

Eastern Siberia could become another Saudi Arabia.

By Vladimir Kvint
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WHEN SADDAM HUSSEIN brutally annexed Kuwait, the price of oil took off. Here was an Arab ruler who was threatening to hold the industrial world hostage for its oil. It was not so much Saddam Hussein's tanks and his missiles and poison gas that frightened the West as his possible use of the oil weapon.

In fact, the Kuwait invasion was a sign of weakness on Saddam's part, not strength. Saddam could not finance his imperial ambitions on \$17 oil, so he sought to drive prices higher at the point of a gun. A primitive man's primitive solution to a complex modern problem.

It won't work. What's more, most of the other Arabs know it won't work. That's one reason they are not backing Saddam.

Demand and supply will set the price of oil, not guns and embargoes. Demand is growing, but supply may be growing faster. By the beginning of the next century, Russia may be exporting more oil than Saudi Arabia is today. Here Russian economist Vladimir Kvint, a frequent contributor to *FORBES*, explains why. Time is running out on the use of oil as a political weapon. Those who have tried to wield the weapon, Saddam Hussein and his predecessors, have counted on the fact that the Middle East sits on the world's largest proven reserves of oil. But we now know that there are even bigger reserves in Russia's Siberia.

Not tomorrow, but in the years ahead, more and more of this oil will reach world markets, assuring that world oil prices will remain under pressure and making it virtually impossible for any Arab ruler to hold the world to ransom.

So, whatever happens to Saddam Hussein, the current level of world oil prices will prove to be unsustainable.

The Japanese seem to understand this better than the Americans do. Without doubt, their understanding of Siberia's potential helped persuade the cautious Japanese that they could afford to antagonize Iraq by participating in the blockade. As far back as 1975, Japanese interests launched their exploration for oil and gas off Sakhalin, the Pacific island just north of Japan (see zap).

Even now, with its economy in tatters, the U.S.S.R. remains the world's absolute leader in oil production. Last year, production, according to official Moscow sources, was 12 million barrels a day. My own evaluation for the U.S.S.R. is somewhat higher—12.5 million barrels. By comparison, Iraq and Kuwait combined produce just over 4 million barrels a day; Saudi Arabia produces 5 million barrels; all of OPEC produces 24 million.

Yes, the Russians need a lot of that oil at home—less than 20% of their production goes for export. Russia also desperately needs foreign exchange to buy other things, and their easiest way of getting that exchange is by boosting oil exports. With Western help, eastern Siberia could become another Saudi Arabia—although not, of course, with Saudi Arabia's low recovery costs.

A whole new source of oil is about to burst upon the world scene: eastern Siberia and the Arctic zone of the U.S.S.R.

From their magazines and newspapers, most Americans have gotten the idea that the Soviet Union's oil production is centered in the republics of Kazakhstan and Azerbaijan—in the oil fields of Baku, Astrakhan and Shevchenko along the Caspian Sea—and in the fields of western Siberia, which are fast being depleted. This is misleading. The Central Asian republics' reserves have been running out for decades; they now account for just 6% of Soviet production.

Nearly all the rest of Soviet production comes from the Russian Socialist Republic, primarily from the western Siberian fields tapped in the 1960s and 1970s. They are closer to population centers and enjoy milder climate conditions than the eastern areas. But thanks to mismanagement and abysmally low worker incentives and productivity, yields from western Siberia have been steadily falling.

These are old fields. To get the same amount of oil, one must now drill six times as many wells. And the cost of the ecological damage in these regions is bigger than the costs of the facilities for waste processing.

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Yet with help from capitalist countries, western Siberia can significantly increase its oil exports based on its northern and deeper oil fields: On average in the U.S.S.R., only 7% of oil is extracted from the oil field, about a fifth the level in U. S. fields. Especially promising are the Sea of Okhotsk shelf and formations near the Pechora River region, 1,000 miles northeast of Moscow.

But all this is small change compared with the exciting prospects for eastern Siberia. According to geologists of the Soviet Union's Academy of Sciences, the oil reserves of eastern Siberia are even bigger than those forecast for OPEC.

As long ago as 1978 it was clear to Siberian geologists and economists that western Siberia's oil production peak was rapidly approaching and that new fields must be sought farther east. By this time very promising geological forecasts had appeared, announcing secretly, as always, unheard-of oil and gas fields in eastern Siberia, in the Arctic offshore and in the Pacific coastal regions of the Soviet Far East.

As the economic knowledge of these regions was practically nonexistent, I proposed a series of economic expeditions to evaluate the treasures locked beyond the Urals. These missions, similar in some ways to America's Lewis and Clark expeditions, included geologists, engineers, and physicians. I was one of them.

In 1979-81 we explored the Arctic regions of the U.S.S.R., the Far East and various territories of Siberia. The geologists discovered tremendous potential between the eastern shore of the Yenisey River and the Lena, especially the oil belt dividing the Taymyr peninsula from the mainland.

A slow start has been made on development. East Siberian fields will produce only around 20 million barrels this year. Not much in global terms. But I think we'll see the same kind of growth in east Siberia that we saw in west Siberia: from 7 million barrels a year in 1965, to 7 million barrels of oil every day. By the year 2000, eastern Siberia will be yielding more than 140 million barrels of oil each year, as well as billions of cubic feet of natural gas.

But these are minimal figures for the year 2000. They assume little help from abroad in either technology or capital: If the capital and expertise of companies like Exxon, Royal Dutch/ Shell and British Petroleum could be turned loose on the region, there is no telling how high production might go. Straw in the wind: Chevron Corp. has announced it is beginning exploration in Kazakhstan, prologue, perhaps, to the oil fever to come.

Eastern Siberia may sound like another planet to Americans. In fact it is America's next-door neighbor, four hours' flying time from Anchorage and about seven hours from Seattle. Harsh as it is, it is a much more pleasant place to live and work than the barren deserts of Arabia.

Alaska, until 1867 a Russian province, is separated from some Siberian oil fields by only several dozens of miles across the Bering Strait. There are some oil fields in the far eastern U.S.S.R.-principally off Sakhalin Island and the Kamchatka Peninsula, for example-from which an overnight oil delivery to Alaska could be organized.

U.S. consumers would benefit directly from this proximity. I have calculated that total transportation costs to the U.S. West Coast from eastern Siberian oil fields would be a fraction of the costs of importing oil from the Middle East. Russian oil may even be pumped from tankers into the Alyeska pipeline. Within ten years this natural geographic proximity will become a new factor in economic growth.

The world's energy transportation routes and economics are going to be changed. The Arctic Seaway, linking all of the northern U.S.S.R. to the warm-water Pacific, is to become a very busy route indeed. And an extremely efficient one. Foreign companies began experimenting with this route back in 1980. I watched the unloading of the Mannesmann pipes from West Germany sent for the gas pipeline to the icy, unequipped shore of the northern point of the Yamal Peninsula.

In addition, the great eastern Siberian rivers, including the Yenisey, the Indigirka and the Lena, create a natural transportation system for oil and other resources. And the 2,000-mile-long Baykal-Amur railroad, begun in the 1970s, runs through the middle north of Siberia and the

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Far East, connecting the oil fields with the already existing ports on the Pacific Ocean. From there, it is a one-day tanker run to Japan, and another day or two to Alaska.

Beyond oil and gas there are other Siberian treasures to harvest—nonferrous metals, coal (next door to one oil field is the world's biggest brown coal field, estimated at more than a trillion tons), gold and lumber. And while extracting oil you do not want to throw away diamonds, just because they are in the way.

Development in eastern Siberia will be somewhat slowed by environmental concerns. While Soviet environmentalists are not as anticapitalistic as their American counterparts and do not enjoy the weapons provided by the U.S. legal system, Soviet environmentalists will put pressure on the authorities to make sure that the eastern Siberian wilderness is not ravaged. In former years many big Siberian projects were facilitated by bribes to Soviet bureaucrats.

But Siberians will not allow the rape of nature and their lives anymore. Eastern Siberia is a beautiful wasteland, with huge forests and severe mountains. It has cold winters, but hot and bright summers. Several attractive cities exist in these regions, such as Noril'sk and Krasnoyarsk and Irkutsk.

Under Soviet rule, development in Siberia has been tremendously damaging to the environment. With exploitation comes the same sad picture. All the trees are cut. Near the mines and oil fields, workers endure terribly shabby housing—one room for four people in a hostel, furnished with an old wardrobe, table and TV set. For 4,000 to 5,000 oil workers, there is one club, usually painted Party red, where the entertainment is amateurish. No wonder the workers drink so much. The fatigue gradually accumulates, the productivity of labor falls.

If Western companies are to go to the U.S.S.R., they'll have to invest something. But at an estimated \$8,000 per worker, it will still cost less for these companies to upgrade Siberian facilities than it now costs to house and feed workers in Alaska or on North Sea oil rigs. Employers will also have to invest in social infrastructure, and pay decent wages.

But to whom should interested foreign businesses apply? The U.S.S.R., led by Mikhail Gorbachev? Or the Russian Republic, led by Boris Yeltsin? The parliament of the Russian Socialist Republic has already declared its property rights for all of Russia's natural resources, including areas that currently produce 92% of the U.S.S.R.'s oil. Foreign oil entrepreneurs should find a willing ear in the new Russian government, which would far prefer to sell oil for hard currency than to other Soviet republics.

It is clear that the Russian Republic's market-oriented young economists will try to sell not just the crude oil but also higher-value-added refined petroleum products. That is why eastern Siberia may be of the greatest interest to petrochemical processors; the former will certainly be favored over those seeking purely extractive investments.

It is time for American business people to start thinking in terms of the Pacific Century, and of America and Russia as neighbors across that shrinking pond. It is also time to stop worrying about Arab oil embargoes and start thinking about how to bring all that Russian oil to world markets. Some Arab nations may be able to withhold their oil for a while to punish the West, but Russia, hungry for development, cannot.