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IRAQ/KUWAIT : IEA OIL MARKET COMMITTEE, 23 AUGUST.

SUMMARY

1. CHANCE OF ONLY MODEST NET SUPPLY SHORTFALL IN SEPTEMBER AND OCTOBER, BUT CONCERN AT PRICE RISE. SECRETARIAT WILL REVISE PAPER FOR GOVERNING BOARD ON 31 AUGUST.

DETAIL

2. SECRETARIAT (ROOM DOCUMENT BY HAND OF JANET WRIGHT, D/EN) STRESSED WE DID NOT FACE SAME PROBLEMS AS 1979.80. THERE WAS SPARE CAPACITY AND WE HAD LARGE STOCKS. EXPECTED OPEC PRODUCTION INCREASES COMBINED WITH CONTINUED COMPANY STOCKDRAW COULD REDUCE THE SHORTFALL TO 0.3MBD, THOUGH WITHOUT AN OPEN RESPONSE, SHORTFALL COULD EXCEED 2.5MBD.

3. US (BRODMAN) WARNED THAT WE LOOKED LIKELY TO FACE A TIGHT MARKET FROM NOW ON. COMPANIES WOULD HAVE USED MUCH OF THEIR STOCK, AND IF CURRENT BACKWARD ACTION REVERTED TO CONTANGO (FUTURES PRICES ONCE MORE HIGHER THAN SPOT), THEY MIGHT BE RELUCTANT TO DRAW MORE. BUT THERE WERE WELCOME SIGNS OF INCREASING SAUDI PRODUCTION: AND IN ADDITION TO VENEZUELA AND UAE, MEDICO AND COLOMBIA WERE LIKELY TO PRODUCE AN EXTRA 100,000 BD EACH. HE WELCOMED CONFIRMATION OF DEFERRED MAINTENANCE ON NINIAN AND BRENT FIELDS, WHICH WOULD ADD 200,000 BD TO NORTH SEA OUTPUT. HOWEVER THE TIGHT MARKET WOULD BE VULNERABLE TO REGIONAL AND/OR QUALITY SHORTAGES FORCING PRICES UP. (HE TOLD US PRIVATELY THAT USDOE WERE PLANNING ON DOLLARS 30/BBL FOR THE FORESEEABLE FUTURE).

4. JAPAN SHARED THE WIDELY HELD VIEW THAT LATEST PRICE RISES REFLECTED UNCERTAINTY RATHER THAN SHORTAGE. LAST WEEK, WHEN CONFUSION OVER SAUDI ALLOCATIONS CAUSED A STIR, MITI HAD INTERVENED, REMINDING COMPANIES OF THE FUNDAMENTALS, ALLOWING THEM TO REDUCE MINIMUM STOCK REQUIREMENTS AND ASKING THEM TO INCREASE REFINERY THROUGHPUT TO HELP THE PRODUCT MARKET. IRAN HAD OFFERED TERM INSTEAD OF SPOT CONTRACTS, BUT IT NOW SEEMED THAT JAPANESE COMPANIES WERE WAITING TO SEE HOW FAST SAUDI PRODUCTION INCREASED.



BOTH JAPAN AND US SAID THEY HAD STOPPED ADDING TO STRATEGIC RESERVES.

5. NO DELEGATIONS COMPLAINED OF CRUDE SHORTAGES, OR OF DIFFICULTIES WITH CRUDE MIX, BUT CONTINUING CHANGES IN THE REFINING INDUSTRY COULD CAUSE REGIONAL PRODUCT SHORTAGES (AND THE US SAID AVIATION FUEL WAS ALREADY AFFECTED BY MILITARY ACTIVITY). PRICES WERE OF GENERAL CONCERN, THOUGH EFFECTS ON CONSUMPTION WERE NOT YET SIGNIFICANT. ONLY FRANCE REPORTED PRICE CONTROL MEASURES - BUT LIMITED TO A LINK TO THE ROTTERDAM SPOT CRUDE PRICE. EUROPEANS GENERALLY SAW THEMSELVES RELATIVELY INSULATED BY HIGH TAX LEVELS ON PETROL. EUROPEAN COMMISSION HAD LOOKED AT LONG-TERM PRICE EFFECTS: AT DOLLARS 30/BBL, GROWTH DOWN BY 1 PER CENT IN 1991, WITH CONSUMPTION DOWN 1MBD IN THE FIRST QUARTER OF NEXT YEAR.

6. SECRETARIAT WILL PUT A NUMBER OF DETAILED COMMENTS (AS WELL AS NEW DEVELOPMENTS) INTO A REVISED PAPER FOR THE 31 AUGUST GOVERNING BOARD. IF CIRCUMSTANCES HAVE NOT CREATED A TRIGGER SITUATION (AND MRS STEEG SAID SHE WOULD GIVE AN ORAL PRESENTATION ON SOME OF THE POSSIBLE SCENARIOS), THE GB WILL STILL NEED TO DECIDE WHETHER TO AGREE SOME FORM OF CO-ORDINATED STOCKDRAW AND DEMAND RESTRAINT ACTION, IF ONLY TO TRY TO CALM A NERVOUS MARKET. MRS STEEG TOLD US PRIVATELY THAT MOST OF HER SOUNDINGS OF COMPANIES SUGGESTED THAT CONCERTED ACTION WOULD ADD TO NERVOUSNESS. BUT THE INDUSTRY ADVISORY BOARD MEETS ON 30 AUGUST AND WILL HAVE VIEWS.

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LLEWELLYN SMITH

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