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The Rt Hon Lord Carrington KCMG MC
Foreign and Commonwealth Secretary
Foreign and Commonwealth Office
Downing Street
London SW1

Prime Minister

30 September 1980

Dear Peter

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See IRAQ: Iraq/Iran = Part 1

As I mentioned at the Chequers meeting on Sunday the Americans have been working up proposals for a coordinated approach to the handling of stocks by IEA countries as part of their response to the cut off of Iranian and Iraqi exports. Under US pressure the IEA Secretariat today put to the Agency's Standing Group on the Oil Market (SOM) proposals for a decision to be adopted formally by the Governing Board at a meeting at the level of Ambassadors to OECD at noon tomorrow, Wednesday, 1 October. The reason for this sudden rush is that President Carter may be making a statement tomorrow night and would like to refer to an IEA decision: and there is a wish in the IEA to anticipate a statement which the French Cabinet may make tomorrow afternoon.

I enclose the latest draft of the decision. It may be further amended in detail. In brief it asks IEA member Governments to urge private and public concerns to refrain from abnormal purchases on the spot market; to consult with their oil companies with a view to meeting any imbalance between supply and demand by a reduction in the present high level of stocks and to reinforce measures to save energy and to substitute other fuels for oil. There is provision for consultation between Governments to ensure that the decision is implemented in a fair way and for monitoring its implementation.

Most members of the SOM indicated general agreement with the draft. (The UK representative made it clear that the position of Ministers was reserved). The only exceptions were the Swiss who with some support from the Swedes wanted to do nothing and the Canadians who were hesitant for internal political reasons. Italy, Spain and Turkey emphasised that they were hard hit by the loss of Iraqis supplies and might well need help. Their position is covered by the annex to the draft decision.

Implementing this decision should not cause us difficulty. Stocks except for gasoline are well above the minimum of 75 days consumption which the Government requires the companies to hold as a strategic reserve. In asking the UK companies to meet a shortfall in supply by

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reducing stocks we shall in most cases be pushing at an open door. That is the sensible and pragmatic course which I would expect the companies to follow.

The monitoring procedure provided for in the decision should enable us to ensure that we do not run down our stocks merely to the benefit of others who fail to play their part. The IEA monitoring will of course not cover France: but we should be able to watch them through parallel procedures in the Community.

The decision makes no specific provision for Governments to refrain from adding to their strategic stockpiles. The US Administration has said that for political and strategic reasons it must continue to carry out the Congressional decision to build up the strategic reserve at a rate of 100,000 barrels per day. This is quite unacceptable and we should make that abundantly clear if we accept the decision. We can then build on the reference in paragraph 2(iii) to consultation between Governments "to ensure consistent and fair implementation of this programme" to press the US both bilaterally and in the monitoring process to refrain from building up the strategic reserve.

The questions are therefore: (a) do we accept a decision on the lines of the enclosure in the IEA Governing Board tomorrow; (b) if so, do we acquiesce in the omission of a direct reference to Governments refraining from adding to their strategic stockpiles, but make it abundantly clear that it is unsatisfactory that strategic stockpiling should continue in the US and that we will be pursuing this point vigorously in the monitoring process.

I have some doubts about how effective the decision will prove in practice. But its adoption should not harm UK interests: and to reject it or insist on a reference to strategic stockpiles which we know is unacceptable to the US Administration would involve us in an unnecessary international row. We could well get blamed for blocking a measure to which the alternative is a further rise in oil prices with all the damage that would do to the world economy. If this is also your view no doubt your Department will send appropriate instruction to H M Ambassador to OECD.

I am sending copies of this letter and enclosure to the Prime Minister, Geoffrey Howe, John Nott and Sir Robert Armstrong.

D A R HOWELL

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DRAFT DECISION BY IEA MEMBER COUNTRIES

1 Member countries of the International Energy Agency have reviewed the current situation in the oil market as a result of developments in the Middle East and have concluded at this stage that:

- i) Oil consumption within IEA countries is low compared to recent years.
- ii) Oil stocks in IEA countries as a group are at high levels.
- iii) Some producer countries have indicated readiness to produce at levels which would contribute to a better world energy balance.

Consequently, they are convinced that the overall supply can be managed for IEA and non IEA countries so as to meet demand over the next few months.

2 As their part in achieving this result, IEA member countries agreed to take the following measures to prevent pressures on the oil market:

- i) Urging and guiding both private and public market participants to refrain from any abnormal purchases on the spot market.
- ii) In further implementation of the decision taken by Ministers in May 1980 on stock policies, immediate consultations by member countries with oil companies to put into effect a policy that within the fourth quarter there will be a group stock draw sufficient to balance supply and demand taking into account whatever additional production is available to the group.
- iii) To this end, active consultation between Governments of the IEA to ensure consistent and fair implementation of this decision taking account of market structures in individual countries, and to adjust for imbalance which might occur in particular situations.

iv) Reinforcement of conservation and fuel substitution measures which are already contributing to lower demand for oil.

3. Member Governments have agreed to monitor the implementation of this decision closely and to meet again at short notice to review progress.

4. IEA member countries recognise the announcements by some producer countries of their readiness to make up for some of the losses of oil supply. This, together with the measures of this Decision, will contribute to market stability and thus benefit the world economy as a whole.

Annex to draft Decision

Recognising that supply disruptions in the short-term may affect IEA countries in different degrees disproportionate reductions in stocks resulting from measures taken to carry out the decision will be taken into account in assessing individual member countries' positions if additional IEA actions should become necessary.

30 SEP 1980

