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**DIRECTORATE OF INTELLIGENCE**

14 May 1987

**Vietnam: Near-Term Oil Prospects** [redacted]

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**Summary**

Vietnam began exporting oil this year, but we doubt that output from the Vietnamese-Soviet joint venture in the South China Sea will reach a level high enough in the next few years to substantially ease the country's economic woes. Although we have sketchy information on Vietnamese oil reserves, our analysis of similar nearby Southeast Asian fields suggests that, at current prices, Hanoi may produce 10,000-20,000 barrels per day (b/d) by 1990; current production is around 5,000 b/d, [redacted] Production in this range would provide some \$40-\$75 million in export earnings enabling Vietnam to boost imports of much-needed capital goods. [redacted]

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The impact of oil production on the Vietnamese economy will depend on how much Hanoi chooses to retain for its energy-starved economy and on what claims Moscow lays to the output--factors that may hold Vietnamese exports to 50 percent or less of production. Perhaps

This memorandum was prepared by [redacted] Office of East Asian Analysis. Information available as of 13 May 1987 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Indochina, Thailand, Malaysia Branch, Southeast Asia Division, OEA [redacted]

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[REDACTED]

most important, from Hanoi's perspective, is whether Moscow reduces the 50,000 b/d it supplies to Vietnam as Vietnamese output rises. [REDACTED]

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### Oil Production Claims Versus Reality

Hanoi's extravagant projections for its oil, following the start of production late last year, have generated misleading press reports about Vietnam's oil production and export potential. For example, a recent Japanese article claimed that Vietnamese oil output would increase from 40,000 b/d this year to 200,000 b/d by 1990. Many such reports apparently were based on Hanoi's projections last December, when the Vietnamese said they anticipated an initial production rate of 40,000 b/d, increasing to 60,000 b/d by 1990, which would be enough to cover domestic consumption. [REDACTED]

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Adding to the unrealistically high expectations for oil production have been a recent flurry of Vietnamese discussions with potential Japanese trading firms and Singaporean refiners that, in our view, gave an inflated impression regarding the volume of exports Hanoi envisions. [REDACTED] the volume of exports mentioned by Hanoi most often [REDACTED] has been 40,000 b/d. We believe Hanoi and the Japanese firms have failed to reach an agreement thus far because of the small amount of Vietnamese crude likely to be available in the short term. [REDACTED]

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[REDACTED]

Hanoi is nonetheless making progress in boosting oil production. [REDACTED] current production is roughly 5,000 b/d, up from last year's average of 800 b/d. Vietsovpetro, the joint venture company set up by Moscow and Hanoi to develop Vietnam's offshore energy resources, has five producing wells in the Bach Ho field located about 65 miles southeast of Ho Chi Minh City (see map). [REDACTED]

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Production at Bach Ho however, is not progressing as rapidly as Hanoi would like, according to [REDACTED] press reports:

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- Numerous delays and equipment problems have slowed development. For example, drilling platforms function only one of every three days, and Vietsovpetro has been slow to install essential production equipment such as gas flares and oil-water-gas separators.
- Soviet performance is also hindered by lack of access to seismic studies and results of drilling programs that Western oil companies conducted in the area during the early 1970s.
- Exploiting the Bach Ho field is apparently proving beyond Soviet offshore oil capabilities. Much of the Soviets' offshore experience is limited to the Caspian Sea, which is relatively shallow and poses few problems. On the other hand, undetected geological faults and large volumes of natural gas in the South China Sea require specialized equipment and expertise.

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[Redacted]

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Western industry experts believe that without a major increase in technological know-how--which the Soviets are unable to provide--the Vietnamese will encounter difficulty raising output much beyond 40,000 b/d. So far, however, only India's Oil and Natural Gas Commission (ONGC) has signed an agreement, Hanoi's first with a non-Communist country, to assist Vietnam in developing its oil and gas reserves. Negotiations are in progress on the terms of a contract allowing ONGC to explore three offshore blocks Hanoi is offering. [Redacted]

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**A Tough Choice: Export or Consume?**

Hanoi seems to have decided to export as much as possible even though Vietnam's manufacturing and agricultural production are hindered by lack of fuel. According to press reports, industry is operating at less than 50 percent of capacity and the harvesting of this year's spring crop was delayed in part because of fuel shortages. Open sources indicate that Vietnam's oil consumption is about 50,000 b/d, nearly all of it supplied by the Soviets, but probably a third goes to support military operations in Cambodia. [Redacted]

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We believe the need to earn foreign exchange was the deciding factor in Hanoi's calculation to export most of its oil. New equipment and spare parts are needed to upgrade the country's antiquated factories, while fertilizers, insecticides, and farm machinery are needed to increase agricultural production. Vietnam is unable to import these items because of a serious lack of hard currency; Vietnamese exports are primarily agricultural products and handicraft items that generate less than \$100 million annually in foreign exchange. Hanoi's foreign exchange reserves were about \$10 million at the end of 1985, according to the IMF. [Redacted]

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**Impact on Vietnamese Economy**

Much of the impact of oil exports on the Vietnamese economy will depend on the share taken by the Soviets. Under the terms of the original agreement, Vietnamese oil production will be divided 60-40 in Hanoi's favor for 30 years following initial production. Moscow's oil quota was to cover costs associated with Vietsovpetro and as partial payment for past aid. [Redacted]

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Unless Moscow reduces its oil shipments to Vietnam, oil exports will provide a much needed lift to the struggling Vietnamese economy by easing Hanoi's foreign exchange constraints. Except for a few sporadic or trial shipments, Vietnam is not likely to start exporting oil regularly until production reaches 10,000 b/d [Redacted] [Redacted] In our judgment, that could occur as early as the end of 1988. Over the next few years, production will probably range between 10,000 and 20,000 b/d, with 40 percent going to Moscow. Assuming the Vietnamese exported all of the remainder at a price of \$17 per barrel, some \$40 and \$75 million in hard currency could be generated annually. [Redacted]

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[Redacted]

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