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IMPLICATIONS OF CHANGES IN THE WORLD OIL MARKET

Note by the Secretary of State for Energy.

My paper on the International Oil Situation set a policy framework for consideration of individual issues of international oil policy. I now attach an interdepartmental report by officials which examines at greater length some implications of changes in the World Oil Market (Annex A). Paragraphs 2 - 15 of the report are a summary of the whole.

Analysis of Events

2. The report considers the changes that have taken place in the oil market in 1979 following the crisis in Iran which precipitated not only shortages in oil supply and consequential increases in the price of oil, but also structural changes in the oil market. These changes have reduced the amount of oil available to major international companies, increased the total number of oil traders and led to an increasing number of Government to Government oil deals.

3. The report sets out the uncertainties surrounding future oil prospects. There is expected to be a persistent risk of imbalance between supply and demand as OPEC members attach greater weight to conservation of their oil resources and action on production levels as a means of influencing the real price of oil. They will also be influenced by wider aspirations - technical and political.

Policy Implications

4. This analysis brings into focus two major policy issues for the UK:

- i) how best to safeguard our interests through the diversification of our sources of oil supply (paras. 35 - 41): and
- ii) the policy stance which the UK should take in international discussions of oil issues both with our IEA partners and with members of OPEC (paras. 42 - 57).

Recommendations

5. Specific recommendations which I invite colleagues to endorse are:
 - a) that officials should urgently evaluate the scope for, and relative merits of, establishing direct purchasing arrangements with OPEC governments through BNOC, specially created subsidiaries of BP or Shell or major UK industrial oil consumers (para. 41):
 - b) that the UK should be ready to join constructively in international discussions of concerted action to combat excessive oil pricing, but without commitment and taking due account of the possible costs and probable impracticability of any such action (Paras. 44 - 47): (See also paras. 7 - 9 of my parallel paper on the forthcoming meeting of the International Energy Agency at Ministerial level
 - c) similarly, that the UK should approach constructively, though also without commitment, international discussion on the case for holding buffer oil stocks which could be used to try to moderate fluctuation in the international market (para. 50). (See also Annex C of my paper for the IEA Ministerial meeting):
 - d) that the UK should continue to pursue discussions - multilaterally and bilaterally - with oil producing countries designed especially to achieve better understanding of the impact of their actions on the world economy, recognition of the efforts being made by Western countries to reduce their demand and willingness on the part of OPEC to maintain production at levels that will

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keep demand and supply in balance (paras. 56 - 57).

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