

Ref. A0880

PRIME MINISTER

INFORMAL MEETING ON OIL POLICY

(Letter of 5 December from the Private Secretary to the Secretary of State for Energy to your Private Secretary and enclosures)

BACKGROUND

The International Energy Agency (IEA) is due to meet at Ministerial level next Monday. Mr Howell will represent the United Kingdom. The main business before the meeting (which takes place a week before that of OPEC, at Caracas, which will set the 1980 OPEC prices) is to respond to a series of United States proposals for improving the stance of oil consumers in a difficult and uncertain oil market. The third paper attached to Mr Howell's Private Secretary's letter deals expressly with this. The other two papers - dealing respectively with the "international oil situation" and the "implications of changes in the world oil market" - both set the general scene and seek broad policy orientations as background to the IEA discussion.

2. The prime purpose of your meeting is to provide operational guidance for the IEA meeting. If it were also to prove possible to endorse the other papers, this would both help Mr Howell (who is visiting the Middle East during the Christmas recess and would be better able to operate against an agreed policy background) and enable further work to be put in hand (notably on the recommendation in paragraph 5(a) of the second paper that "officials should urgently evaluate the scope for and relative merits of, establishing direct purchasing arrangements with OPEC governments through BNOB, especially created subsidiaries of BP or Shell, or major UK industrial oil consumers". Clearance is needed before the necessary consultations can begin.

3. Although much of the substance of Mr Howell's recommendations stems from an inter-departmental report by officials (attached to his second paper) it cannot be assumed that colleagues will be prepared fully to endorse his approach without a wider discussion in, say, E. The Foreign Secretary, for example, may be seeking a European "gesture" in the follow-up to Dublin, and other ideas may emerge which supplement or cut across Mr Howell's own approach. Unfortunately, on present plans, it is likely to be difficult to fit in an in-depths discussion on oil policy - in E or elsewhere - before Christmas. The alternative might be to ask Mr Howell tomorrow to say which of his recommendations, other than those relating to the IEA, he needs operationally before Christmas and see whether agreement can be reached on those. A full discussion of oil policy could then follow early in January.

4. Although the issues for discussion do not include Iran, the events in that country cast a long shadow. You should know that a small interdepartmental group under Cabinet Office Chairmanship is currently considering the questions which would arise, eg. from any U.S. requests for assistance. The CCU is also reviewing separately our contingency plans against any interruption in oil supplies to the U.K.

HANDLING

5. You might invite colleagues to concentrate first on the IEA issues and then ask Mr Howell to introduce his proposals. You might then take colleagues through the line he proposes to take - set out in paragraphs 7, 11 and Annex C of the paper on the IEA - with a view to collective endorsement.

6. Essentially the proposals amount to:-

a. Paragraph 7(a): Argue against any scaling down of the existing targets for 1980 at this stage.

b. Paragraph 7(b): Argue for breaking down group to national targets and for more vigorous monitoring.

- c. Paragraph (c): Agree to review targets - without commitment - during 1980.
- d. Paragraph 11: Avoid commitment to a consumer cartel.
- e. Annex C (i): Preserve national discretion to choose measures to meet targets.
- f. Annex C (ii): Preserve freedom to protect our national interests in a sub-crisis situation.
- g. Annex C (iii): Accept study, without commitment, of means to control oil company activities.
- h. Annex C(iv): Remit suggestions for the holding of oil stocks above present commitments for further study.

7. None of these recommendations is likely to invoke strong opposition from other colleagues. You will wish to make sure that the Foreign Secretary is content with what is proposed from the point of view of relations with the EEC: where we can do so without damage to our own interests and without upsetting the rest of the IEA we should be considering possibilities of giving preference to our EEC partners.

8. If time allows you might then turn to Mr Howell's other two papers. In the first (the 'international oil situation') he seeks general endorsement of an approach to international oil policy set out in paragraph 6 of the paper. You might simply work through this and invite comments. The sticky question is whether by accepting Mr Howell's line we consciously forgo the alternative policy - described as "a less virtuous path" - set out in paragraph 7 of the paper. This alternative policy - of maximising our returns from the North Sea by concentrating sales as far as possible on the spot market - would infuriate our partners but earn us a lot of money. A decision to follow this path could not be taken without a general discussion in Cabinet.

9. Thereafter, you might take colleagues through Mr Howell's second paper ('implications of changes in the world oil market'). The recommendations are in paragraph 5. If time is short you might concentrate on the points (probably only paragraph 5(a)) where there is an operational need for an early decision.

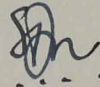
CONCLUSIONS

10. Three conclusions are possible -

i. An endorsement, or modification, of the line Mr Howell proposes to take in the IEA next Monday.

ii. Authority for Mr Howell to begin discussions with oil companies and others "with a view to evaluating the scope for and relative merits of, direct purchasing arrangements with OPEC governments".

iii. Either blanket endorsement of Mr Howell's other proposals or an instruction to him to bring them to E at the earliest convenient opportunity (recognising that this may have to be after Christmas).



for

ROBERT ARMSTRONG

6 December 1979