


Prime Minister

Mr Wilson
Mr Hoskyns

To note.

PRIME MINISTER

R 25/5


OIL SUPPLY

Despite the resumption of oil exports from Iran at about two-thirds of the previous level, world oil supply is currently running about 4% below the level of normal demand. Moreover, normal channels of supply are being by-passed to a growing extent by producers, thereby increasing uncertainties about future supply and hence demand by companies for any marginal quantities available on the open market. The inevitable result has been swiftly rising prices: term prices for crude oil are now 25% - 50% up on prices at the end of last year and spot prices for crude and most products have doubled.

Over the first 6 months of this year, the major companies operating in the UK expect their access to crude and product supplies to run less than 1% below last year's levels. Unconstrained demand this year has, however, been up 5% - 6% on last year (first quarter figures). Stocks were drawn down in the first quarter to meet this demand; and the prudent need to rebuild stocks, with an eye particularly to next winter, is increasing the gap between demand and supply now. As a result almost all major oil companies operating in the UK are restricting supplies into the market, at best at 100% of last year's level and in some cases down to 80%.

In short, the overall shortfall in UK supply is in line with the general world situation, ie. it is serious, but not critical. Effective demand constraint to the full extent of the 5% to which Member States of the International Energy Agency are committed would reduce the gap between world supply and demand to negligible proportions. But the supply position of individual countries and companies is uneven. In the UK, this is reflected

Contd/2.

in the more severe allocation cuts being imposed by some companies. It is this uneven effect which is giving rise to most concern and demands for further Government intervention from both sides of the House.

While companies are operating their own allocation schemes, they must treat all their customers equitably, or risk legal action. This inhibits them from giving priority to any particular classes of consumer (though there has been some informal response to the need to cater, for example, for the late spring sowing needs of farmers). It is open to us to invoke powers under the Energy Act 1976 to relieve companies of their contractual obligations and establish priority needs. But such a system cannot work successfully without re-allocation of supply also between companies. To mount the full-scale Government directed oil allocation scheme (the counterpart to which would be petrol rationing) would be a major Government intervention which I do not recommend. There is reason to suppose, for example, that such a Government directed system might divert away from the UK part of the supply which might otherwise have come here. The major oil companies, with whom we have discussed the situation, do not recommend Government intervention on the supply side.

What is needed is demonstrable commitment to demand saving, with the public sector giving a strong lead. Action on this is in hand and I will make further recommendations as necessary. This effort must form part of a coherent long term programme for oil conservation and optimising our use of our indigenous oil.

Colleagues are likely to find it necessary to comment on the oil supply situation this week-end. I suggest they speak to the points in the attached note.

I am sending copies to this minute to Cabinet colleagues including the Minister for Transport and to Sir John Hunt.

Secretary of State for Energy,

25 May 1979.

David Hunt



THE UK OIL SUPPLY SITUATION
SPEAKING NOTES FOR MINISTERS

1. What is the UK oil supply situation?

Supplies to the UK in the first six months of this year are expected to be at much the same level as in the first six months of last year. But due to the hard winter, demand this year has been running at about 5-6% more than last year and this has left us with low stocks which need to be rebuilt before next winter. If the full demand were to be met, we would need extra supply, and this extra oil is simply not available.

We have a serious oil problem, but not a crisis. This is happening all over the world.

2. What should people do about the shortage?

Everyone must cut back on their consumption of oil. We need to save at least 5% of what we had planned to use this year. The country has joined its partners in the International Energy Agency and in the EEC in a commitment to make these savings; it is vitally important that they are achieved. If they are not, prices will continue to rise and many people will go short of oil.

For its part, the Government is cutting back on the consumption of oil in the public sector and in the use of oil for electricity generation. Everyone else, whether in industry, commerce, or as a motorist, must contribute. This may mean cutting back on some services so that essential services can be maintained.

3. What is being done to share out supplies?

In order to make available supplies go round as fairly as possible, and in order to rebuild their stocks, the oil industry is operating an allocation system. Consumers should adapt themselves to their allocation and put it to the best effect; all unnecessary uses of oil should be cut out.



4. Why is the effect on consumers uneven?

Some suppliers have been harder hit by the world supply shortage than others. This means that their customers may be getting less than others. If everyone cuts back these problems should be reduced to a minimum and be within the capacity of the industry to solve. The industry itself has not suggested Government intervention on the supply side. U

5. What is the Government doing about it?

The Government is committed to effective demand constraint, which is the way to bring supply and demand back into balance. Plans for rationing exist but their introduction would not produce any more oil. No other country has found it necessary to take this step. The Secretary of State for Energy has made it clear he expects all parts of the public sector to account to him for achievement of 5% demand constraint. N

6. Why are we not protected by the North Sea Oil?

The maintenance of normal trade patterns with our trading partners is as much in our interest as it is in theirs. This is an international problem, which needs an international solution. In any case, to get the right balance of products, and to operate the refineries in an economic manner, we need to import oil which is cheaper than our own North Sea oil.

7. Can BNOG help to direct supplies our way?

BNOG has been asked to help our refiners as much as they can; but the Corporation must, of course, honour its commitments to our trading partners.

8. Will we have to share UK oil with others if the situation gets worse?

If the oil sharing arrangements in the International Energy Agency are introduced, we might have an obligation to make a contribution to others, or a right to a supply from them. That is the essence of the commitment into which all parties to the International Energy program entered.

Department of Energy (OP(H))

25 May 1979

25 MAY 1979



Prime Minister *mt*
For information.

6/21/80
25/5

PRIME MINISTER

INTERNATIONAL ENERGY AGENCY -
MINISTERIAL MEETING 21/22 MAY.

As energy will bulk large at the Tokyo Summit you may like to know the outcome of the IEA Ministerial meeting which I chaired. The main points were:-

- a) Agreement that the world oil situation is very tight and that this situation is likely to continue into 1980. Particular concern about the large and rapid increase in crude oil and product prices. Ministers reaffirmed the need for effective implementation of the already agreed reduction of 5% in oil demand and recognised that measures to reduce demand will also be necessary for 1980. It is left to Member States to decide on appropriate measures including pricing policies, strengthened voluntary programmes or mandatory action if necessary. I made it clear that we did not favour the last.
- b) Complete agreement - even from a country like Austria - that the world cannot do without nuclear power. To achieve the necessary nuclear programmes everything possible must be done nationally and internationally to overcome safety, waste disposal and non-proliferation problems and to inform the public of the results of this work.
- c) Ministers adopted principles for IEA action on coal designed to increase both production and consumption very substantially. This is mainly a question of bringing the big coal producers like the USA and the big energy importers like Japan together. But the

Contd/2.

UK will benefit from effective action which reduces pressure on limited oil resources.

I am sending copies of this minute to the members of E committee and to Sir John Hunt.

David Hunt

Secretary of State for Energy,

25 May 1979.

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

Energy VLB
cc HO MAFF
FCO D/T
HMT CST
D/I CO
LPO
D/M
29 May 1979

International Energy Agency

The Prime Minister has seen and taken note of the Secretary of State for Energy's minute of 25 May, summarising the outcome of the I.E.A. Ministerial Meeting which he chaired on 21/22 May. The Prime Minister was glad to have Mr. Howell's account of this meeting.

I am sending copies of this letter to the Private Secretaries to other members of E Committee and to Martin Vile (Cabinet Office).

B. G. CARTLEDGE

W. Burroughs, Esq.,
Department of Energy.

CONFIDENTIAL

235