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To: MR STOWE
From: SIR KENNETH BERRILL

Energy Supplies

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1. In her weekend box the Prime Minister has two important papers on energy supplies. One is concerned with the United Kingdom domestic position and is an appraisal of oil and coal supply prospects for the UK over the next 12 months. The other discusses the international oil situation and the possibilities for further action by consumer countries: an issue which is certain to bulk very large at the Tokyo Summit and probably at Strasbourg too.

The UK Domestic Energy Scene 1979/80

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2. The paper on the domestic position reveals an uncomfortable supply prospect. We should just about get through next winter without major electricity disruptions. But the sort of localised oil shortages already being experienced are likely to continue and could worsen. The risks are all downside and in the coming winter we will not enjoy the flexibility we have had in the past to cope with unforeseen disruptions of one sort or another.

3. There are a number of measures which the Prime Minister could ask responsible Ministers to undertake in order to bolster the position:

- maximum pressure should be applied to the oil companies to supply the United Kingdom market preferentially. (There is a lot which can be done without running foul of international obligations.)
- BNOC should be left in no doubt that its priority is towards ensuring that as much crude oil as possible is refined in the United Kingdom;

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- the importance the Government attaches to moving the maximum amount of coal to power stations before next winter should be impressed to the utmost on British Rail;
- the CEGB and SSEB should be allowed to import as much coal as they can acquire and physically transport;
- the NCB need to be encouraged to release coking coal for use in power stations.

4. Even these steps cannot be adequate to meet all the potential problems. Energy supplies next winter will be highly vulnerable to industrial action and there is little we can do about it.

The International Energy Scene

5. The United Kingdom is much more likely than many of our partners to achieve effective demand restraint. Our slowing down of economic growth, and hence use of energy will exceed that of many of our major competitors. Added to that we have the flexibility to switch from oil to coal at power stations. So for us a 5 per cent reduction in oil demand should be well within reach.

6. Ideally we need an agreement in Strasbourg/Tokyo which binds our partners to achieving equally effective reductions in their energy consumption, but which does not deny us the ability to secure supplies sufficient to our own reduced needs.

7. Thus, the CPRS believes our Tokyo/Strasbourg objectives should be:

- to obtain unequivocal commitment from those less well placed than ourselves to the achievement of demand reductions
- to make this commitment clear and watertight enough to demonstrate to OPEC the earnest intent of the consuming nations
- but to avoid getting locked into a formal oil allocation scheme which would inevitably deprive us of supplies we would otherwise have.

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8. Of the proposals in circulation to restore order in the oil market, the following strike us as being appropriate:

- "an agreement to translate the demand and indigenous supply goals for 1979 into a specific and publicised set of import targets". (One of the proposals from Dr Schultze - Chairman of the US Council of Economic Advisers.) Publicised targets would be unlikely to embarrass us - the extra quantities of oil we might require to avoid shortages would be easily lost in the figures - but would put others under the spotlight, where they deserve to be
- exhortation on the oil companies to avoid trading on the spot market. In practice this would be unlikely to eliminate such trade but could reduce some of the pressure on prices and do us no harm.

9. On the other hand an oil allocation scheme, whether through import licences or formal/informal adaptations of the IEA scheme, should, in the CPRS view, be avoided. Import licences would require a whole new set of rules, eventually as intricate as the IEA system, but starting from scratch and taking time to build up. The IEA scheme itself was designed for a different set of circumstances (a short crisis interruption in supplies) and would need modification to deal with the present situation (a small shortage likely to last for perhaps a year). Over such a period there would be great scope for cheating and certain countries might only be prepared to join if they were confident of being able to cheat. The United Kingdom would be net providers of oil and the cheating would be partly at our expense.

10. So our interests are to oppose allocation schemes but to do so in a way which does not expose us to the charge that we do so because our own oil supply position is better than other industrial nations.

11. I am sending a copy of this minute to Sir John Hunt.

15 June 1979

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