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Prime Minister
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②
Prime Minister

23 May 1980

Paul

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Dear Michael,

IEA MINISTERIAL MEETING - 22 May

My Secretary of State has asked me to let you know the outcome of the meeting. It went well from our point of view and we achieved a result within the lines set out in Mr Howell's minute of 9 May.

Ministers reached agreement - apart from some Canadian wriggling on energy pricing - on the medium term policies needed to restructure the Energy Economies of IEA countries and reduce their dependence on imported oil. Detailed recommendations on measures which the individual countries should take form an annex to the communique (copy attached). The references to the UK are satisfactory. In particular the reference to increased hydrocarbon exploration and development speaks of maximizing production in the longer term, a formulation which suits us very well.

The difficult issues were the ones identified in Mr Howell's minute - how to handle a tight market and oil import targets for 1985 and 1990. The Americans pressed strongly for a commitment in principle now to the introduction of import ceilings in a tight market situation and for a 4 mbpd reduction in our existing group oil import goals for 1985 (now standing at 26.2 mbpd) and a further 2 mbpd reduction by 1990. But with the aid of less than impartial chairmanship from Lambsdorff we secured a satisfactory compromise on the following lines:-

- a) In the short term Ministers have agreed to meet at short notice if tight market conditions appear imminent and, if they decide that such conditions exist, to take positive short term action as necessary to prevent a scramble for scarce oil. In such cases Ministers will take a decision on the use of individual oil ceilings. Mr Howell made it quite clear in his statement that "... In (his) view it would not be sensible to decide in advance of the event whether or not ceilings would be used. That will have to be decided at the time. That is the sense in which we read and recognise the paragraph..."



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- b) So far as 1985 is concerned we obtained a satisfactory compromise, with the emphasis on a determination to undershoot existing Group objectives but with Ministerial decisions on the quantification of the reduction to follow later. We were joined by many delegations in emphasising that national goals would not be altered.
- c) For 1990 we have settled on a formulation similar to that agreed at the Energy Council in Brussels last week. Namely Guidelines indicating that the ratio between the rate of energy consumption and the rate of economic growth for IEA countries as a group over the coming decade should be reduced to about 0.6 and the share of oil in total energy demands should fall from 52% at present to about 40%.

Mr Charles Duncan and the rest of the strong US team (including Mr Richard Cooper, Under Secretary for Economic Affairs at the State Department, and Mr Henry Owen, Presidential Adviser) went along with this compromise with a good grace.

It is hoped that this will leave the Venice Summit free to concentrate on broader issues of policy, despite the renewed disarray in world oil prices.

Copies of this letter go to Paul Lever at the FCO, Martin Hall at the Treasury and David Wright at the Cabinet Office.

Yours etc,

W J Burroughs
Private Secretary

Bill



23 MAY 1980



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Please attach to letter 23/5
FROM Dr Burroughs → M. Alexander
IEA-Ministerial

With the Compliments of

the

Secretary of State

IEA/PRESS(80)8

Paris, 22nd May, 1980

COMMUNIQUE

NRPA

INTERNATIONAL ENERGY AGENCY

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Meeting of Governing Board at Ministerial Level

22nd May, 1980

The Governing Board of the International Energy Agency (IEA) met at Ministerial Level on 22nd May 1980 in Paris under the Chairmanship of the Minister of Economics of the Federal Republic of Germany, Otto Graf Lambsdorff.

1. At the last Ministerial Meeting in December 1979 Ministers responded to the turbulent oil market conditions by establishing oil import ceilings for 1980, revising the 1985 Group Objective, and establishing individual countries' contribution to this Group Objective, creating a monitoring system and emphasizing the need for further steps for restoring order in the oil market. This time Ministers met in order to review progress achieved and take additional action.

Assessment of World Energy Situation

2. Ministers expressed their concern about the level of oil prices which confronts the world economy with declining economic activity, having serious negative results for all countries. In particular, the price increases since the end of 1979 have occurred despite falling oil demand and appear to have been made without taking into account their adverse impact on the world economy.

3. Ministers considered projections of world energy supply and demand trends through the 1980s and agreed that, in order to protect and enhance economic growth prospects, IEA countries will continue to strengthen and implement their energy policies in ways which ensure that structural changes in energy economies actually take place over the medium term, reducing the need for energy and oil in particular, and also provide protection against short-term market disruptions. They recognized that if energy problems are not resolved, the ability to manage the general economy effectively would be put seriously in question, which could damage the prospects for economic growth on a lasting basis.

Measures to Ensure Structural Change in the Medium Term

4. Ministers considered the results of the 1979 annual review of IEA countries' energy policies and programmes conducted by the IEA's Standing Group on Long-Term Co-operation and noted its report "Energy Policies and Programmes of IEA Countries - 1979 Review". They agreed that not all measures, as required by the IEA Principles for Energy Policy, have been put in place or are sufficient to produce the necessary results.

5. Ministers discussed the extent to which countries have followed up on the Principles for Energy Policy. They noted the Secretariat analysis of areas where energy policies could be strengthened in individual IEA countries as set forth in Annex I, which they regard as a useful instrument for a substantial and qualitative monitoring of IEA countries' energy policy efforts. They recognised that the indicated areas represent a considerable potential for achieving significant results over the medium term. They therefore agreed that each Minister will give weight to this analysis within his country's process of deciding what national energy policies are required.

6. Ministers welcomed the formation of the Coal Industry Advisory Board to help governments develop programmes and policies to greatly increase coal production, trade and use. They believe that the Board should have a very important role in the formulation of policies toward coal development, welcomed its intention to develop an action programme by autumn, invited it to provide concrete recommendations on action needed to double coal production and use by 1990, and agreed to give great weight to its recommendations and consider them quickly. Ministers also noted that the expansion of nuclear power, under appropriate conditions taking into account the progress made in the International Nuclear Fuel Cycle Evaluation, is indispensable for ensuring structural change in the medium term.

7. Ministers recognised that the process of restructuring energy economies will involve major investments, which will have to be encouraged by active policy and will best develop under conditions of economic growth. They noted the concern of some countries that under their particular circumstances this could pose difficulties, which the Governing Board at official level will consider and will report on to the next meeting of Ministers.

8. Ministers agreed that medium and long term Group Objectives are important and agreed instruments to serve as numerical indicators which point the directions for structural change, provide a framework within which to identify the measures necessary to achieve them, and form a basis for monitoring progress. They should be designed to get well ahead of the situation rather than merely keeping up with it.

9. Ministers agreed that results actually achieved by IEA countries as a group for net oil imports in 1985 should substantially undershoot the existing 1985 Group Objective (26.2 mbd of oil imports, including bunkers), to reflect both the potential for savings and oil production probabilities.

Ministers agreed to quantify the reduction as part of the monitoring process, taking into account consumption and imports. Based on currently available information the Secretariat estimates this potential with all existing uncertainties at around 4 mbd.

10. Ministers agreed that efforts to reduce oil imports will be continued beyond 1985. It is expected that as a result of these efforts it will be possible to reduce the ratio between the rate of increase of energy consumption and the rate of economic growth for IEA countries as a group over the coming decade to about 0.6 and the share of oil in total energy demand from 52% at present to about 40% by 1990.

11. Ministers agreed that regular and effective monitoring is essential to ensure that existing and additional measures are being implemented and are in fact resulting in the necessary structural changes in all IEA countries.

Short Term Instruments

12. Ministers concluded that because of the time required to achieve structural change, short-term instruments must be available in the meantime to limit the damaging economic effects of short-term price or volume disruptions which could occur in the oil market. They therefore decided upon the following actions to improve the preparedness of IEA countries:

Yardsticks and Ceilings

- (a) Arrangements for yardsticks and ceilings, in order to measure progress in achieving structural change and medium-term goals and to put the IEA in a position to deal at short notice with a deterioration in the oil market situation, as follows:

- Estimates of individual countries' oil requirements, derived from consumption, stock change and indigenous production, will be developed on an annual basis.
 - Under normal market conditions, these estimates will serve as yardsticks for measuring progress in implementing measures to achieve structural change. For this purpose, they will be compared with medium-term goals in order to determine whether measures and their results are tending over time towards medium and long-term objectives. They will also be compared with the short-term oil supply outlook in order to monitor oil market developments.
 - If at any time tight market conditions appear imminent, Ministers will meet at short notice. If Ministers decide that tight oil market conditions exist, IEA countries will take positive, effective short-term action as necessary, in particular, measures to restrain demand in order to prevent the scramble for scarce resources which could otherwise occur. In such cases Ministers will take a decision on the use of individual oil import ceilings based in part on these estimates as a means of self-imposed restraint and as a means for monitoring its effectiveness. The ceilings will represent a political commitment stating the degree of self-restraint which individual countries are willing to impose upon themselves in a tight market situation.
- (b) A system for adjustment of ceilings and goals, because the need may arise to establish new oil import ceilings and goals and to respond quickly if changing oil market conditions require their adjustment.

Stock Policies

- (c) A system for consultations between governments within the IEA and between governments and the oil industry on stock policies, which will be used to respond to oil market conditions beginning in 1980. The Governing Board at official level will consider guidelines for the use of stocks for this purpose.
- (d) Reconfirmation that the 90-day emergency reserve requirement appears to provide reasonable protection against future emergencies.

13. Ministers also considered other measures for dealing with short-term oil market disruptions, including:

- Flexible use of stocks over and above the 90-day emergency reserve requirement and normal working stocks to meet short-term market disruptions.
- Other mechanisms, including those referred to by the Ministers in December 1979.

These areas will be considered further by the Governing Board at official level.

14. Ministers reviewed the results for the first monitoring round for the first quarter of 1980, which shows that all IEA countries expect to stay within the limits of the 1980 oil import ceilings established at the meeting of the Governing Board at Ministerial level in December 1979. They discussed the present situation in the international oil market and concluded that at present the 1980 oil import ceilings established in December 1979 do not appear to require adjustment, and that ceilings for 1981 do not now appear necessary. But this could change rapidly for 1980 or 1981 if there is a deterioration in the oil supply or in the oil demand situation. Ministers will reconsider the oil market conditions in their fall meeting.

Energy Research, Demonstration and Development and Commercialisation

15. Ministers will attach greater political importance to energy research, development and demonstration, as well as commercialisation of new technologies, as essential elements for ensuring that medium-term structural changes in their energy economies are carried over into the long term. They endorsed the Report of the International Energy Technology Group, and its recommendations for accelerating commercialisation of new energy technologies.

16. Ministers noted that an IEA RD & D Group Strategy has been developed. They concluded that the Governing Board at official level will pursue the strategy's accelerated scenario, which minimizes oil imports for the IEA as a whole. They agreed that IEA countries will use the IEA RD & D Group Strategy as a guide for setting national priorities and funding levels as well as for IEA collaborative project priorities. The Committee on Energy Research and Development will closely monitor and periodically consider the extent to which aggregate national RD & D efforts are consistent with the Group Strategy. The Coal Industry Advisory Board is invited to provide recommendations as to which new technologies should be pursued in order to further speed up expanded production and use of coal.

17. The political aspects of energy RD & D issues and in particular the follow-up of the Report of the International Energy Technology Group and the IEA RD & D Strategy Report, should be given high priority. Consideration should be given to a meeting of Ministers and highest level officials responsible for energy technology in IEA countries for that purpose.

International Co-operation

18. Ministers noted that a smooth medium-term transition away from an oil-based economy, accompanied by stable short-term oil market conditions, is a prerequisite for a prospering world economy in which all nations can pursue economic growth and development. They believe that action along the above lines will contribute to these results. Ministers also expressed their hope that oil-exporting countries would adopt a similar view of their contribution to better world economic conditions, and again stated the willingness of IEA countries to discuss these issues with oil-producing countries. They accepted the need for further action by the international community to help developing countries in meeting their energy requirements by the development of indigenous energy resources. This was considered to be an effort to which both industrialized countries and oil-exporting countries could contribute. Ministers recognised the importance of discussion of energy issues in the forthcoming Global Negotiations within the United Nations system, and will make every effort to contribute to their success. They will also continue to support strongly the forthcoming United Nations Conference on New and Renewable Sources of Energy.

Annex I

Secretariat Analysis of Areas Where Energy Policies
Could be Strengthened in Individual IEA Countries

- (i) Oil prices in general should reflect international oil prices. The United States should continue its progress in decontrolling oil and natural gas prices. Canada should take steps as rapidly as possible to increase domestic oil prices to a level that encourages further energy conservation, substitution of other fuels for oil, and development of alternative sources of energy. In countries with abundant gas reserves (Australia, Canada, New Zealand) and options to increase non-oil fired electricity (Australia, Canada, New Zealand and Sweden) pricing policies for those fuels should take into account the desirability of encouraging their substitution for oil in appropriate uses.

- (ii) Efforts should be made in all countries (but particularly in Italy, Japan, the Netherlands and the United States) to reduce oil-fired electricity generation as rapidly as possible by substituting other fuels and restricting oil use to middle and peak loads. No new oil-fired electricity plants should be authorised except in particular circumstances where there are no practical alternatives. Existing capacity should be operated with maximum use of fuels other than oil.

- (iii) Strong action is necessary in all countries to reduce the non-feedstock use of oil in industry. Careful review of the situation is warranted in Greece, Ireland, Japan, the Netherlands and the United States where forecasts suggest that oil use may grow rapidly, and in Germany, Italy and the United Kingdom where stronger action may be necessary to achieve the expected results.

- (iv) Non-oil fuels, used either directly (including district heating) or converted to electricity should be substituted for oil in residential use wherever infrastructure exists or can be provided. Countries now using or considering district heating should consider greater use of coal for this purpose, including the possibility of converting oil-fired units. Australia, Canada, Germany, Italy and Japan should endeavour to replace oil by natural gas, the latter three countries through increased imports. Sweden should encourage the substitution of electricity for oil in the residential sector. The United Kingdom should ensure that its current plans to substitute natural gas for oil over the 1980s are realised.
- (v) All countries should give greater emphasis to strong and comprehensive conservation programmes to encourage the rational and efficient use of energy in general and oil in particular. They must effectively inform the public about why and how to conserve energy, and they must produce results. In particular, housing insulation efficiency standards should be reviewed and increased where necessary. Countries that do not have insulation retrofitting programmes should give serious and prompt consideration to introducing them, wherever climatic conditions make them appropriate. Major conservation gains can also be made in other sectors, particularly industry and transportation, and appropriate actions should be taken to ensure that savings result.
- (vi) In the transportation sector, substantial oil savings can result through continuing increases in fuel efficiency. Countries which now have fuel economy programmes (Australia, Canada, Germany, Japan, New Zealand, Sweden, the United Kingdom and the United States) should extend their programmes to ensure that efficiency gains continue through the 1980s and

review the existing programmes to see if they could be strengthened. Results should be assured, by making programmes mandatory if necessary.

Countries not now having programmes should consider introducing them.

Consideration should be given to setting standards for commercial and recreational vehicles, and all countries should review the level and structure of their taxes on fuel-inefficient automobiles and gasoline.

All countries not having reduced speed limits should consider imposing them and enforcing them, in order to impress upon motorists the need to save fuel.

- (vii) Stronger actions are required to expand coal production (Australia, Canada and the United States, which should be prepared to develop further their capacity to export substantial quantities of coal); use (Germany, Italy, Japan, Spain, the United Kingdom); and trade, where greater attention to long-term contractual arrangements is necessary to provide the stability and confidence to develop new mines and transportation facilities. Positive action is required to deal with environmental considerations, including demonstration projects and other support for technologies that can reduce environmental impacts.

- (viii) Efforts should be made to increase natural gas supplies through increased domestic production (Norway, the United Kingdom and the United States) and imports (Austria, Belgium, Germany, Italy, Japan, Sweden and the United States). Strategies for gas use in all countries should ensure that use

is minimised in electricity generation and industry, where other alternatives to oil exist. Canada should continue and strengthen its efforts to promote increased domestic use of natural gas to replace imported oil.

- (ix) Greater efforts must be made to accomplish projected nuclear programmes and to create an environment in which discussion of nuclear issues can take place in an objective and balanced way, taking account of economic and energy considerations as well as safety and proliferation aspects (Germany, Italy, Japan and the United States), and to streamline regulatory processes for the licensing of nuclear plants and for authorisations related to nuclear fuel cycle activities in other Member countries.
- (x) Hydrocarbon exploration and development activities should be strengthened in order to maximize production in the longer term (Denmark, New Zealand, the Netherlands, Norway, Spain, the United Kingdom and the United States). Opportunities to increase production through enhanced recovery should be actively pursued.
- (xi) Early action is required to accelerate the development and commercialisation of new energy technologies, particularly in the areas of conservation and liquid and gaseous fuels.
- (xii) Countries which have not been individually mentioned above in connection with specific lines of action should actively pursue similar opportunities for new or stronger policy measures in all of the above areas which are applicable to them.