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From the Private Secretary

6 June 1979

Dear Bill,

Your Secretary of State called on the Prime Minister at 1400 hours today to discuss various energy matters. The following is a summary of the main points which they discussed. I am writing to you separately about the chairmanship of BNOG.

Oil Situation

Mr. Howell said that the current oil shortage was certainly serious. On current price levels, demand exceeded supply by about 7 per cent. On the other hand, supply in the current quarter was about the same as it had been in the same quarter last year. The shortages were so far manifesting themselves mainly at the petrol pump, though lower fuel deliveries were likely to reduce British Rail's services next week, and the farming community were complaining about shortages of diesel fuel. The Department of Energy were coming under great pressure, as were energy departments in all other Western countries, to intervene in the market and allocate supplies. But he was very much against giving in to such pressure unless the shortages got significantly worse. There was some scope for leaning on the oil companies to allocate their supplies as between different types of customer, but they were under a legal obligation not to discriminate, so that there was a limit to how much pressure could be brought to bear.

Mr. Howell went on to say that it would be counter-productive to try to take over the allocation of supplies from the companies. This would mean more bureaucracy, it would make the Government subject to all kinds of competing pressures, and there was no evidence - at present shortages levels - that allocations would be any more equitable than they were at present. In addition, once the Government started to intervene, full-scale rationing would probably follow very quickly. The oil companies would be quite relieved to have their responsibilities for allocating existing supplies taken away from them; but this must be resisted if at all possible.

/On the other hand,

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On the other hand, the problems faced in some areas could not be denied. In particular Texaco were very short. They had taken risks by concentrating on the spot market last year and the other oil companies were not disposed to help them out. They were quite dominant in the West Country, Norfolk and the border country; and it was in these areas that the worst petrol shortages were being experienced.

Amongst the other companies, BP, Shell and Esso were fairly well-placed for supplies; and this explained why the petrol situation was not as bad as in some other Western countries. BNOC had blundered badly last year by committing themselves to long-term contracts with foreign customers - more so than had the private oil companies. But they were now doing all they could to get themselves out of these contracts.

The Prime Minister said that she generally agreed with Mr. Howell in his reluctance to move to allocation by Government as long as the situation did not get significantly worse. It was better to rely on the market mechanism together with Government measures to conserve energy. The Prime Minister then reported that President Giscard had said to her at their talks the previous day that it was important for the oil companies to keep clear of the spot market; otherwise they would be playing into the hands of OPEC. Mr. Howell pointed out that his predecessor had written to the oil companies advising them not to operate in the spot market; and he believed they were going along with this.

Mr. Howell went on to say that he intended to put out a statement the following day explaining the realities of the current situation and the Government's position on allocation, etc. The Prime Minister said that he should try to get over the following points:

- (i) UK supply is no lower than this time last year;
- (ii) in view of the world situation, and the higher UK demand, prices are bound to be higher: consequently, it is essential that everyone should economise;
- (iii) the private sector should, and would, economise in response to market signals;
- (iv) the public sector was taking the necessary measures on oil demand restraint;
- (v) Government allocation and rationing would be pointless at the present juncture, and would only involve a massive bureaucracy.

In addition to his statement, the Prime Minister said that Mr. Howell should let all Ministers have speaking notes - and these should be transmitted through the Paymaster General.

The Future of BNO

Mr. Howell said that it might perhaps have been better if BNO had never been set up. But it was now a reality and it could not be dismantled overnight. There were certain parts of it which should definitely be dismantled - for example, it was too big in its upstream operations: but it was necessary to be cautious in going about the dismantlement process. There were two reasons for this: first, BNO was so large that to move too quickly might be upsetting to the UK oil market when the situation was currently so fragile; secondly, BNO offered some security of supply, and this factor could not be lightly dismissed at the present time. The Chancellor had asked him to find £300 million or so from the sale of BNO assets this year; he would try to find this, but he could not absolutely guarantee it.

The Prime Minister agreed that it would be wrong to move too precipitately. However, she was opposed to BNO remaining in its present form; and it must certainly be slimmed down at the very least.

European Council

The Prime Minister said that President Giscard had said that it would be useful to have bilateral consultations on energy in advance of the European Council. She thought such consultations should be arranged as a matter of urgency. Mr. Howell said that he would be very happy for consultations to take place.

We were subsequently informed that Mr. Howell would like Sir Jack Rampton to take the lead at official level for the UK side and I understand that arrangements are being made for him to have talks with his French opposite number early next week. I have mentioned this to the Prime Minister, and she is content.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), Tony Battishill (HM Treasury), Kenneth MacKenzie (Scottish Office) and Martin Vile (Cabinet Office), and also to Richard Prescott (Paymaster General's Office).

W. Burroughs, Esq.,
Department of Energy.

Howell

Tim Laker