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EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

ENERGY

Brief by Department of Energy

OBJECTIVES

1. To encourage continued progress towards Community energy policy objectives, with emphasis on key role of market forces.
2. To explain recent increase in North Sea oil prices, and depletion policy announcement.

POINTS TO MAKE

Community Energy Matters

3. UK will continue to play a constructive role in developing realistic Community energy policies.
4. Important that momentum is maintained in ensuring that Member States' policies on energy pricing are consistent with economic pricing principles already agreed by the Community.

World Oil Market

5. Defensive measures taken by OPEC and completion of destocking by some companies has led to stabilisation of the oil market.

6. Hence some non-OPEC oil, including North Sea oil, whose price had previously dropped well below the OPEC level, has increased in price. But it remains below the average for OPEC and will not lead to general increases in world oil prices.

Depletion Policy

7. UK decision not to impose oil production cutbacks, at least until the end of 1984, will sustain UK contribution to Community's security of supply.

Oil consumer-producer dialogue

8. UK believes that relations with oil producers are best handled bilaterally and informally; but suggest that Community members should keep in touch on the outcome of their contacts.

BACKGROUND

Community Energy Matters

9. There has been no Energy Council since the last European Council. The next Energy Council on 13 July may adopt Recommendations on investment in the rational use of energy and on coal use, and Conclusions on coal policy.

10. UK would be reluctant to see the European Council give impetus to pressures for interventionist Community policies eg. on aid for investment in energy saving or alternative energies as advocated by Italy, Greece and Belgium at the last European Council. However, open UK opposition on grounds of principle should be avoided, since urgent consideration is being given to the possibility of initiative on energy in the Community (eg. on oil import levy) which might have a bearing on the solution to the UK's budget problem.

World Oil Market

11. In March companies had high stocks and, against a background of a continuing fall in demand, pressed OPEC countries hard for price reductions. OPEC did not respond, and companies walked away from contracts. By the beginning of April OPEC output was forced down to 16 million barrels per day, well below the OPEC ceiling of 17.5 mbd. Despite pressure on companies to destock (to meet lower demand and to cut financing costs) some companies have recently been seeking more oil. Spot prices have risen. BNOC resonded to market circumstances and proposed a new price of \$33.50 per barrel, an increase of \$2½; this is still cheaper than OPEC oil.

12. In future months demand for OPEC oil is expected to grow, perhaps by several million barrels per day, not because of an upturn in demand but because destocking is likely to come to an end. That will allow OPEC to raise its ceiling. We can expect Saudi Arabia to control its own output to ensure OPEC prices remain stable.

13. Real prices have decreased over the last 18 months. But the effect has been lost for many countries because of exchange movements. In the US real crude oil prices have declined by over 20% but in Europe there has been little change. Thus lower oil prices cannot now be seen as a major stimulus to economic recovery in Europe.

Last European Council

14. At the March European Council the Prime Minister said that lower oil prices provided an opportunity for expansion, although it brought problems too.

Depletion Policy

15. Community partners will welcome the UK decision not to impose oil production cutbacks. The decision will also be welcomed by foreign companies with interests in UKCS oil fields, eg. France's Total and Germany's Deminex.

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16. The Decision will help retain confidence of operating companies, thereby ensuring continued exploration and development, and achievement of UK's policy of prolonging high levels of production to the end of the century.

17. UKCS production for the first time exceeded 2 million barrels a day in April. One-third is currently exported to other Community countries.

Versailles Summit, June 1982

18. The Versailles Summit reached the following conclusions on energy:

"The progress we have already made does not diminish the need for continuing efforts to economise on energy, particularly through the price mechanism, and to promote alternative sources including nuclear energy and coal, in a long-term perspective. These efforts will enable us further to reduce our vulnerability to interruptions in the supply of energy and instability of prices. Co-operation to develop new energy technologies and to strengthen our capacity to deal with disruptions can contribute to our common energy security. We shall also work to strengthen our co-operation with both oil exporting and oil-importing developing countries".

19. M Martens, for the Belgian Presidency of the Community, argued at Versailles for energy saving and the promotion of alternative energy sources.

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