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Prime Minister: The Foreign Secretary and the Cabinet Office are both content with the line proposed by Mr Howell. Agree?

PRIME MINISTER

IEA MINISTERIAL GOVERNING BOARD AND EEC ENERGY COUNCIL

This minute seeks your agreement to the line I propose to take at the IEA Ministerial meeting on 22nd May and at the preliminary discussion in the EEC Energy Council on 13th May. It covers the question of targets about which I minuted you on 14th April.

IEA Ministerial

The main proposals are likely to be:-

- a) Agreement on the medium-term policies needed to reduce the dependence of the Western economies on OPEC oil. The proposals include specific recommendations addressed to named countries which Ministers will be asked to "reflect" in the decisions of their Governments on national energy policies.
- b) Acceptance that implementation of the suggested policies will reduce oil imports of IEA countries in 1985 by 4 million barrels per day below the existing group objective of 26.2 million barrels per day and by a further 2 million barrels per day by 1990.
- c) Development of annual figures indicating individual countries' requirements as a yardstick for measuring progress.
- d) Endorsement of a system for turning these figures into net import ceilings in a tight market. This system was developed by the official Governing Board in accordance with the decisions of the

*It is in line with
to quantify
targets like this*

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Ministerial meeting on 10th December (see my my minute of 12th December).

- e) Agreement that if a tight market appears imminent Ministers will meet at short notice to take effective action to restrain demand. There is disagreement between the Americans and others who want agreement in principle now to the use of import ceilings in a tight market and those including the Germans and ourselves who have been arguing that it should be stated in terms that Ministers will decide at the time whether to introduce import ceilings. The Japanese are supporting the Americans on the grounds that if they are to persuade their companies to keep out of the spot market in a tight situation they must be able to show that the burden is being fairly shared.
- f) Agreement to consult about oil stock policies and to examine the possibility of holding stocks above emergency reserves for flexible use in meeting short-term market fluctuations.

Ministers are likely to discuss relations with the OPEC countries in a restricted session. And of course in the event the meeting may have to give much time to the implications of the Iranian situation for the oil market.

There is much in the above which we accept and indeed welcome - the emphasis on strengthening the energy policies of individual countries with a pinpointing of weaknesses; an emphasis in the specific recommendations on pricing policies particularly the US and Canada, on the need for a political lead on nuclear power, and on the expanded use of coal; and the proposals for flexible use of stocks (which do not involve a buffer stock).

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agreed

The most difficult issue is the decision on how to handle a tight market. We cannot afford on either political or economic grounds to stand back from international efforts to find practical means to stop a new tight market from leading to a price explosion like that of 1979. But I would wish to avoid a commitment in principle to the use of import ceilings. I doubt if they would work and they might lead to import controls and allocations if other measures to reduce consumption proved inadequate. I would therefore propose to stick on our present position ie that the decision must be left to be taken at the time. I would consult you again if the Germans seem likely to give way leaving us isolated or if a compromise emerges - but it is difficult to see one.

The other point which is difficult for us is the proposal in para 2(b) which indirectly sets a revised net oil import target for 1985 and a target for 1990. The Germans are prepared to agree to aim for import levels below the present 1985 goal but are opposed to putting figures to that aim. I hope that they will be successful in persuading the Americans that this is acceptable. But if it is essential in order to reach agreement, I would like to be able to accept a figure for the additional savings which may be possible provided it is not broken down into new national goals.

I enclose a note on your queries about the value of 1990 forecasts (Mr Alexander's letter of 17th April to my Private Secretary). I believe that we need long-term forecasts - both domestic and international - in the form of ranges and based on clearly stated assumptions as an aid to policy-making in an area where the lead times are so long. But single figure objectives or forecasts give a spurious air of precision to what is at best a very uncertain exercise. The pressures to meet them may encourage dirigiste rather than market oriented policies. However the fact is that a number of friendly countries, particularly the US, use targets in their own energy policy work and attach importance to their adoption internationally. The Germans are prepared to consider 1990 objectives in the IEA in terms of key energy indicators on the lines of the proposal before the Energy Council (para 2 below). In the last

resort I do not believe this issue is worth a row and I would propose, if you agree, to seek a compromise either on the lines suggested by the Germans or if necessary on the basis of an IEA group figure for imports or consumption.

EEC Energy Council

Quantified guidelines are ridiculous

The Council will be asked to adopt a statement of Community energy policy objectives for 1990 which includes three quantified guidelines for the Community as a whole - to reduce to 0.7 or less the average ratio of growth in gross primary energy consumption to the rate of growth of the gross domestic product; to reduce oil consumption to no more than 45% of gross primary energy consumption; and to cover 70-75% of primary energy requirements for the production of electricity by means of solid fuels and nuclear energy. Guidelines of this sort are of little value without much careful analysis and interpretation although they may have some effect in stimulating the laggards eg the Italians and Dutch who burn too much oil in their power stations. I would explain our doubts. But the UK should have no difficulty in complying with the guidelines. So I would propose if a large majority of our partners press the point to agree to their adoption. I would resist French pressure to redefine the guidelines as "objectives".

Conclusions

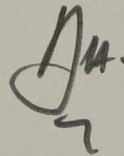
Under no circumstances must we agree to produce any extra oil for the market. no

I should be grateful for your agreement to handle the IEA and EEC meetings on the lines suggested above. This involves compromise. The line suggested in this minute is not one which I would ideally wish to adopt. But as I said in my minute of 14th April a compromise on these lines would be a small price to pay to avoid a major and unnecessary dispute with the Americans in the IEA - all the more undesirable in the light of developments in Iran - or with our partners in the Community. The main UK interest lies in avoiding a commitment in advance to use import ceilings in a sub-crisis and

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to retain the right to decide for ourselves what national measures we would take to reduce demand. I would propose to concentrate on that.

I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and Sir Robert Armstrong.



D A R HOWELL
SECRETARY OF STATE FOR ENERGY

9 MAY 1980



INTERNATIONAL ENERGY TARGETS FORECASTS TO 1990

National Forecasts

1. All Energy Ministers in developed countries have a responsibility for ensuring that their national economies can expect an adequate energy supply at reasonable cost. They all share, therefore, a common need to form as accurate a view as possible of future developments both nationally and internationally. In the UK the Secretary of State is responsible for approving the capital expenditure plans of the public sector energy industries, which is another way of saying that he is responsible for ensuring that supply/demand balance is maintained at an acceptable cost. The timescales involved in energy planning are very long indeed. Major objectives take up to 10 years or more to bring on-stream, and, while each of the energy industries has its own specialists to produce forecasts it is vital that the Department should form an independent and objective view of future developments which takes account of wider considerations, including the macro economic effects and the international dimension. If energy supplies 10 years hence are to be affected by policy decisions which have to be made now, the best possible quantitative assessment of the future must be available.

2. To this end the Department makes and has published projections of energy developments which go well beyond 1990. These projections are based on plausible hypotheses about further levels of economic activity, about the relationships between the level of economic activity and the growth of energy demand, about the availability and cost of oil and the likely pace of developments in coal, gas nuclear etc. Each of the projections is intended to represent a plausible and internally consistent view of the future. Collectively they are intended to span the range of possible future developments against which the suitability of energy policy can be tested. However none of these projections is by itself considered to be the one best single view of how the future might emerge.

International Targets

3. The main area in which an international consensus about future demand is important is that of oil supply. Given the effect upon our economy both of uncertainty about oil supply and of the consequences of that uncertainty for prices, it is important that the oil consuming nations adopt policies designed to re-structure their energy economies and drastically to reduce their dependence on imported oil. The extent to which those policies are working (and indeed the extent to which they need to be modified) must be monitored and this can only be



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done if yardsticks are established by which progress can be measured. Since the lead times for effective decision making internationally are at least as great as they are nationally, yardsticks for 10 years ahead are necessary. The UK's perception of the future, reflected in our national forecasts, need to be reflected in any quantified objective agreed internationally, partly to ensure that the international yardsticks do not conflict with our own and partly to draw support for domestic policies from the international consensus of which they form part.

4. At all times, however, we are talking about forecasts (or more properly projections) and a quantified presentation by possible futures against which policies can be measured, and, if necessary, modified. They are not targets which are, in the IEA context, single figure goals which Member Nations are committed to pursuing. Such a goal would not in our view, be appropriate for 1990 since the range of uncertainties are too wide and the potential difficulties of being required to adhere to a single figure target too great.

International case for accepting targets

5. The Carter Administration have attached particular importance to national and international targets. This stems in part from the American belief in goals as a spur to action; but also from the Administration's concern that domestic support for painful adjustments in energy consumption cannot be obtained without evidence that America's allies are pulling their weight; and from their conviction that quantified evidence of industrialised countries' determination to reduce oil demand will strengthen the hand of OPEC moderates - Saudi Arabia in particular. The French and the Danes share the first and the last of these views which complement the IEA Secretariat's desire to create an effective mechanism for indicating to governments the direction their policies should take and for measuring the results. Over the last three years Ministers of IEA Member countries have endorsed - with greater or lesser conviction - the principle of medium (1985) and long (1990) term objectives in the IEA's efforts to reduce energy consumption.