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10 DOWNING STREET

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From the Private Secretary

6 June 1979

Dear Bill,

Your Secretary of State called on the Prime Minister at 1400 hours today to discuss various energy matters. The following is a summary of the main points which they discussed. I am writing to you separately about the chairmanship of BNOG.

Oil Situation

Mr. Howell said that the current oil shortage was certainly serious. On current price levels, demand exceeded supply by about 7 per cent. On the other hand, supply in the current quarter was about the same as it had been in the same quarter last year. The shortages were so far manifesting themselves mainly at the petrol pump, though lower fuel deliveries were likely to reduce British Rail's services next week, and the farming community were complaining about shortages of diesel fuel. The Department of Energy were coming under great pressure, as were energy departments in all other Western countries, to intervene in the market and allocate supplies. But he was very much against giving in to such pressure unless the shortages got significantly worse. There was some scope for leaning on the oil companies to allocate their supplies as between different types of customer, but they were under a legal obligation not to discriminate, so that there was a limit to how much pressure could be brought to bear.

Mr. Howell went on to say that it would be counter-productive to try to take over the allocation of supplies from the companies. This would mean more bureaucracy, it would make the Government subject to all kinds of competing pressures, and there was no evidence - at present shortages levels - that allocations would be any more equitable than they were at present. In addition, once the Government started to intervene, full-scale rationing would probably follow very quickly. The oil companies would be quite relieved to have their responsibilities for allocating existing supplies taken away from them; but this must be resisted if at all possible.

/On the other hand,

VUB