

PRIME MINISTER

IEA MINISTERIAL MEETING - 10 DECEMBER

The reference to R Howell's final  
para is at Telag A. Agree, subject  
to the views of colleagues?

Yes out

Ph...

I duly attended this meeting which was entirely concerned with the oil situation. A copy of the communique is attached.

National oil import limits for 1980 and goals for 1985 were adopted for all member countries. In the case of the EEC and summit countries these targets are those already agreed at Tokyo and in the Community. UK figures are net imports of 12 million tonnes for 1980 and -5 million tonnes for 1985. It was also agreed that the performance of each country should be monitored regularly on a quarterly basis. Ministers would meet to consider corrective action if performance is not satisfactory or if there is a major change in the supply situation.

The Americans did not put forward the proposal they had made before the meeting that the 1980 targets should be scaled down in line with the latest estimate of the supply of OPEC oil. Instead it was agreed that the Governing Board should meet again at Ministerial level in the first quarter of 1980. The main debate was about how far that meeting should be committed in advance to reduce the import targets. The Americans pressed strongly for a firm commitment now to reduce targets next March in line with likely supply. They were supported by many of the smaller countries and in a low key way by Japan. As I had anticipated the Germans showed signs of giving way under American pressure at the crunch. Nevertheless I was able to secure agreement to a formulation which safeguards our position. Ministers at their next meeting will consider adjustment of the 1980 oil import ceilings to the extent which proves necessary on the basis of oil supply and demand development. I made it clear that we interpreted this formula as meaning that there would not necessarily be any adjustment. This was accepted. I had to agree to work being done on plans for adjusting the import targets should this prove necessary: but it is for a future Ministerial meeting to decide whether those plans should be implemented and in any case they are to be prepared in the light of so many factors that it is difficult to see how anything practical can be done (see paragraph 6 of communique).

The discussion of import targets left little time for other matters. I did however stress the importance which we attached to bringing about real reductions in consumption rather than the paper adjustment of targets. This point is satisfactorily recognised in paragraph 2 of the communique. There are also satisfactory references to contacts with the OPEC countries, to oil market problems and to stockpiling policy.

In general we were able to secure a satisfactory outcome for the UK without antagonising our partners. It is a pity that the American obsession - it is not too strong a word - with targets meant that Ministers did not get to grips with the real issues which face us - the risk of a major interruption in supplies and spiralling prices. But these issues were the main theme of a good if sombre discussion at a breakfast which M. Giraud gave to the US, German, Italian and Japanese Ministers and to me. We all recognised how serious these issues were. Although it was not an occasion for specific conclusions there was much in common in our thinking on which we can build.

It may be that a reduction in demand for oil as a result of slower economic growth will bring about a rather easier oil market in the next few months. Alternatively a major disruption in supplies could produce a full scale crisis in which the agreed scheme for the international allocation of the available oil would be put to the test. But we may well face a continuing and slowly worsening situation just short of a full scale crisis. I think we need to work out more clearly our policies for such a situation taking into account economic and foreign policy as well as energy policy considerations. In particular we need to be clear on the balance between using North Sea oil primarily to protect ourselves and working with our partners in a joint effort to limit the damage which a continuing sub crisis could do to the world economy. I hope we can return to that issue when we resume discussion of the international oil situation and in any case well before the next IEA Ministerial meeting.

I understand that the resumed discussion cannot now take place until after Christmas. In the meantime I should be grateful if you and our



*Agreed*

colleagues could agree by correspondence that I should pursue the question of government to government deals with the OPEC countries on the lines recommended in paragraph 5(a) of my paper on "Implications of changes in the World's Oil Market" (circulated under my Private Secretary's letter of 5 December). We need to move fast on this if the available oil is not to be preempted by others and if I am to use my visit to the Middle East early in January to explore the possibilities.

I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade, Sir Robert Armstrong and Sir Kenneth Berrill.

*GH.*  
7

SECRETARY OF STATE FOR ENERGY  
12 DECEMBER 1979

IEA/PRESS(79)28

10th December, 1979

COMMUNIQUE

INTERNATIONAL ENERGY AGENCY

Meeting of Governing Board at Ministerial Level

10th December, 1979

The Governing Board of the International Energy Agency (IEA) met at Ministerial Level on 10th December, 1979, in Paris under the Chairmanship of the Minister of Economics of the Federal Republic of Germany, Otto Graf Lambsdorff.

1. Ministers noted with concern the turbulent development of the world oil market in 1979 and the continuing uncertainties about oil supplies which pose a severe threat to the health of the world economy. The IEA Countries are determined to make their contribution to restoring order and reducing pressures on the world oil market so as to avoid further sharp price increases. Their actions are aimed not only at the immediate situation, but also at accelerating and facilitating the medium and long-term transition to an oil-scarce world economy. They expressed their determination to overcome any shortfall of supply in a spirit of full solidarity.

50.386



Ministers underlined their concern and recognition of the fact that development policies might be compromised if developing countries do not have sufficient energy resources at reasonable prices and stressed the need for energy specific action to help developing countries in meeting their energy requirements.

Ministers further recognised the importance of oil producing countries for their part in pursuing policies which contribute to stabilization of conditions in the world oil market and in the world economy. They feel certain that such countries will be influenced by this consideration. Solution of the world's serious energy problems require a common approach by producing and consuming countries, both developed and developing. IEA countries would welcome more opportunities to discuss these issues with oil producing countries.

2. Ministers agreed on the importance of keeping domestic oil prices at world market levels or raising them to these levels as soon as possible, and that action must be taken within individual IEA countries to transform short term conservation measures into permanent long term gains in energy efficiency, and to accelerate the development of alternative energy sources: rapid medium term substitution of natural gas for oil; much greater world-wide production and use of coal; steady expansion of nuclear power wherever possible and having due regard to legal and constitutional provisions; and pursuit of new energy technologies for the long term. The effect of measures taken should be sufficient to achieve acceptable balance between available supply and demand and to give a substantial contribution to meeting IEA countries' need to reduce their dependence on imported oil.

3. Ministers undertook to assure that their countries take serious and effective energy policy action to restrain demand for oil on world markets in 1980.

4. All IEA countries firmly committed themselves to limit their oil imports in 1980, and to pursue goals for their oil imports in 1985, as set forth below:

| <u>Country</u>                | <u>1980</u> |              | <u>1985</u> |              |
|-------------------------------|-------------|--------------|-------------|--------------|
|                               | <u>Mtoe</u> | <u>Mbdoe</u> | <u>Mtoe</u> | <u>Mbdoe</u> |
| Australia                     | 13.5        |              | 17.0        |              |
| Austria                       | 11.5        |              | 13.5        |              |
| Belgium                       | 30.0        |              | 31.0        |              |
| Canada                        | 7.4         | 0.15         | 29.4        | 0.6          |
| Denmark                       | 16.5        |              | 11.0        |              |
| Germany                       | 143.0       |              | 141.0       |              |
| Greece                        | 14.8        |              | 16.5        |              |
| Ireland                       | 6.5         |              | 8.0         |              |
| Italy                         | 103.5       |              | 124.0       |              |
| Japan                         | 265.3       | 5.4          | 308.66      | 6.3          |
| Luxembourg                    | 1.5         |              | 2.0         |              |
| Netherlands                   | 42.0        |              | 49.0        |              |
| New Zealand                   | 4.2         |              | 4.4         |              |
| Norway                        | -15.5       |              | -18.3       |              |
| Spain                         | 51.0        |              | 52.9        |              |
| Sweden                        | 29.9        |              | 29.0        |              |
| Switzerland                   | 14.0        |              | 14.5        |              |
| Turkey                        | 17.0        |              | 25.0        |              |
| United Kingdom                | 12.0        |              | -5.0        |              |
| United States and Territories | 437.2       | 8.9          | 436.0       | 8.9          |
| IEA Total                     | 1,205.3     | 24.5         | 1,289.56    | 26.2         |
| Less Bunkers                  |             | 1.4          |             | 1.6          |
|                               |             | 23.1         |             | 24.6         |

5. Ministers agreed upon a monitoring process to cover energy policies and developments in the short, medium and long term:

- The Governing Board will meet again at Ministerial level within the first quarter of 1980 to begin the process of monitoring, to review all aspects of the situation and the outcome of the work commissioned today, including adjustment of the 1980 oil import ceilings to the extent which proves necessary on the basis of oil supply and demand developments;
- Thereafter the IEA Governing Board will review quarterly the results achieved by each country in meeting its 1980 ceiling and its goal for 1985, and will determine whether the specific measures in place in each country are adequate and are being effectively implemented, and whether additional measures are necessary;



- The IEA Governing Board will review quarterly oil supply developments and whether the 1980 ceilings and the 1985 goals are adequate in light of these developments;
- Ministers will meet promptly to consider what corrective action is necessary if the performance of countries in keeping within their import limitations is not satisfactory, or if there is a major change in the supply situation.

6. The Governing Board at official level will develop plans to meet any deterioration of the supply/demand situation which may arise in the coming months, including a system for adjusting national oil import ceilings and goals which, taking account of the 1980 and 1985 oil import targets, promotes equitable burden-sharing and which also takes account of each country's continuing performance in accordance with the IEA Principles for Energy Policy; its economic growth and overall economic structure; its development needs; the structure of its energy economy, including consumption levels, energy prices, and changes therein; and opportunities for and achievements in conservation, fuel switching and indigenous production.

7. IEA countries will take the measures necessary within their national responsibility to ensure that they keep within their oil import ceilings and goals.

8. Ministers agreed that the overall Group Objective for oil imports by IEA countries as a group in 1985 will be lowered to 24.6 million barrels per day plus bunkers, as compared to the former Group Objective of 26 mbd, plus bunkers. Each country will adjust its energy programmes to assure that this revised Group Objective for 1985 will be met.

9. Ministers agreed that because stock movements are an essential element in determining market conditions, IEA Member countries should increase their ability to influence stock levels. As a first step they directed the Governing Board to elaborate on an expedited basis an improved information system on stock movements, adding information on stocks at sea, stocks in bonded areas and consumer stocks.

10. Ministers agreed on the necessity of improving understanding of and ability to cope with changing oil market structures by: expanding the list of oil companies which report oil flows directly to the IEA; extending the new international register of crude oil transactions to include oil products; obtaining more information regarding state-to-state transactions; and effectively discouraging unnecessary recourse to spot market purchases by both government-related and private companies.

11. Ministers also agreed that the Governing Board at official level should:

- seek to develop a system of consultation on stock policies among governments within the IEA and between governments and oil companies, evaluate the 90-day emergency reserve level; and develop other proposals for an effective and flexible stock policy; and
- consider additional measures leading to a more co-ordinated approach to spot market activities by Member country governments, companies and individuals, which might include developing a system for registration of entities trading oil into or from IEA countries, in order to identify the participants in changing market structures; developing a "code of conduct" as a basic standard for desired behaviour of market participants; and preparing measures and procedures designed to "cool-off" oil markets under overheated trading conditions.



12 DEC 1979

12 11 10 9 8 7 6 5 4 3 2 1