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CABINET  
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

OIL PRICES AND SUPPLY

Memorandum by the Secretary of State for Energy

Iran/Iraq

1. Developments since my minute of 17 November point to a prolonged conflict with both sides able to sustain the present scale of operations for the foreseeable future. Iran and Iraq seem to be exporting small volumes of oil and Iraq may resume exports to the West, via their Turkish pipeline; this could add up to 700,000 b/d to available supplies, and improve market perceptions.

Prices

2. Last week spot prices for best crude oil reached \$43.50/b but pressure may be relaxing. US buyers have withdrawn from the market, following reports about the resumption of Iranian and Iraqi exports and, more importantly, last Friday a massive increase in the number of cargoes offered. It will be several days before the impact on prices can be judged. Spot product prices in North West Europe have shown a modest decline over the last week.

IEA Governing Board at Official Level

3. At the meeting on 21 November the Executive Director (Lantzke) put forward a provisional package, the main features of which were:-

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- (a) Agreement on an assessment of the supply/demand situation which would emphasise that this is manageable if use is made of present high stocks.
  - (b) Re-affirmation of the need to reduce stocks and to refrain from abnormal spot purchases (which may be more precisely defined).
  - (c) A cautious reference to the need to restrain demand.
  - (d) Establishment of precise procedures for handling imbalances between countries and between companies.

In addition the Executive Director argued that the situation might deteriorate to a point where more drastic action would be necessary, including the possibility of imposing ceilings on net oil imports on the lines agreed at the IEA Ministerial meeting on 22 May 1980. Lantzke asked that preparatory work to enable Ministers to reach such a decision should be put in hand.

4. The US delegation urged strongly that on 9 December Ministers should adopt import ceilings. They said that, unless their allies accepted burden-sharing, political support for measures which adversely affected US interests - specifically the use of oil now in the hands of US companies to rectify local and company imbalances - would quickly evaporate. The US Delegation claimed to be reflecting the approach of the incoming-Administration.

5. The smaller countries in the IEA might be prepared to support the US position; one or two have already done so. The French may support it because it takes pressure off their stock position. The Germans have substantial misgivings. So have Japanese officials; but Japanese Ministers may go along with American wishes as they always have done throughout the IEA's lifetime. I hope to have a more up to date assessment of likely attitudes in Washington and Tokyo in time for the meeting on 26 November.

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#### The European Commission's Proposals

6. The Commission has now circulated draft conclusions for the Energy Council on 27 November. The main features are:

- (a) Confirmation that there is no overall shortage of oil and no justification for price increases.
- (b) A statement of readiness, as and when the need arises, to introduce:-
  - (i) a requirement on oil companies to reduce stocks and to avoid purchases of oil above official prices, combined with an indication that the legal minimum stocks might be reduced below 90 days;
  - (ii) Co-ordinated action to correct imbalances between countries; and
  - (iii) Intensification of short-term actions to reduce oil consumption.
- (c) An invitation to the Commission to work out arrangements in consultation with member countries which would allow, should the need arise, for the rapid introduction of these measures: but the Commission's proposals would have to be submitted to the Council.

#### UK Position

7. The only significant development not covered in my minute of 17 November is the glimpse we have had of US intentions. It is not yet clear how far the approach outlined reflects the views of the incoming Administration. Nor have I been able to measure the risks if the US Delegation, with Reagan's support, urged a certain line and other countries rejected it. But in any event I do not believe that the line I proposed in my minute is invalidated, namely that:

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- (a) the UK should participate in international action only if it is unanimously supported by our partners and if effective monitoring arrangements are set up;
- (b) others should take the lead, but that we should offer non-committal support to ideas which look sensible and are consistent with UK interests;
- (c) any arrangements we accept should give the UK a reasonable advantage as an oil producer; and
- (d) we should keep open our position on the form which any action might take; but, insofar as it is possible to do so, we should edge any consensus towards a package involving reductions in stocks and modest demand restraint, similar to the packages being tables by the IEA Secretariat and the Commission.

Department of Energy  
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