

RADIO FREE EUROPE *Research*

COMMUNIST AREA

This material was prepared for the use of the editors and policy staff of Radio Free Europe.

0647

USSR: Economics

9 July 1970

SOVIET OIL EXPORTS CONTROVERSY

(Summary at end)

The experts on Soviet oil exports are now at sixes and sevens. The Financial Times today predicts net crude exports of 100 million tons p.a. in 1980, (1) but this is tied to an output forecast of 470,000,000 tons in 1975. That prediction is two years old (V.D. Shashin, Radio Moscow, 20 June 1968).

It is also incompatible with Pravda's own more recent statement that the 1971-75 plan aims for a total output of 2.7 billion, (2) an extremely optimistic figure which seems to suggest an annual output of about 510,000,000 tons in 1975. The Financial Times figure for 1975 looks more realistic, but it does not necessarily follow that the "F.T." is also right about 1980 exports. Some observers in the West believe that by then the USSR may be a net importer.

(1) 7 July 1970.

(2) 16 February 1970, article by A. Murzin, see RFE Research report "Oil Production Target 1971-75," 18 February 1970, by r.r.g.

Output growth in the decade ahead can, on present information, be expected to increase as follows:

Soviet Crude Oil Production (Million Tons)

<u>1970</u>	<u>1975</u>	<u>1980</u>
345-350 (3)	470 (4)	608 (5)

The imponderable element in the equation is the growth of demand. In the 1950-66 period Soviet per capita energy consumption grew at 4.3% p.a., (6) and by 1980 the USSR will probably need about 2.0 - 2.2 billion tons of hard coal equivalent (7) when allowance is made for domestic consumption and for exports.

The point to bear in mind, however, is that these estimates of demand date mainly from 1967, before the full scope of the Togliatti Fiat plant was known to the forecasters and before the Kama Truck Plant had even been planned. Within a few years Togliatti should be delivering 660,000 vehicles a year, and Kama, in about 1974 or 1975, is scheduled to churn out 150,000 trucks annually. Granted the simultaneous expansion of the existing car factories under the contract awarded to Renault, it begins to look as though the USSR will need much more of its own oil for domestic consumption than could reasonably have been expected in 1967.

If the USSR is a net exporter of 100 million tons in 1980, as the Financial Times now suggests, that would leave her with only about 500 million tons of crude for domestic use. The other principal European consumer, the E.E.C., is expected to use less energy, but far more oil:

E.E.C. Energy Forecasts (Million Tons HCE) (8)

	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1990</u>
Total demand	954	1,178	1,465	2,049-2,204
Oil supply	602	816	1,015	1,427-1,582

(3) Agitator No. 15, 1969.

(4) Financial Times, 7 July 1970.

(5) Planovoye Khozyaistvo, No. 1, 1969.

(6) World Energy Supplies, U.N., Nos. 1-11.

(7) Vestnik Akademii Nauk SSSR, No. 7. 1967

(8) Evolution de la Demande en Pétrole, A. Lefebvre, quoted by Petroleum Press Service, July 1970.

Converting these figures back to crude oil imports for the E.E.C., its requirements will be (approximately):

	Million Tons Crude Oil			
	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1990</u>
EEC Consumption	400	550	710	1,000-1,100

When these figures are compared with the Soviet oil output figures above (p. 2), it can be seen that the Soviet fuel structure begins to look retrogressive. If the Financial Times export figure for 1980 is correct, the gap in domestic oil use between the E.E.C. and the USSR would be 120 million tons in 1970, rising to 202 million tons by 1980.

It seems improbable that the Politbureau will allow any such backsliding to take place, and in fact the OECD has estimated that by 1980 Soviet domestic consumption will not less than 610,000,000 tons and might run as high as 650,000,000. (9)

But in this case too the time factor is important. The OECD estimate was made in 1966, much too early to take account of the considerable degree of motorization later initiated by Brezhnev and Kosygin. For this reason it too may be an underestimate.

Moreover, the theory that the USSR will have increased quantities to export in the decade ahead seems to run counter to recent Soviet price policies. France, for example, is a major Soviet market for crude, taking more than 2,000,000 tons a year in 1967 and 1968. But when the negotiations for 1970 deliveries from the USSR began, Elf (the French state oil company) was told that the price had gone up by 30% to \$1.70 a barrel from \$1.30 (10), and that only small tonnages, tied to imports of refined products, were available. (11) It looked as though the USSR was no longer anxious for the business.

(9) OECD, Energy Policy, Problems and Objectives, Paris, 1966.

(10) F.o.b. Black Sea ports.

(11) Petroleum Intelligence Weekly, 14 July 1969. (12)

At the time when the Soviet offer was made, crude from the Middle East (Persian Gulf) was selling for only \$1.30 and the delivered cost to Marseilles was about \$1.70. In other words the USSR was apparently trying to price itself out of the French market, and that fact alone is significant enough.

On balance Soviet net exports of crude in 1980 seem likely to be well below the 1969 figure of 90,000,000 tons, (12) and there is still a strong possibility that she might become a net importer. On the other hand, even if the Financial Times forecast proves correct, it is clear that the oil consumption gap in favor of the E.E.C. must continue to grow, implying that the modernization of the Soviet fuel structure will be progressing too slowly by West European standards.

This fact can be brought home by comparing the E.E.C. forecast for the use of coal in the decade with the current Soviet plans. On present forecasts the consumption of coal by the E.E.C. is to decrease by 25% in the 1970-1980 decade, whereas production in the USSR is to rise by more than 50%, from 600,000,000 tons this year to 950,000,000 tons in 1980. Since coal is more expensive and less efficient than oil, the average cost of industrial fuels look like rising faster in the USSR than in the E.E.C.

Summary: Although some Western experts believe that the USSR may be a net importer of crude oil in 1980, the Financial Times finds net exports of 100,000,000 tons a year to be a more probable development. This paper discusses the background to the two conflicting estimates, and suggests that if the USSR is still a net exporter in ten years time, it will be on a much smaller scale than 100,000,000 tons p.a. due to the increasing requirements of domestic motorization.

r.r.g.

(12) Financial Times, 7 July 1970.