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MS

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
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11 June 1979

Dear Nick

OIL SUPPLY SITUATION: ORAL STATEMENT 11 JUNE 1979

I attach for your information a copy of the oral statement on oil supplies my Secretary of State proposes to make in the House at 3.30 pm this afternoon.

I am copying this letter to the Private Secretaries to the Leader of the House of Commons, the Chief Whip and the Chief Press Secretary at Number 10 and Martin Vile (Cabinet Office).

Yours sincerely
C. L. Ambrose

C.L. AMBROSE
PRIVATE SECRETARY

PA
(amended by em) MS

ORAL STATEMENT - OIL SUPPLY SITUATION

With permission Mr. Speaker I wish to make a statement about the oil supply situation.

Following disruption of oil supplies from Iran from the early part of the year a tight world oil situation has developed, with total supplies on present estimates likely to be well short of expected demand world-wide. The position in Iran could easily worsen again and the prospect from the other suppliers is at best fragile.

Against this background the UK position is as follows:

Supplies are currently coming into the UK market at about the same rate as this time last year. But demand is well up, we have had a cold winter and it is obviously vital now to rebuild stocks for the Autumn.

This means that actual supplies to UK consumers are on average about 5% below the increased levels on which people were counting.

However this does not give the full picture since the supply position stemming from Iran has affected different oil companies supplying the British market in very different ways. This has led to serious shortages for some particular customers and some particular regions, especially as the first effects work through.

The oil companies have been rationing their allocations to their customers and the Government has ^{seriously requested} asked the UK Petroleum Industry Association to achieve a more even and effective distribution overall and to ~~move swiftly to~~ ^{as a matter of urgency} meet specific difficulties where customers are threatened with real hardship.

(This is a new era of restricted oil supply and the oil companies large and small must adapt to it.)

Contd/2.

At the same time the Government has taken steps to achieve an overall cut in demand of 5%, in line with our EEC and international obligations. It is both in our interest and in the world's interest to ease oil pressures by working with our trading partners to prevent a destructive scramble for oil.

I have made it clear that in the public sector measures must be taken to cut down by the 5% overall, consistent with the maintenance of essential services. In industry, in the home and on the roads we are looking for a cutback of at least 5% by all, so that the limited allocations will be distributed more evenly than if some consumers simply carry on as normal and leave others seriously short.

Strong enough
to convince
Govt supporters?

In all this the oil companies - both major and independent - plainly ~~have a key~~ ^{be an a heavy} responsibility. ~~But~~ The Government is also working closely with organisations throughout the country and industry to achieve the 5% and help people cope with higher prices which are the inevitable result of scarcity. I believe that this approach through nation-wide and voluntary co-operation is a good deal more effective than attempting to organise everything in detail from Whitehall.

Looking immediately ahead I am not satisfied with the arrangements I have found for supplies of oil into the UK market, particularly when we are a major oil producer. We certainly have to trade North Sea oil internationally and with commercial skill to live and to invest. But we must get the balance right.

I am also considering taking royalties in kind which may help UK refineries and suppliers meet their customers' needs.

But even with these measures on the supply side, energy conservation must now be given a permanent and central place in our policy and I shall be proposing more measures on this front.

Are the
measures
adequate?

How soon?

Contd/3.

As for rationing, or Government organised priorities for whole categories, with of course tighter cuts for those not in the preferred categories, I believe that at present levels of shortfall this would lead at once to far more rigidity and unfairness, quite apart from the cost to the taxpayer and the economy of the necessary paraphernalia. Nor would it produce a drop more oil.

If the world situation deteriorates sharply again we may be forced to pay that price, ~~(and we would anyway be likely to move into emergency sharing arrangements with our trade partners to head off serious world trade disruption.)~~

But in the present conditions the most sensible way forward is through steps to improve supplies in the UK market combined with ~~effective demand restraint~~ ^{consentual use by everyone} - ~~(which will have to be practised by everyone as part of a permanent, long term adjustment to high cost energy from which the UK cannot be insulated.)~~

I shall, of course, seek to keep the House fully informed of the situation in the coming weeks.

11th June 1979.

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