

cc Mr Hoskyns

Mr Walker

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Prime Minister

I think Energy are being too complacent about oil supplies. Their note (Flag B) on coal stocks suggests they are doing the right things to replenish the ~~power~~ power stations.

Qa04131

(Mr Walker's letter at Flag D is also relevant)

To: MR STOWE

From: SIR KENNETH BERRILL

Are you content for me

No. I'm not to write to Energy as OIL SUPPLY ~~de~~ ^{may do} per the draft at C? ^{that draft. I do prefer}

Flag A

I have slightly redrafted

1. The Secretary of State for Energy's minute to the Prime Minister of 25 May on Oil Supply perhaps understates the problems inherent in the current oil supply situation, which could well become much more acute next winter. I therefore attach a draft minute raising a number of points, which, if the Prime Minister agrees, you may wish to include in a reply to the Department of Energy.

① What "leverage" has WMC on the companies?

2. There is no obvious reason why the OPEC oil producers should turn up the taps to meet the current shortfall in supplies. Nor is it likely that IEA members collectively will be easily to achieve their objective of a 5 per cent reduction in oil demand, let alone a further reduction beyond that. Few other IEA members enjoy even our own limited flexibility to switch from oil to coalburn at power stations or to increase indigenous oil production by, for example, relaxing gas flaring controls. The shortages are not likely to disappear in the short term; they could become much more severe.

② What are BNOCs' views and what is likely to involve in production in short term of the day? Gold can be used. S. K. B. Ant.

3. The Government will find it politically very awkward if just at the time we are reaching oil self-sufficiency we have not used the leverage we have over the oil companies and the direct access to oil which we have through BNOC to ensure adequate oil for our own needs (after having fulfilled our IEA and EEC obligations). Judging by past experience, eg in 1973, and current straws in the wind this is not likely to happen automatically. The international oil companies are likely to wish to apply a policy of equality of misery amongst

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all countries and disregard the fact that the UK is now a major producer. But the prospect of future licencing rounds and other factors give us a powerful weapon for ensuring our needs are given priority. In this context it would be prudent to ensure that the study commissioned by the Prime Minister on BNOC looks carefully into BNOC's role in securing oil supplies in tight situations.

assuming
BNOC
has a
future
R.

4. The companies may also have more room to give priority to certain classes of customer, eg farmers, industry, hospitals, than they admit.
5. I am sending a copy of this minute to Sir John Hunt.

KB

1 June 1979

Att

At Flag E is a letter from Mr Horrell asking Departments how they intend to save oil. This is welcome, and I have mentioned this in the draft letter.

R.