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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

12 April 1982

National Intelligence Council

MEMORANDUM FOR: Lawrence J. Brady
Assistant Secretary for Trade
Administration
Department of Commerce

FROM: Maurice C. Ernst
National Intelligence Officer for Economics

SUBJECT: Cost Estimates of Siberian Pipeline

REFERENCE: Your memorandum, same subject, dated 19 March 1982

1. This is a response to your memorandum of 19 March to in which you raised some additional questions on the Siberian pipeline.

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2. Western bankers do not appear concerned about their prospective exposure to the USSR resulting from financing the Yamal pipeline. First, the bulk of the Western credits, including some 85 percent of the equipment and probably a substantial part of the pipe, will be covered by government guarantees, so that the risk to the banks is fairly small. Second, the project would be self-liquidating over a relatively short period (i.e., 4-5 years) at currently anticipated sale volumes and prices, although the loan repayment period is eight years. It would still be very attractive to Moscow if the stream of earnings were less.

3. We have seen no cost estimates for the pipeline project in excess of \$25 billion. A cost estimate of \$25 billion was based on an Alaskan pipeline analog, which was probably too high. We currently estimate the costs of Western equipment and pipe (including finance charges) at \$10 billion. The additional Soviet domestic costs of construction are unknown but would probably be less in dollar terms than the pipe and equipment costs. The labor costs of the pipeline would be less than a similar undertaking in the West because Soviet wage rates are relatively low. Despite the growing shortage of new entrants into the labor force the Soviets should have little trouble fielding enough manpower for the pipeline. Major construction programs in the past (e.g., the BAM railroad) have made use of a wide variety of unskilled and semi-skilled labor from the Komsomol and military construction troops, as well as contingents from East European countries. Although the Soviets deny the use of prison

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labor, we believe that penal labor without confinement has been employed in the past and could be used again.



/ Maurice C. Ernst

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DDI #3001-82
12 April 1982

SUBJECT: Cost Estimates of Siberian Pipeline

NIC/NIO/Econ:M.Ernst (12 Apr 82)

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MEMORANDUM FOR: NIO/USSR
NIO/AL
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I have taken the action on this at
 request and have contacted SOVA.

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Maurice Ernst
NIO/Econ

Date 25 March 1982

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UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

DDI- 8357-82

MAR 19 1982

MEMORANDUM FOR:

[REDACTED]
National Intelligence Officer
Central Intelligence Agency

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FROM:

Lawrence J. Brady
Assistant Secretary
for Trade Administration

SUBJECT:

Cost Estimates of Siberian Pipeline.

I have quickly reviewed the most recent C.I.A. assessment of the Siberian pipeline. There are still a few unanswered questions relating to cost which deserve further attention.

1. At what point does the entire project become uneconomic for Western banks because of construction delays, Soviet failure to deliver gas at specified volume or price, or slackness of demand in Western Europe?
2. I have seen cost estimates for the project ranging from \$22 billion to \$45 billion. What would account for this wide variation? Has CIA undertaken any assessment of the labor costs of this project? Where will the manpower come from, given the severe labor shortages in Siberia? Will there be sufficient volunteers (Komsomol students, etc.) for the pipeline and infrastructure, or will forced labor, including dissidents, be utilized?

24 March 82

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