Energy Insider by William Engdahl

Soviets' deepening energy catastrophe

Some little-discussed aspects of the economic breakdown that might astonish Western fans of perestroika.

An explosion in a gas condensate pipeline near the Siberian city of Tobolsk the week of Oct. 23 has reportedly damaged major gas trunklines from the huge Siberian Urengoi gas fields. It is but the latest in a growing series of disasters and breakdowns which may define world history in coming months.

Until the June 3 explosion of a gas pipeline along the Trans-Siberian Railway, which killed hundreds in the Bashkir Republic, natural gas was the bright hope of the Soviet energy strategy. The Five Year Plan had called for natural gas to be the bridge between reliance on crude oil and transition to coal-dominated energy use by next century. Gas utilization has been expanded enormously since the late 1970s and now provides some 40% of domestic energy, while exports to Western Europe give dearly needed hard currency.

Now gas explosions are hitting at a rate of once a month or more. One result of the Bashkir disaster was the realization that hundreds of miles of the hastily laid pipe running from Surgit in West Siberia to petrochemicals plants in western U.S.S.R., were in the same shoddy condition as the region where the leak occurred. Summer months have been used for emergency pipe replacement before onset of the bitter Russian winter. Reportedly, during the crash energy expansion of the 1970s and early 1980s, when Western oil prices skyrocketed and enticed Russian planners to "bet the ranch" on export of gas and oil, the motto inside the Soviet Oil and Gas Ministry was, "Build faster and spend less." Between 1970 and 1985 the entirety of the oil and gas distribution network was expanded 250%.

Now we see the results. Pipelines in the Urengoi region are severely deteriorating and future explosions are certain. Informed Western industry estimates say that at least 60% of the gas pipeline compressors in operation across the Soviet pipeline grid need immediate replacement after less than a decade in service. Soviet pipelines lose an estimated one-third of energy supply from lack of adequate compression.

Coal supply, the major fuel for Soviet electric power plants, is in an alarming condition according to informed reports from continental European energy consultants. In recent weeks, just before onset of the severe winter, Soviet coal stocks on site at electric plants are at "historic lows." Coal output nationally had dropped some 20 million tons in the first eight months of the year over the same period in 1988 to 395 million tons, partly due to miners' strikes. But the real problem according to these reports is the sudden lack of transport. There apparently has been a catastrophic breakdown in availability of railcars to carry coal to both power plants and steel plants. The situation is so severe in some regions that steel furnaces are reported on the verge of closing for lack of coking coal.

What about oil? Isn't the Soviet Union the world's largest producer of crude oil? In 1987 official Soviet oil output, according again to their data, reached a record 12.56 million barrels per day. The combined oil and gas export to the West gave Moscow some 80% of its hard currency export earnings before the sharp fall in Western oil prices in 1986, from $26 to some $12-15 a barrel. Soviet total hard currency export earnings in the West dropped a devastating 40% as a result of the 1986 price collapse.

Western petroleum engineers acquainted with the Soviet oil fields report the situation could collapse in key producing fields at any moment. As a result of only a partial "deregulation" of the oil sector—the petroleum machine-building sector, the chaos in oil equipment supply is growing by the hour. Oil machine factories are now allowed to decide where to sell up to 70% of their production. As one result, reports of cancellations of supply agreements with the state oil industry are numerous. Oil rigs and other drilling equipment have gone up in cost 100% in two years, but the Petroleum Ministry is still under controlled prices so it is unable to pay the higher costs.

Production of oil is beginning to drop. *Petroleum Argus* in London estimates that this year oil production could be down as much as 4%, some 15 million tons out of 624 million tons total. One immediate loss will be in export to Rotterdam of oil for heating by some 20-30%. There is reported a hot debate from Soviet energy planning circles over reducing Western oil and gas exports in order to serve national needs. One plan calls for imposing further energy austerity on the East European satellite economies through revising export price agreements. If imposed, this will force severe energy austerity onto the already sinking economies of Eastern Europe, which depend on energy from the Soviet Union. Let's hold the problems in the nuclear energy sector for another day.