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NOTE OF A MEETING HELD AT 10 DOWNING STREET ON 7 DECEMBER 1979  
AT 1100 HOURS

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Present: Prime Minister  
Foreign and Commonwealth Secretary  
Chancellor of the Exchequer  
Secretary of State for Trade  
Secretary of State for Energy  
Sir Robert Armstrong  
Sir Kenneth Berrill

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International Oil Policy

Ministers considered a letter from the Private Secretary to the Secretary of State for Energy to the Private Secretary to the Prime Minister enclosing three papers on the International Oil Situation, the Implications of Changes in the World Oil Market and our approach to the IEA Ministerial Meeting on 10 December.

The Secretary of State for Energy said that the paper on the IEA Ministerial Meeting had been overtaken by two telephone conversations he had had during the night with Mr. Duncan, the United States Secretary of Energy. During the first call Mr. Duncan had argued that the IEA Ministerial Meeting scheduled for 10 December might as well not be held if the European members of the IEA did not respond to the gravity of the international energy situation by agreeing to co-operate in further reducing national oil import targets in 1980. This was needed as a clear signal to the OPEC producers meeting at Caracas the following week, as some OPEC countries were planning major new cuts in production. The Americans would therefore be proposing that IEA members should agree to cut oil imports in 1980 by one million barrels a day, which would amount annually to 50 million tonnes; the UK share of this cut back would be between 2 and 3 million tonnes. If there was unwillingness to agree cuts in 1980 imports, the American fallback position would be that the IEA should agree to draw up contingency plans for cutting back imports to deal with a sub-crisis situation in which the trigger point for IEA emergency allocation had not been reached.

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/Mr. Duncan

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Mr. Duncan had said that the President agreed with his view that, unless the IEA could agree on at least the last option, his attendance at the IEA meeting would be a waste of time. In the second call, half an hour later, Mr. Duncan told him of a modification in the fall back position made after further consultation with the President, namely that IEA should agree a date within the following three months by which IEA Ministerial agreement on contingency plans for a "sub-crisis" situation would have been reached. There were obvious dangers in the American proposal. As soon as the painfully agreed import targets for 1980 were opened up, we should come under strong pressure to increase UK production of North Sea Oil in order to assist our Community partners agree reduced imported levels for the Community. There would be an intensification of the pressure exerted at the Dublin European Council and at the Energy Council earlier in the week. At present, the Germans were as disinclined as ourselves to agree to reduction in 1980 import targets, but they could not be relied upon to resist American pressure. On the other hand if it was thought we must not be too unhelpful to the Americans in their current difficulties, there was a little flexibility in the UK position. Our national net import target for next year was 12 million tonnes, but latest estimates of UK production and consumption revealed that we might in fact need to be net importers of only 7 million tonnes.

After the Energy Secretary had spoken, he received a message from the Americans amplifying what Mr. Duncan had said to him regarding the fallback position. The Americans said that they wanted agreement by a certain date next year to plans for reduced import targets; to the same degree of commitment as there had been for the 1980 targets; and some statement of principle regarding allocation among individual countries.

In discussion it was argued that the American emphasis on import targets was wrong and contrary to our interests. It was a replay of the pressures which had been brought to bear on the Prime Minister at the Tokyo Summit. The Government should refuse to reopen the Tokyo agreements. Consumption was the principal problem, and in this respect the Americans were still the worst

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offenders. As long as they continued to maintain a domestic price level for oil well below the world price, they were on weak ground in pressing Britain to reduce imports. Pressure on imports was an indirect means of pressing Britain to increase production levels of North Sea oil and would be exploited as such by our European partners. It was in the long term interests of the British economy that the Government should maintain unfettered control over national depletion policy. Britain must not become the milch cow of Europe as regards oil. It was a resource which needed to be husbanded if Britain was to get her economy on to the right footing. Only enough oil should be produced to achieve net self-sufficiency. Moreover the Americans were exaggerating the impact that any signal sent by the IEA Meeting would have on the OPEC meeting at Caracas. It was quite possible that no consensus would be established at the OPEC meeting either on cuts in production or on prices. The Americans were over-reacting to Saudi attempts to reduce the role of the American oil majors in their country as conveyed to the US Secretary of the Treasury during his recent visit to Saudi-Arabia. It was the wrong time to hold an IEA meeting. It would have been much better held in February. It would not be a matter of too much concern if the meeting was not a success. What was important was to safeguard the British Government's control over production of North Sea Oil.

On the other hand it was argued that it was not in British interests to be identified by the Americans and our partners in the Community as the principal cause of the failure of the IEA meeting by an obdurate refusal to discuss import targets. The Americans were in a highly brittle mood as a result of the situation in Iran. Although their attempt to set pre-conditions for their attendance at the IEA meeting was unacceptable, it would be wrong to adopt a position of inflexible opposition to their proposals. The Government should be ready to discuss their ideas both at the meeting and beforehand if the Americans were able to stop in London en route. There was a little leeway in the net 12 million tonnes import target for 1980, and if a slight movement on import targets would help to get more effective IEA action on consumption it would perhaps be worth the price. The Americans had indicated that there was now a growing realisation in the USA of the need for action on domestic oil prices and that

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agreement by IEA member states on import targets would be helpful to them in their attempts to secure domestic action on prices. It was suggested that it might be worth making action on prices a precondition for acceptance of reduced import targets.

In further discussion of the international oil situation it was noted that Iran had informed BP and Shell that they would only be able to purchase supplies in 1980 if they bought certain quantities at spot prices and the balance at government administered prices plus a premium. The role of the international oil companies in the oil market was crumbling. Government to government deals were more and more coming to the fore. Our European partners such as France were already very active in securing supplies and early consideration needed to be given to whether the UK should not also participate in this activity. It was also desirable to arrange an early meeting between producers and consumers to discuss joint means of coping with crisis situations where one major producer ceased to produce for the market. On the other hand it would be necessary to move circumspectly to set up such a dialogue, as the producers were likely to seek to establish links with other North/South issues such as commodity agreements, aid etc: another CIEC type negotiation was not to be desired. Some Eastern European states, who were having difficulties in securing oil supplies from the Soviet Union, had recently suggested that there might be a joint meeting between the Western industrialised nations and the Eastern European countries with the oil producers. This proposal should not be rejected out of hand. It was not impossible that some of the Arab producers might agree to such a meeting.

The Prime Minister, summing up the discussion, said that the Government could not accept preconditions by the Americans for their attendance at the IEA Ministerial Meeting. They could be told that we should be ready to discuss their proposals at the meeting, and with them beforehand if they were able to visit London en route. We thought, however, that the emphasis placed by the Americans on further reduction in import targets was wrong. The main problem was consumption, and the Secretary of State for Energy should attempt to focus IEA discussion on this aspect. In so doing he should draw attention to the importance of national

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price policies as an instrument for restraining consumption: an area where US policy was deficient. He should not agree to any reduction in our net import target of 12 million tonnes next year except pro rata to net imports and subject to the co-operation of all our European partners. He should make it clear that, while we should always be ready to engage in discussion on the oil situation in the IEA and elsewhere, we could not agree to commit ourselves to contingency planning predicated on restrictions on imports rather than consumption. In view of the disturbed condition of the oil market it was desirable to investigate further the possibilities of a consumer/producer dialogue. A discussion of UK participation in direct purchasing arrangements with OPEC governments should be arranged for the following week.

The meeting took note, with approval, of the Prime Minister's summing up of the discussion and invited the Secretary of State for Energy to be guided accordingly.

7 December 1979

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