ately needed investment for modernizing the aging oil fields of Siberia and elsewhere was not to be had. Already by the mid-1980s, the largest Soviet oil fields were showing signs of a serious drop in output. To maximize oil sales during the boom years, Soviet planners had pursued an unwise policy of pumping wells far beyond advisable limits, often destroying future reserves in the process. In addition, with the notable exception of the Western-built gas pipeline infrastructure built by Germany's Mannesmann company during the early 1980s, the Soviet-made steel pipe and welding quality used in transporting natural gas inside the Soviet Union, thrown together under pressure of fulfilling the "Five-Year Plan," was of such an inferior quality that countless explosions and breakdowns have disrupted supply in recent months.

Lack of energy investment

Further adding to the chaos has been the desperation of Moscow to reduce its out-of-control inflation by cutting the state budget. This has meant further cuts in urgently needed oil and gas infrastructure. The budget for 1990 called for a cut of 40% for investment into the state energy sector.

One area in which this came to light was during the emergency mobilization last fall to harvest the unusually large grain crop. Much of the harvest rotted in the fields for want of gasoline or diesel fuel for trucks and tractors. Refining capacity in the U.S.S.R. is desperately inadequate.

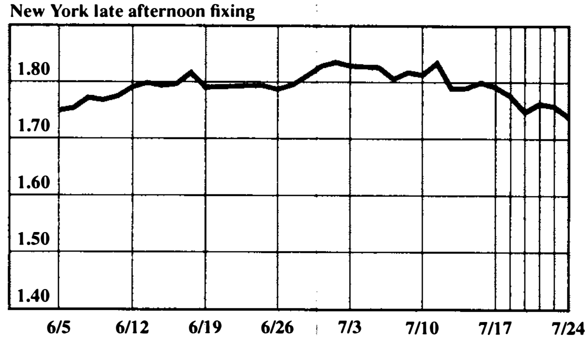
All of this has come to a conjuncture at which, for the first time since World War II, total annual production of coal, gas, and oil declined in the Soviet Union. Soviet oil production last year, according to official statistics, was the lowest since 1978, and some Russian officials have warned that the fall in output is accelerating such that the U.S.S.R. could be a net importer of oil by 1995.

Already this past March, as the Gulf war was coming to its conclusion, German Foreign Minister Hans-Dietrich Genscher, in Moscow for talks with Soviet Foreign Minister Aleksandr Bessmertnykh, offered to help re-equip and modernize the Soviet oil sector with German technology, in return for secure supplies of oil and gas. He stated that Germany was "prepared to use our potential in order to increase Soviet energy supplies. We could use the energy exported, and we could modernize the related equipment."

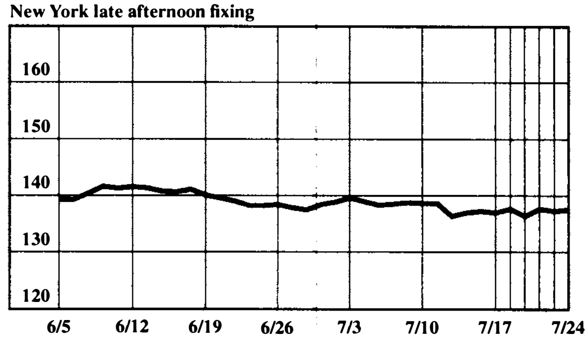
According to London-based oil industry sources, at this point there is about to be a stampede of West European companies into the Soviet oil and gas sector, as soon as nagging problems of bureaucratic lines of authority between Moscow, various republics, and local authorities are ironed out. "The London G-7 talks certainly helped," stated a spokesman for the Geneva Petroconsultants. "The Soviets now recognize what the obstacles are to serious Western investment and seem to be moving to remedy them." As soon as this is clear, industry reports are that there will be significant investment activity especially from French, Italian, and Finnish companies.

Currency Rates

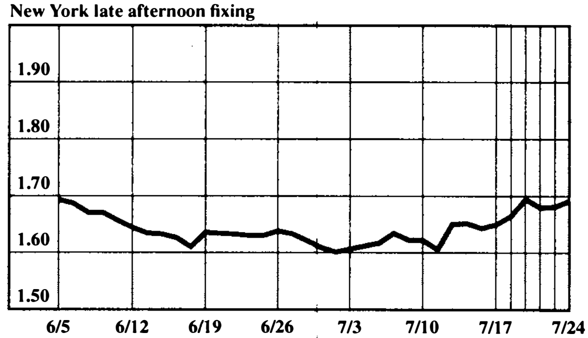
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing