



Energy

Ann Amos

SECRETARY OF STATE FOR ENERGY
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The first fruits
of yesterday's
meeting.

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23 December 1980

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Dear Tim,

HEAVY FUEL OIL PRICES

When the Prime Minister saw my Secretary of State yesterday to discuss nationalised industries, she asked for a speaking note on heavy fuel oil prices to industry taking in the fact that Continental prices are now generally above ours. I enclosed this and a graph of trends over the last few years. The graph clearly shows the UK reasonably in line with France and Germany from 1976 to 1979. The French tend to be below both Germany and ourselves because of their lower tax, which is hardly compatible with their public international position on reducing oil consumption.

In 1980, however, we went substantially out of line, something we first spotted and took up with the companies in April. Prices on the Continent tend to react more rapidly to spot market changes than here because of the possibility of barge traffic from Rotterdam into France, Germany and Benelux. (Italian prices are controlled). As a result their prices tend to fluctuate more than ours. They are lower than ours when the spot market is weak - higher when it is strong. Other factors this year have included the timing of contract negotiations here in relation to spot price and exchange rate fluctuations.

The situation has, at least temporarily, corrected itself. The enclosed table of latest EEC weekly figures shows our prices lower than in other Community countries except Italy and the Netherlands.

We are not necessarily out of the wood on this issue since the spot market situation could turn round again. We are therefore working on the costs of reducing our relatively high HFO tax, and Mr Howell will be raising this issue in the papers which he said yesterday he would submit in the New Year.

I am copying this letter to John Wiggins, Ian Ellison, Robin Ibbs and David Wright.

Yours ever,

J D WEST
Private Secretary



HEAVY FUEL OIL PRICES

SPEAKING NOTE FOR PRIME MINISTER

Heavy fuel oil prices have been significantly higher here than on the Continent during 1980. In earlier years our prices have been in line.

This year countries' more dependent upon the spot market for their supplies have been able to benefit from abnormally low spot prices for heavy fuel oil.

Recently however the spot market price has risen sharply and these countries are now paying for their earlier advantages.

Including taxes paid by industry, UK prices for Heavy Fuel Oil are now exceeded in almost all the other member countries of the European Community.

Nevertheless we know how important heavy fuel oil is to industry and we will be keeping the position compared with the rest of Europe under review. We have already made clear to the oil companies that we expect competitive pricing for oil products.

Department of Energy estimates of price of fuel oil (including non-recoverable taxes) at point of delivery to customer.

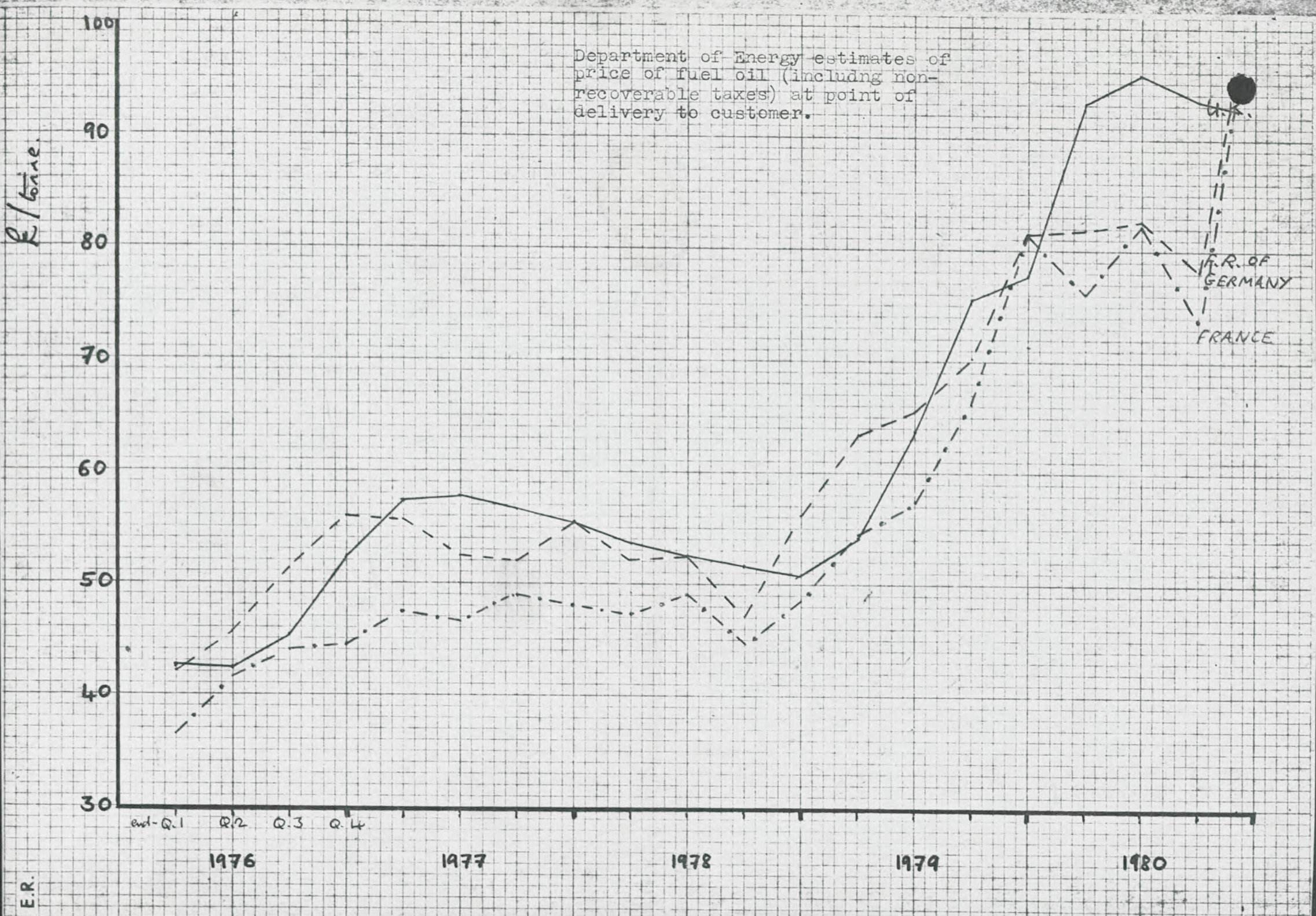
R/tonne.

100
90
80
70
60
50
40
30

end-Q.1 Q.2 Q.3 Q.4
1976 1977 1978 1979 1980

U.S.
F.R. OF GERMANY
FRANCE

E.R.





HEAVY FUEL OIL PRICES, INCLUDING DUTIES PAID
BY INDUSTRY, AT 15 DECEMBER 1980

| | | | £/tonne |
|-------------|-------|------|--------------------|
| | Net | Duty | Duty inc. price |
| UK | 84.4 | 8.0 | 92.4 |
| France | 95.0 | 0.1 | 95.1 |
| Germany | 91.9 | 3.3 | 95.1 |
| Belgium | 109.4 | - | 109.4 |
| Netherlands | 87.6 | 3.0 | 90.6 |
| Italy | 88.4 | 0.5 | 88.8 |
| Denmark | 103.1 | - | 103.1 |
| Ireland | 84.9 | 12.9 | 97.8 |

SOURCE: EEC

22 DEC 1980

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