



SECRETARY OF STATE FOR ENERGY

TRAFFALGAR HOUSE, 27, WHITEHALL, LONDON, SW1A 2AL

01-211-6402.

The Rt Hon Lord Carrington PC KCMG MC  
 Foreign and Commonwealth Secretary  
 Downing Street  
 London SW1A 2AL

18 February 1981

*De Pite*

INTERNATIONAL RESPONSE TO A TIGHT OIL MARKET

At the meeting of the European Community Energy Council planned for 3 March there is likely to be discussion of proposals for improving the capability of Western countries to deal with a tight oil market but one in which the short-fall in supplies is less than the 7% which would trigger the IEA emergency allocation scheme. This letter seeks agreement to the line our representatives should take.

Experience in 1979 following the Iranian revolution showed that a relatively small reduction in supplies could produce a quite disproportionate rise in oil prices. In 1979 the real price of oil more than doubled with consequences for the UK and world economies which I do not need to spell out. At the end of last year there was a fear that the reduction in supply following the Iran/Iraq war would have the same sort of effect on prices. But a combination of low consumption as a result of economic recession, increased output from some other OPEC members and the informal arrangements made by the International Energy Agency to use high stocks to meet any short-fall in supply prevented another price explosion. The use of informal arrangements to solve problems of this sort must however be subject to the law of diminishing returns and there can be no guarantee that a similar ad hoc approach would be adequate to tackle a more intractable problem in the future and to secure the political will essential to success. The absence of agreed arrangements to deal with minor short-falls in supply causing very sharp rises in price has come to be seen by many as a serious gap in Western plans. The Italians have put forward proposals to fill this gap in both the IEA and the Community. And at the dinner for Summit Energy Ministers on 9 December M Giraud suggested



an "oil fund" which was in many ways similar to one of the Italian proposals for use of stocks.

There has been some preliminary and non-committal discussions in an Ad Hoc Group of senior officials set up by the IEA Ministerial meeting on 9 December and in the Community's Oil Supply Group. There seems to be a consensus that the problem of supply difficulties under the 7% threshold does need examination and that the best hope of progress lies in some form of stock management falling short of an international buffer stock. The Americans and several other delegations said that the latter is unlikely to be acceptable. UK officials emphasising that they were speaking personally recognised the existence of a gap in our arrangements but added that it was one thing to identify a gap and another to find practicable means of closing it. They agreed that the best hope of progress lay in the area of stock management but pointed out some of the many questions which would be needed to be answered before a practicable scheme could be devised.

The UK interest in a new system is divided. We have made arrangements with the oil companies to secure supplies to the UK in a short-fall of less than 7% and would not therefore stand to benefit from a new scheme as much as others. Indeed we would have to ensure that it did not prejudice our special arrangements. On the other hand, we have a clear interest in preventing further steep and sudden rises in the price of oil which damage the UK economy as well as the Western economy as a whole. If a reasonably effective scheme could be devised and agreed that would be much to our advantage. It is of course far from clear that that can be done. The attitude of the new US Administration will be crucial. But in my view we cannot without seriously damaging our international standing in energy matters and perhaps more widely stand aside from attempts to devise such a scheme.

Any new scheme to be effective must involve the main Western industrial countries including the US and Japan. The IEA is therefore the right forum for the main discussion of it. A Community scheme by itself could not be effective and for us it would have the disadvantages but not the advantages outlined in the previous paragraph. Any attempt to set up a new organisation under Summit auspices would antagonise the smaller countries, undermine the IEA and be contrary to our general policy of not institutionalising the Summit. It is just possible that discussion of these ideas will pave the way for France to join the IEA. We should certainly be on the lookout for any chance of achieving that end. Otherwise the association of France with any arrangements agreed on would have to be sought by parallel action in the Community.



I therefore propose that at the Energy Council we should indicate a willingness to participate without commitment but fully in an examination of ideas for improving the ability of Western countries to deal with an oil short-fall below the 7% trigger. We should make it clear that participation of the US and Japan and therefore IEA involvement in any arrangements would be essential: and that our final attitude would be taken in the light of our judgement of the practicability and effectiveness of any scheme which emerges. I should be glad to know if you are content with this line.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe and Sir Robert Armstrong.

*Howell*

D A R HOWELL

*Howell*



118 FEB 1981

9 8 7 6 5 4 3 2 1

Handwritten scribbles and faint lines, possibly a signature or initials.



Energy

FCS/81/25SECRETARY OF STATE FOR ENERGY7  
242International Response to a tight oil market

1. In your letter of 18 February, you sought my agreement on the line which the UK should take at the forthcoming EC Energy Council on the French and Italian proposals for dealing with oil shortages.
2. I agree with your general argument, and your conclusion that we cannot stand aside from international discussion of the French and Italian proposals. Because of the importance of the Americans and Japanese, the main discussion and any practical action is bound to lie in the IEA. But because of the special position of France, some discussion in the Community is inevitable. I do not think that we should seek to oppose this, since we would be unlikely to succeed. There is of course no reason why we should not argue in Brussels against unnecessary duplication and the imposition of unproductive work on officials in capitals.
3. We may not be able to avoid some discussion of the French ideas in the run up to the Ottawa Summit as well. But I too am against anything that could lead to the creation of new bureaucratic machinery under the Seven and see no reason to make any substantial concession to the French in this context. Incidentally I see little prospect of the French joining the IEA even after their elections.

/4.



4. Subject to these points, I am content that you should speak at the Energy Council on the lines you suggest.

5. I am sending copies of this minute to the Prime Minister, the Rt Hon Sir Geoffrey Howe and Sir Robert Armstrong.

C  
/

(CARRINGTON)

25 February 1981

Foreign and Commonwealth Office

25 FEB 1981

12 1 2 3  
4 5 6 7 8 9

*Energy*



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

24 February 1981

The Rt. Hon. Lord Carrington, PC, KCMG, MC  
Foreign and Commonwealth Secretary

*R.*

*Dear Peter*

*24/2*

INTERNATIONAL RESPONSE TO A TIGHT OIL MARKET

David Howell wrote to you on 18 February about the approach he proposes to take in any discussion at next month's Energy Council of ideas for dealing with oil shortfalls below the 7 per cent trigger.

I agree with the line he has in mind. I was glad to see that preliminary discussion in the Ad Hoc Group suggests that most countries would favour some form of stock management. I would certainly not be willing to contemplate any additional public expenditure costs. The original Giraud version of this proposal seemed misconceived in a number of respects.

As David says, our interests, as a producer with secure supplies in sub-crisis conditions, are not quite the same as those of other countries. There is also a complex of practical issues to be resolved before a scheme could be agreed. But we share the strong collective interest in effective action toward off further sharp oil price increases. I agree with him that existing arrangements are not fully effective in sub-crisis conditions and that it is well worth seeing if they can be improved.

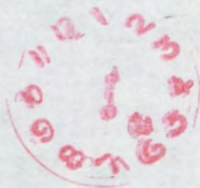
I am sending copies of this letter to the Prime Minister, David Howell and Sir Robert Armstrong.

*[Handwritten signature]*

GEOFFREY HOWE



24 FEB 1981





cc FCO (ENERGY) HS  
CDL  
CWO

cc Ingham

10 DOWNING STREET

*From the Private Secretary*

20 February 1981

Thank you for your letter of 19 February about the reporting of IEA meetings.

We are certainly content with what you now propose provided that everyone else is.

I am sending copies of this letter to Francis Richards (Foreign and Commonwealth Office), Nick Huxtable (Chancellor of the Duchy of Lancaster's Office), and Murdo Maclean (Chief Whip's Office).

**N. J. SANDERS**

Geoffrey Dart, Esq.,  
Department of Energy.



cc Mr Ingham ✓

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ  
01 211 6402

N J Sanders Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

19 February 1981

Dear Nick,

Many thanks for your letter of 10 February about the reporting of IEA meetings.

There is no reason, certainly at this end, why we should not decide now to report to the House on a regular basis by written answer on the outcome of meetings of the IEA Governing Board at Ministerial level.

... The proposed line to take (attached) has been revised to reflect this. Can I now assume that you and other recipients are content?

Copies of this letter go to the recipients of yours.

Yours ever,

G S DART  
Private Secretary

*Geoff Dart*



LINE TO TAKE (if raised)

1. The outcome of the meetings of the IEA Governing Board at Ministerial level will normally be reported to the House on a regular basis by written answer.
2. Bearing in mind both the length and complexity of these statements, together with the pressures on Parliamentary time, this is the most appropriate medium.

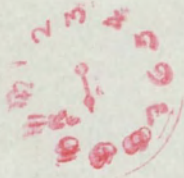
BACKGROUND

3. The usual practice for reporting EC and other international meetings is by written answer. This is because of both length and detail when parliamentary time is at a premium.
4. The final decision on whether statements warrant oral or written presentation rests with No 10 in consultation, as necessary with the Whip's, Chancellor of the Duchy and Departments. All are content that IEA meetings should usually be reported by written answer.

CONFIDENTIAL



20 FEB 1974



CONFIDENTIAL



cc Fco  
Leader H/C  
CWO.

H8

Energy

10 DOWNING STREET

From the Private Secretary

10 February 1981

BF 1827

Thank you for your letter of 5 February about the reporting of meetings of the IEA Governing Board. Is there any reason why we should not decide now to report to the House on a regular basis by Written Answer on these meetings? It seems to us that if we were to do that, it would be possible for you to take a rather more defensible line than the one you suggested.

I am copying this letter to Francis Richards (Foreign and Commonwealth Office), Nick Huxtable (Office of the Leader of the House) and Murdo Maclean (Chief Whip's Office).

**N. J. SANDERS**

SB

Geoffrey Dart, Esq.,  
Department of Energy.



P

10 DOWNING STREET

Mr SANDERS

Yes - up to a point.  
But even the easiest  
way out of this is to do a  
Doubler Annex after that meeting  
and to have the line of  
oral statements on that  
basis. If a positive decision  
were taken to reply by  
Dittus the surface line  
could be so much more  
positive

James G



SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ  
01 211 6402

N J Sanders Esq  
Prime Ministers Office  
No 10 Downing Street  
LONDON  
SW1

5 February 1981

Dear Nick,

During the Supply Day Debate on 21 January, my Secretary of State was asked by Mr Rees to make sure that, in future, the outcome of the meetings of the IEA Governing Board at Ministerial level should be reported to the House in exactly the same way as EEC meetings.

As I understand it, most international meetings are, with a few exceptions (eg Agriculture) normally reported by way of written answer but clearly the implication of Mr Rees' request was that future reports should be in the form of oral statements.

This is not the most pressing of issues and my Secretary of State has no wish to take this suggestion up. Apart from anything else, it could create an unhelpful precedent for the already tight parliamentary timetables.

However, the opposition may return to this issue sometime in the future and it would be prudent for Mr Howell to be armed with a defensive line.

I attach a note that we have drafted here and it would be helpful if you and other recipients could let me know whether you are content for this to be used should the need arise.

I am copying this letter to Francis Richards, Paul Lawrence and Murdo Maclean.

Yours sincerely,

G S DART  
Private Secretary

010  
Send  
MR GHAM

Are you happy with  
this?

Nick

9/2



REPORTING OF IEA MEETINGS IN THE FORM OF WRITTEN ANSWER

LINE TO TAKE

Decisions on the most appropriate medium for reports of IEA and other international meetings on energy are taken after giving very careful consideration to both the length and subject of the statement and the pressures of parliamentary time.

BACKGROUND

The usual practice for reporting on EEC/international meetings is in written form. This is because of both length and detail when parliamentary time is at a premium.

2. The final decision on whether statements warrant oral or written presentation rests with No 10 in consultation, as necessary with the Parliamentary business managers (Whip's and Chancellor of the Duchy's offices) and the relevant departmental private offices,

3. There are therefore some oral statements, namely meetings of the Council of Ministers in the spheres of Foreign Affairs and Agriculture/Fishery. The former is regarded as critically important across a wide range of issues and the latter relates to key constituency concerns of a very sensitive nature.

D// ENERGY

February 1981

Energy

SIR ROBERT ARMSTRONG

International Oil Fund

The Prime Minister has seen and taken note of your minute to me of 8 January on this subject.

MICHAEL ALEXANDER

14 January 1981

GC.

CONFIDENTIAL

Ref. A03933

MR. ALEXANDER

Prime Minister

To Mr. [unclear]

Hand - 8/1

(2)

International Oil Fund

I sent you a copy of my letter of 11th December to Sir Donald Maitland, reporting discussion by the Personal Representatives on 10th December about how to deal with the French proposal to set up an international oil fund.

2. In your letter of 15th December you told me that the Prime Minister thought that the French proposal was a poor idea and that she did not believe that it was worth our spending much time considering it.

3. Whatever the merits or demerits of the proposal, the fact that it had been put forward by the French Minister would make it very difficult to turn it down out of hand, without any consideration. But I agreed with the Foreign and Commonwealth Office and the Department of Energy that the proposal was not best considered by an ad hoc meeting of energy experts from the seven Summit countries (the machinery proposed at the meeting of Personal Representatives on 10th December). We thought that energy discussions in the Summit context should continue to concentrate on medium and long-term energy issues, and that crisis and sub-crisis management should continue to be dealt with by the International Energy Agency and the European Community. I expressed views accordingly to the other Personal Representatives.

4. The views which I expressed have now been endorsed by my German colleague and also by my Japanese colleague. Accordingly, the Canadian Chairman proposes that an ad hoc meeting of Summit representatives on energy should not be convened for this purpose, but that we should consider at the next meeting of Personal Representatives in February what energy questions might need to come before the Ottawa Summit.

5. This is a satisfactory outcome, and I propose to fall in with the Canadian suggestion.

RA

ROBERT ARMSTRONG

8th January, 1981

CONFIDENTIAL

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Foreign and Commonwealth Office

London SW1A 2AH

19 December 1980

Sir Robert Armstrong KCB CVO  
CABINET OFFICE

*Dear Robert,*

PERSONAL REPRESENTATIVES MEETING

- with MODCA?*
1. Your letter of ~~11~~ 16 December and Donald Maitland's reply of 16 December cover the French proposal for the establishment of an international oil fund and the suggestion that this idea be discussed by an ad hoc group of officials from the Seven Summit countries, with the Group reporting back to the next meeting of Personal Representatives.
  2. I agree with the line taken by Donald Maitland and with the arguments which he has set out in his letter to you. I hope that you will be able to persuade the Canadians that the French proposal should be discussed in the International Energy Agency (IEA) and the European Community which are the most appropriate fora. The Commission have already suggested a discussion in the Community of some related French and Italian ideas. I note that the Department of Energy are putting in hand a detailed study. We look forward to participating.
  3. We might also consider how this opening could be exploited to move the French closer to the IEA. Their policy has now been seen to have failed; and the French are increasingly concerned about their ability to withstand a lengthy interruption of supplies. The French may still consider the political disadvantage of membership to be too great and our tactics would need to be delicate. This too is a question which might usefully be explored further in interdepartmental discussion.
  4. I am sending copies of this letter to Donald Maitland, Ken Couzens and Michael Alexander.

*Tom W,*

*Michael Palliser*

Michael Palliser

CONFIDENTIAL

19 DEC 1980

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2 3  
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Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

18 December 1980

T.P. Lankester, Esq.,  
No.10, Downing Street

Dear Tim,

OPEC PRICE INCREASES : ECONOMIC EFFECTS

The Prime Minister may wish to have our assessment of the possible economic effects of decisions taken by the OPEC conference in Bali.

OPEC has agreed on a new three-tier price structure: the price of Saudi marker crude has been fixed at \$32 a barrel; there is a ceiling of \$36 on the price of similar crudes; and the ceiling on high quality crudes has been raised from \$37 to \$41. The potential range of official OPEC selling prices has therefore widened again to \$9 a barrel compared with a traditional differential of only about \$2 a barrel. But individual producers have not yet announced how far their prices are to rise within the new framework; the underlying weakness in the oil market may make for some caution. Accordingly, our assessment is a little tentative.

Impact on the World Economy

Assuming producers decide to raise their prices by \$2-3 a barrel following the Bali decision the resulting average increase in oil prices would be about 9 per cent. This would be broadly comparable to world price movements.

This may well, however, not be the only price increase to affect next year. Even if there were no further increase in upper tier prices in 1981 but some catching up by the Saudis and others to restore a unified price structure by the end of the year, that would increase the impact on prices to about 15-16 per cent. This would mean that OPEC had increased the real price of oil by some 5-6 per cent despite a deep recession in the industrialised world. Even this could be an under-estimate if, for example, consumers were to prove unwilling in practice to run down stocks in accordance with the recent IEA agreement. Oil prices have now reached the level assumed for 1981 in the Industry Act forecast.

/Compared with



Compared with a position in which the nominal price of oil was unchanged, the table below illustrates the effects on the world economy of a 9 per cent and a 15 per cent increase:

	Change in level of GDP in OECD		Change in OECD inflation		Change in OPEC surplus		Change in OECD deficit	
	9%	15%	9%	15%	9%	15%	9%	15%
1981	-0.2%	-0.3%	+0.3%	+0.5%	+\$28bn	+\$40bn	-\$25bn	-\$37bn
1982	-0.4%	-0.6%	+0.6%	+0.8%	+\$23bn	+\$34bn	-\$20bn	-\$30bn

The position of the non-oil LDCs will, of course, also be made more difficult by the increase.

#### Impact on the UK economy

The reduction in world economic activity brought about by higher oil prices will clearly have an unfavourable impact on the UK as a major trading nation, despite our net self-sufficiency in oil. This reduced activity would also tend to increase the PSBR, since non-oil tax receipts will be lower and certain forms of public expenditure higher (e.g. unemployment benefit). However, these PSBR effects will probably be more than offset by increased revenues from the North Sea fiscal regime, as UK oil prices follow the market to new world levels.

As compared with our European competitors, the inflationary consequences of increased oil prices may be mitigated by the firmness of sterling, though this, in turn, would worsen our price competitiveness relative to theirs. The effective exchange rate did indeed rise temporarily on the news from Bali. But it fell back almost immediately, indicating that the outcome had already been largely discounted by the foreign exchange markets.

#### North Sea prices

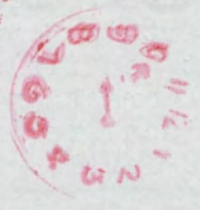
In accordance with our established pricing policy, once the actual prices to be charged by producers become clear, prices in the North Sea can be expected to rise to full term market levels of comparable crudes.

I am copying this letter to the Private Secretaries to members of E Committee and to the Private Secretary to Sir Robert Armstrong.

Yours  
John



COMPTROLLER



18 DEC 1969





10 DOWNING STREET

*From the Private Secretary*

15 December 1980

The Prime Minister has seen a copy of your letter of 11 December to Donald Maitland about the French proposal to set up an international oil fund. The Prime Minister thinks this a poor idea and does not believe that it is worth our spending much time considering it.

I am sending copies of this letter to Donald Maitland, Michael Palliser and Ken Couzens.

M. C. B. ALEXANDER

Sir Robert Armstrong, KCB, CVO.

CS



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01 233 8319

From the Secretary of the Cabinet, Sir Robert Armstrong KCB CVO

Ref: A03795

11th December 1980

(2)

No. It is a ridiculous suggestion - not worth working on

Prime Minister,

Prime Minister, a rather odd idea

12/11

I shall be preparing a record of this week's meeting of Personal Representatives in Paris, but there is one point on which I should write to you straightaway.

The Canadian Chairman of the High Level Monitoring Group (HLMG) on Energy set up by the Venice Summit came on the afternoon of 10th December to report to us what had passed at the dinner of Summit energy Ministers on the evening of 9th December and at the meeting of the HLMG on the morning of 10th December. I do not need to tell you what passed on these occasions. The proceedings at the dinner were reported in a telegram, and I was very grateful for the arrangements made to enable me to see an advance copy of that telegram.

The Personal Representatives considered what should be done to follow up the four suggestions made by M. Giraud, reported in paragraph 5 of the telegram in question. One of these was for the establishment of an international oil fund on a voluntary basis, to which member countries would pay an entrance fee (presumably in the form of oil) and on which they would have drawing rights in time of difficulty. We noted that the French had produced a paper, amplifying this suggestion, which nobody had yet had a chance to read. We agreed, subject to reference back to Heads of Government, that this suggestion should be examined by an ad hoc group of officials from the Seven Summit countries, which should report back on the suggestion to the next meeting of Personal Representatives. It was accepted that the membership of this group would in practice be the same as the High Level Monitoring Group, but some of those present preferred to treat this as a "one-off" reference to an ad hoc group rather than as an addition to the task of the HLMG.

I am to let my Canadian colleague know within ten days if that proposal is not acceptable to us. I should be grateful to know whether you are content that we should proceed in this way.

I am sending a copy of this letter to Michael Palliser, Ken Couzens and Michael Alexander.

ROBERT ARMSTRONG

Sir Donald Maitland, GCMG, CMG, OBE