

N A T O R E S T R I C T E D

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ECONOMIC COMMITTEE

Note by the French Delegation

THE "ADRIATIC" PIPELINE AND OIL IN THE SOCIALIST COUNTRIES

In August 1973, after hesitating for ten years, the Yugoslav Government signed the construction contracts for the "Adriatic" pipeline ("Adria"), with the participation of Hungary and Czechoslovakia. The pipeline(1) will connect the port of Bakar, near Rijeka on the Adriatic, to the Yugoslav refineries and then to the Hungarian, Czechoslovak and, at a later date, Polish refineries. Rumania is also interested in a possible extension of this pipeline.

In this way, Yugoslavia proposes to develop its petroleum industry, which will double in size every five years and 80% of whose needs will be met by Iraq and Iran, at the minimum cost.

This new source will not affect the predominant part played by the USSR in supplying energy to the East European Socialist countries; although Russia's share will have decreased by approximately 10% in 1976-1980, it will still represent 70% to 80% (except for the GDR, where it will still be 90%). All these countries will continue to be supplied from the USSR by means of the "Friendship" pipelines.

The Adria will enable the USSR to adopt a more flexible oil policy and to take advantage of its influence in the Near and Middle East to provide the Arab petroleum-producing countries with a seller's market. At the same time, thanks to the relative reduction in its deliveries, Russia will be able to build up strategic reserves or, if necessary, offset any under-development of the Siberian oil-fields.

This document includes: 6 Annexes

(1) See the two maps attached

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1. Development plans (Historical background to the Adria)

Since 1963, Yugoslavia has envisaged the construction of a pipeline to carry oil from the Adriatic to the country's main refineries, which are located on the same latitude as Belgrade. In the summer of 1963, Energoinvest of Sarajevo, INA of Zagreb and Naftagaz of Novi Sad signed the construction contract for a 700 km pipeline, starting at the Bay of Rijeka and connecting the refineries at Sisak, Bosanski Brod and Pancevo, with branches towards the Hungarian frontier and Lendava and towards Rumania(1). The first consignments of oil were to be transported in 1976.

By 1980, the pipeline, which has a forecast capacity of 40 million tons per annum, should be carrying 10 million tons per annum to the refineries at Sisak and Lendava (INA), 5 million tons per annum to Bosanski Brod (Energoinvest) and 9 million tons per annum to Novi Sad and Pancevo (Naftagaz). The 10 or 15 million tons per annum available after delivery to Yugoslavia will be transferred to Czechoslovakia and Hungary (5 million tons per annum each) and then to Poland and Rumania.

In 1971 Czechoslovakia and Hungary initialled the construction contract for which Poland has just signed a Memorandum of Understanding in Zagreb. The pipeline will cost 200 million dollars(2) (9 million from the Yugoslav oil companies, the rest being provided by Yugoslav firms and banks and by interested foreign organizations). From the Adriatic coast to Sisak, the diameter of the pipes will be 915 mm (700 mm from Sisak to the Hungarian frontier, 600 mm on Hungarian territory). The pipeline will be equipped with five pumping stations.

The main foreseeable difficulties are the crossing of the Carso massif opposite Sisak and the crossing of the Drava and the Lake Balaton marshes.

2. Justification for the Adria pipeline

2.1 Reduction in transport costs

The construction of this pipeline is desirable mainly for economic reasons for, at the present time, oil for Yugoslavia from the USSR and, to an increasing degree, from Iraq and Iran, follows a complex and increasingly expensive route. From the

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- (1) i.e. a section from the Adriatic coast to Sisak, where it will divide into two branches: northwards towards Botova and Hungary, eastwards towards Belgrade and Rumania (see map)
 - (2) The delays in beginning work on the pipeline were due to Yugoslav hesitation with regard to financing

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USSR, the oil is carried via the Black Sea to Yugoslavia, either through the Rumanian ports and then by the Danube or by rail, or via the Straits direct to the Dalmatian coast ports and then by tank wagon to the Yugoslav refineries. From Iraq, the oil is transported by pipeline to the Syrian and Lebanese ports; from here, it is either sent by sea direct to the Yugoslav ports and then carried in tank wagons to the Yugoslav refineries or shipped via the Straits to the Rumanian ports and then along the Danube to the Serbo-Croat refineries. From Iran, the oil is transported via the Persian Gulf and the Red Sea to the Israeli Eilat - Askalon pipeline, whence it is carried across the Mediterranean to the Yugoslav ports or, via the Straits, to the Black Sea and the Danube(1).

For these circuits, carriage by tank wagon is considerably more expensive than by pipeline. Furthermore, the largest tankers which provide the cheapest form of transport, can pass through the Straits, while the Danube can only take fluvio-maritime freighters of no more than 5,000 tons, which entails trans-shipment and additional cost. Except for the transport of oil, this in no way diminishes the increasing importance of the River Danube, which will soon be connected to the North Sea via the Main and the Rhine.

Rumania is interested in the pipeline, for its main petroleum port, Constanta, can only take ships of 50,000 tons (subsequently 100,000) whereas, for the past three years, the pipeline terminal, the Yugoslav port of Bakar, near Rijeka, has been handling tankers of 150,000 tons (250,000 tons in 1975), thus considerably reducing transport costs.

For petroleum from Iran, the Israeli pipeline is becoming a bottle-neck, owing to the increased needs of its users. The forthcoming construction of the high-capacity Suez-Alexandria pipeline, mainly financed by American capital, is bound to increase the importance of the supply route to the Yugoslav ports.

2.2 Development of the Yugoslav petroleum industry

In the normal course of events, the country to benefit most from the improved oil transport situation as a result of the Adria pipeline will be Yugoslavia. At present, this country produces some 3 million tons of oil but processes nearly 9 million tons. In 1975, output will not exceed 4.5 million tons

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- (1) And from the Danube port of Vukovar it is carried to the Bosanski Brod refinery by means of a small pipeline, whose throughput will be reversed when the Adria pipeline is constructed

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whereas refining capacity will be 13.5 million tons (in 1980, the figures will be 6.5 and 22 respectively). In 1985, output should double (9 million tons) and the refineries should be able to process three times as much crude as in 1973 (30 million tons, as against 9 million). At present, half of Yugoslavia's oil imports are from the USSR. In 1980, 75% will come from the Middle East(1).

Construction of the Adria will enable increased deliveries of oil to be made to the Yugoslav refineries at the lowest possible cost. Transport costs will be considerably reduced in comparison with the present system and the capacity of the pipeline will be sufficient for at least the next 20 years. The forecasts made by the Yugoslav leaders as regards the development of the refining industry are, in fact, very optimistic. It is probable that the Yugoslav economy will consume only part of the oil carried by the Adria, which will largely be used to supply the countries of Northern Central Europe.

2.3 Diversification of resources for the Northern Central Europe Socialist countries

80% to 90% of the petroleum products necessary for the economies of the four Socialist countries of Northern Central Europe (Czechoslovakia, Poland, Hungary and the GDR)(2) come from the Bashkir oil-fields (soon also from the Tiumenta oil-fields) via the Druzhba (Friendship) pipeline(3). This system which at present delivers 50 million tons of oil to these countries every year and was completely duplicated at the end of 1973, will, in 1974, have an annual capacity of 100 million tons of oil from Western Siberia, which should enable it to meet 80% of the petroleum requirements of the four countries concerned until 1980 at least.

However, the future needs of Czechoslovakia, Hungary and Poland are such that they must already envisage additional supplies from the producing countries of the Middle East. The GDR is in a special position, since its flourishing industry makes it a privileged oil customer of the USSR, which is well content to receive precision manufactured products in return for crude oil.

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- (1) Details of the volume and percentages of imports by the Socialist countries from the USSR and the Middle East are given in Annexes A and B.
 - (2) Details of oil imports by these countries are given in the above-mentioned Annexes A and B.
 - (3) Cf. Note d'Information No. 10.238/SGDN/CER/C/CD of 15th February, 1973 ("Le Droujba, ou oléoduc de l'Amitié")

The refinery capacity of Hungary will increase from 6 million tons per annum in 1970 to 15 million in 1980 and its imports from the USSR from 4.3 to 10 million (of the 13 million it needs). Most of the oil reaches Hungary via Druzhba II, which was inaugurated in November 1972, three days before Mr. Brezhnev's official visit. Druzhba II will already be saturated before 1980 and Druzhba I will be reserved for the growing needs of Czechoslovakia. Hungary therefore needs the 3 million tons per annum which it is to receive from Iraq in 1980. Moreover, the Hungarian leaders made strong representations to Mr. Brezhnev in 1972 in order to speed up the decision to build the Adria pipeline, which via Yugoslavia will supply the Szazhalombata refinery, located on the Danube at the point where oil carried by the Druzhba from the USSR will meet that from the Middle East after its long land and sea journey through the Yugoslav ports(1).

Czechoslovakia, whose oil output is very small(2), imported 9.4 million tons from the USSR in 1970 and will receive 15.5 million tons, i.e. 85% of its needs, in 1975. However, it will also import 5 million tons from Iran, Iraq and Venezuela. The oil transported to the Hungarian refinery at Szazhalombata by the Adria pipeline will then enter Druzhba I and be dispatched via Sahy(3) to refineries at Bratislava and Most.

Poland's position is a rather special one; this country, which produces very little oil, imported 7 million tons, i.e. 80% to 90% of its requirements, from the USSR in 1970 (14 million tons in 1975). In 1972, Poland signed an agreement with the British Petroleum Company (BP) for the construction at Gdansk of a refinery, to be built in 1975, with a capacity of 3 million tons per annum (6 million tons in 1980), for which BP was to supply 3 million tons of crude per annum for 10 years. Poland's resources are supplemented by imports from Syria and Egypt (1 million tons) and, since the agreements of June 1973, from Iran (600,000 tons in 1974(4)). This Middle East oil, transported to Czechoslovakia through the Adria pipeline, will no doubt be dispatched to Silesia by means of another pipeline (yet to be built) along the Morava valley.

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- (1) Szazhalombata is also the terminus of a small pipeline from the oil-fields of Western Hungary
 - (2) 210,000 tons per annum
 - (3) At present, Druzhba I splits into three branches at Sahy, where a complex system of valves distributes the USSR oil to Szazhalombata (Hungary), Most and Bratislava. When the Adria is completed, the throughput of oil will be reversed along the Szazhalombata - Sahy branch
 - (4) Forecasts for subsequent years are not yet known

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Rumania's petroleum policy is highly individualistic. This country produces slightly more than 14 million tons a year, but its "proven" reserves cover only about 10 years, and although only 8 million tons are needed for home consumption, it can refine 17 million tons (19 in 1980). Refined products are exported to all countries (except those of the COMECON, which are unable to pay in hard currency). Rumania therefore imports crude oil. This is not obtained from the USSR, but from Iran (3 million tons a year) and Venezuela (0.8 a year). In order to reduce transport costs, as mentioned above(1), Rumania is much interested in extending the Adria to its refineries south of Timisoara.

Bulgaria, a loyal satellite, depends and will continue to depend on the USSR for 90% of its oil, which is shipped direct across the Black Sea. It is therefore not interested in the Adria.

3. Effect on the oil policy of the USSR

The USSR, which is the world's second producer, has more than enough oil for its own requirements. It exports 50 million tons a year to the Free World(2) and slightly more to the COMECON countries(3). In 1975, it will produce as much oil as the United States did in 1971 (470 million tons). However, the exploitation and transportation of Siberia's oil resources entail difficult problems. These deposits account for 80% of Russia's potential resources and cannot be rapidly and profitably exploited without United States and Japanese aid.

On the pessimistic assumption that the Siberian venture might fail, the USSR has for several years past been following a policy of insidious penetration in the Middle East (this policy is also in line with the USSR's long-standing quest for access to the high seas). It enjoys a strong position in Iraq(4), especially since the Western boycott of the latter's oil. The aim of the USSR is to strengthen its position in these countries in order to ensure the availability of oil resources to meet some of the growing requirements of its COMECON "partners", while at the same time keeping a very firm grip on the latter's energy supplies. Moscow is obliged to encourage a limited and controlled diversification of imports by these "partners". In 1970, the Socialist countries as a whole (including Yugoslavia) imported just over 8 million tons from the OPEC countries (23 in 1975 and no doubt 40 in 1980), most of which went to Yugoslavia, though a sizeable amount went to Poland, Czechoslovakia and Hungary.

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- (1) See paragraph 2.1
(2) Details of Soviet petroleum exports are given at Annex C
(3) Council for Mutual Economic Aid. 153 million tons from 1965 to 1970, 245 from 1971 to 1975
(4) A Soviet trade delegation arrived in Belgrade on 2nd November to study prospects for developing exports of Iraq oil

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On the more probable assumption(1) that the Siberian venture will be successful, the USSR is likewise bound to favour the opening of the Adria pipeline, which will facilitate oil deliveries from the OPEC countries to its COMECON "partners". Being assured of its own stability energy-wise, the USSR will thus be able to adopt a more flexible policy in controlling the COMECON countries energy supplies. It will be in a position to husband its own resources and to increase its strategic reserves and will find it easier to exert stronger pressure on certain OPEC countries.

In the Autumn of 1973, the situation as regards the world's oil supplies was somewhat confused. The USSR, with its extensive oil deposits, holds a trump card but the operating and transport difficulties are great. Whatever the result of its efforts to turn the Siberian deposits to good use, Russia has an interest in the construction of the Adria pipeline.

This pipeline which, at first sight, appears to be beneficial only to the Yugoslav oil industry, owing to the reduction in transport costs it will entail, will also be very useful in the medium and long-terms to the economies of the countries of Northern Central Europe. Its construction is certain to further the USSR's direct or indirect petroleum interests.

The building of new pipelines in the Suez Canal area will merely increase the economic interest of the Adria system and is bound to promote the USSR's oil policy. This is a further reason for External Russia's continuing interest in one of the world's trouble spots.

(1) The requirement and resources of the USSR for both assumptions are shown in Annex D

VOLUME AND PERCENTAGE OF OIL IMPORTS BY THE SOCIALIST
COUNTRIES FROM THE USSR AND THE MIDDLE EAST

	Production	Total imports	Imports from USSR	% of total imports	Imports from Middle East	Percentage of total imports
FRG						
1970	60,000 tons	10.3 m.t (1)	9.2 m.t	90%	Iraq, Egypt 1.1 m.t in 1971	10%
1975	60,000 tons	18 m.t	16 m.t	90%	Iraq, Egypt Saudi Arabia 2 (?)	10%
POLAND						
1970	430,000 tons	8 m.t	7 m.t	90%	Syria, UAR 1 ditto + BP +	10%
1975	1.4 m.t (forecast but unreal- izable: 370,000 tons 1973)	18 m.t	14 m.t	80%	Iran 1 +3	20%
CZECHOSLOVAKIA						
1970	210,000 tons	9.7 m.t	9.4 m.t	95%	Iran 0.3	5%
1975	210,000 tons probably less (195,000 tons in 1972)	18 m.t	15.5 m.t	85%	Iran, Iraq, Venezuela (refined) 2.5	15%

(1) m.t = million tons

	Production	Total imports	Imports from USSR	% of total imports	Imports from Middle East	Percentage of total imports
BULGARIA						
1970	338,000 tons	5.6 m.t	4.7 m.t	90%	Algeria, UAR 1	10%
1975	338,000 tons	12 m.t	10 m.t	90%	Lebanon + Iraq,	10%
	or less:				Iran, Libya 2	
	248,000 tons					
	in 1972					
HUNGARY						
1970	2 m.t	4.3 m.t	4 m.t	80%	Iraq, Syria 0.2	20%
1975	2.4 m.t	10 m.t	6.5 m.t	65%	Iraq, Syria 3.5	35%
1980	(plan)		10 m.t			
	(possible)					
RUMANIA						
1970	13.3 m.t	Refined 15 million tons in 1970; consumed 8 million tons; imported				
1975	14.3 m.t	2 million tons from Iran; 2.4 million tons in 1973, then 5 million				
		tons per annum from 1975				
YUGOSLAVIA						
1970	2.8 m.t	4.9 m.t	2.7 m.t	50%	1970 2 m.t, incl.	80%
1975	(consumed	7.5 m.t	3.5 m.t	50%	550,000 tons Iran	40%
	7 m.t in				and 600,000 tons	
	1970 and				Iraq	
	12 m.t in				3 m.t from Iran,	
	1975)				Iraq, Libya (1 m.t	
	4.5 in 1975				per annum)	
	(doubtful)					
1980	6.5(?)	16(?) m.t	4(?)m.t	25%	12(?) Iraq-Iran	75(?)

EXPORTS OF NEAR AND MIDDLE EAST OIL TO THE SOCIALIST
COUNTRIES (INCLUDING YUGOSLAVIA)

- 1970: 8 million tons
 - 1975: 23 million tons
 - 1980: 40 million tons
- } (forecast)

Origin of oil: Iran, Iraq, Syria, Libya, Egypt

Importers in 1975:

GDR	2 million tons	(probable figure)
Poland	4 million tons	(probable figure)
Czechoslovakia	3 million tons	(probable figure)
Bulgaria	2 million tons	(probable figure)
Hungary	3.5 million tons	(probable figure)
Rumania	5 million tons	(probable figure)
Yugoslavia	3.5 million tons	(probable figure)

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SOVIET OIL EXPORTS

Exports to the Communist countries
(in millions of tons)

	<u>1970</u>	<u>1971</u>	<u>1972</u>
Czechoslovakia	10,466	11,810	12,866
GDR	9,342	10,378	11,480
Poland	8,142	9,550	11,066
Bulgaria	7,050	7,959	7,949
Cuba	5,987	6,444	7,025
Hungary	4,759	5,055	5,529
Yugoslavia	2,740	2,880	3,398
North Korea	838	699	398
North Vietnam	353	375	192
Mongolia	260	267	297
TOTAL	<u>49,937</u>	<u>55,417</u>	<u>60,200</u>

Exports to the Free World

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
(Italy	10,735	10,194	9,002	8,430
(Finland	8,083	6,223	8,567	8,627
(FRG	5,801	6,300	6,092	6,195
(Sweden	4,678	4,818	4,569	4,363
Europe (France	2,656	2,549	4,539	3,078
(Belgium	758	1,275	2,038	2,516
(Austria	668	1,053	1,128	767
(Denmark	534	377	861	772
(Switzerland	539	445	805	822
(Holland	-	1,444	1,631	2,433

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		<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
Other	(Japan	2,201	2,713	2,284	1,011
Countries	(Egypt	1,019	1,639	1,604	1,442
of the	(Greece	850	928	1,011	909
Free and	(Morocco	633	699	868	934
Third	(Ghana	540	515	598	625
World	(India	488	252	473	378
	(Miscellaneous	3,040	1,886	2,985	1,828
	TOTAL	<u>43,223</u>	<u>43,310</u>	<u>49,055</u>	<u>45,130</u>

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USSR REQUIREMENTS AND RESOURCES (1975-1980)
(in millions of tons)

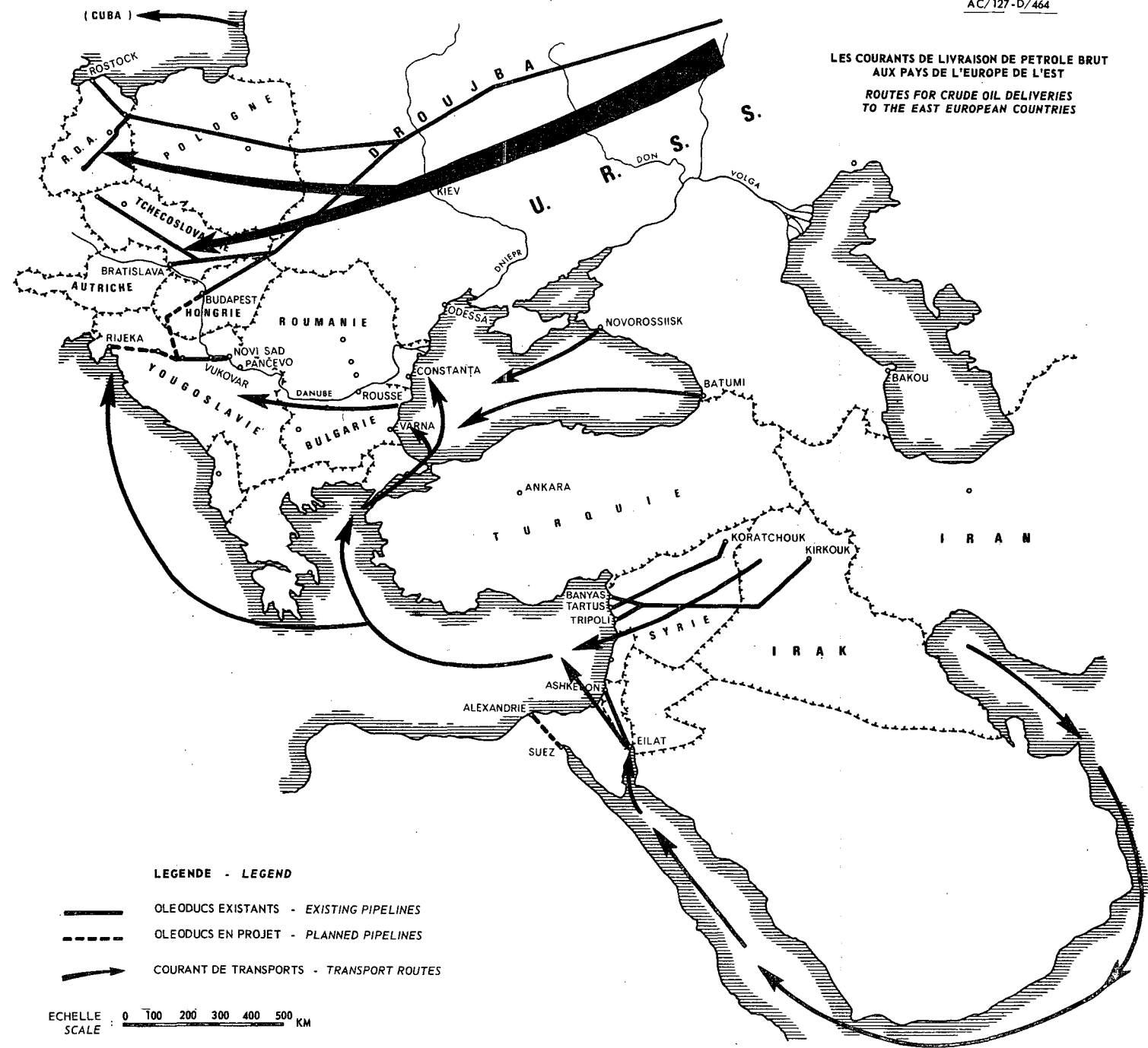
	1975		1980	
	Requirements	Resources	Requirements	Resources
<u>Assumption 1:</u> Success of the "Siberian venture"	350	480	450	600
<u>Assumption 2:</u> Failure of the "Siberian venture"	350	450	450	500

On Assumption 2, in 1980 the USSR would still cover its own needs very largely but would be obliged to abandon its policy of exporting to the COMECON, Third World and Free World countries (50 million tons available, as against 130 to 150 million tons necessary).

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LES COURANTS DE LIVRAISON DE PETROLE BRUT
AUX PAYS DE L'EUROPE DE L'EST
ROUTES FOR CRUDE OIL DELIVERIES
TO THE EAST EUROPEAN COUNTRIES



LEGENDE - LEGEND

- OLEODUCS EXISTANTS - EXISTING PIPELINES
- - - OLEODUCS EN PROJET - PLANNED PIPELINES
- COURANT DE TRANSPORTS - TRANSPORT ROUTES

ECHELLE : 0 100 200 300 400 500 KM
SCALE

