deal. The US advantage in offshore technology, however, should guarantee that US firms will provide a good share of the equipment for the project.

Results of the survey work completed last summer are not known, but some US experts believe that from a study of the petroleum geology of the area, the reserve potential is far too low to interest any major Western oil company as a profitable venture. Soviet geologists, however, have estimated potential oil reserves offshore from Sakhalin under water depths up to 100 meters at 15-20 billion barrels. Although the Soviets and Japanese both seem anxious for the project to progress, significant production will probably not begin before the early 1980s.



~~CONFIDENTIAL~~