

PREM19

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ENERGY

(Energy policy)

(Part 2)

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● PART 2 ends:-

Energy to MODBA 30 Oct.

PART 3 begins:-

Fco to Energy 5. Nov

Cabinet / Cabinet Committee Documents

[illegible]

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB (CABINET OFFICE) CLASSES**

Signed Wayland

Date 16 September 2009

PREM Records Team

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Energy

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ 211 6402

M Alexander Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

copy on: Germany,
June 79,
PM's Mtg's
with 30 October 1979
Schmidt in Germany.

Dear Mike,

NORTH SEA OIL PRICING

Since the Energy brief for the Prime Minister's meeting tomorrow with Chancellor Schmidt was prepared, we have learned that the Algerians have raised their crude prices by £2.77 per barrel as from 24 October, following the Libyan increase on 15 October. Both these African producers now sell their highest quality crudes at £26.27 per barrel as compared with the OPEC ceiling of £23.50 per barrel. The other major African producer, Nigeria, has not yet increased its prices, but is expected to do so very shortly.

These moves have increased the pressure on UK producers, including BNO, to increase their own prices, in line with those of comparable African crudes, and the oil companies now see an early rise in North Sea prices as inevitable. We have been endeavouring, so far successfully, by means of informal pressure to persuade UK producers to delay any increase until the Nigerians have increased their prices and to defer action until it is clear what the Nigerians are going to do.

However, because action must come soon and because of the risk that any advance notice of the possibility of a price increase will be misrepresented in the press as an immediate increase it is accordingly suggested that the Prime Minister might wish to inform Chancellor Schmidt about the situation. In doing so it would be useful to emphasise that the action of British oil producers, including BNO, is intended to be consistent with our general objective of ensuring that North Sea prices follow rather than lead the market.

I am sending copies of this letter to Tony Battishill in the Treasury, Paul Lever in the FCO and Martin Vile in the Cabinet Office.

Yours ever,

Denis

Denis Walker
Private Secretary



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Energy

10 DOWNING STREET

From the Private Secretary

25 October 1979

Prime Minister's Meeting with Sir Arnold Weinstock:
Corrigendum

My record of the Prime Minister's meeting with Sir Arnold Weinstock on 23 October recorded that the Secretary of State for Trade was present. He was not. The record should, of course, have read that the Secretary of State for Energy was present. I apologise for this error.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), Stuart Hampson (Department of Trade), Tony Battishill (HM Treasury), Brian Norbury (Ministry of Defence), Bill Burroughs (Department of Energy), Ian Fair (Department of Employment) and Martin Vile (Cabinet Office).

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

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10 DOWNING STREET

file energy
bc Hoskyns & Wolfson

From the Private Secretary

24 October 1979

I attach a record of the Prime Minister's meeting last night with Sir Arnold Weinstock.

As you will see from page 5 of the record, Sir Arnold at one point explained that GEC had been thinking of splitting up the company into smaller companies, but had been hampered by existing tax legislation. I would be grateful for comments from the Treasury on this point which I could show the Prime Minister.

I am sending copies of this letter and enclosure to George Walden (Foreign and Commonwealth Office), Stuart Hampson (Department of Trade), Tony Battishill (HM Treasury), Brian Norbury (Ministry of Defence), Bill Burroughs (Department of Energy), Ian Fair (Department of Employment) and Martin Vile (Cabinet Office).

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

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RB

✓c Master Set
gc Ind PD, Rolls Royce

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RECORD OF A MEETING IN THE PRIME MINISTER'S ROOM AT THE HOUSE OF
COMMONS AT 2130 ON TUESDAY 23 OCTOBER 1979

Present:

Prime Minister	Sir Arnold Weinstock
Secretary of State for Industry	Sir Kenneth Bond
Secretary of State for Trade	Mr. Lewis
Mr. T. P. Lankester	

* * * * *

The Nuclear Industry

The Prime Minister said that the Government had decided that there must be a major nuclear programme in the 1980s. Otherwise the country would be short of electricity in the 1990s. The Government had in mind a basic ordering programme of 1.5 gw a year from 1982. In addition, Ministers intended that the programme would go ahead using the PWR system; but this would depend upon the necessary safety clearances. The Three-Mile Island accident had caused doubt in some people's minds about the safety of the PWR; but she was sure that the public inquiry on the accident would demonstrate that the system as such was safe. The Government hoped that it would soon be possible to activate the Westinghouse licence so that the inquiry into the first PWR station could be got under way. But it would be unwise to move until the report on Three-Mile Island was completed. Even then, it would be difficult for the Government to make an announcement of a firm commitment to the PWR through the 1980s - since this would be seen as pre-judging the results of the inquiry. What she had said about the Government's intentions on the PWR should therefore be regarded as confidential. But she hoped that it would give GEC a greater feeling of assurance that the PWR would be the mainstream system in future.

The Prime Minister went on to say that the present set-up in the nuclear industry was clearly unsatisfactory, and this was reflected in its poor performance. She understood that GEC would like to relinquish its supervisory role. But she hoped that the company would be willing to play a full part in strengthening the

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management of NNC. If the nuclear programme was to be a success, the NNC must be put in a position so that it could take on full management responsibility for the programme - in contrast to the present position where the CEGB were playing the major role.

Sir Arnold Weinstock said that he welcomed the Prime Minister's remarks. He understood that a forthright commitment to the PWR was not possible until the Three-Mile Island report had been studied and until the inquiry on the first UK PWR station had been completed. But the Prime Minister's statement of the Government's general intention was nonetheless helpful. What was important to GEC was a commitment to the PWR system; they were less concerned about the precise rate of ordering. Only with such a commitment could they undertake the investment that was needed to create the industrial capability to build the PWR. In 1973 GEC planned on a new factory for building the PWR at a cost of only £12 million: the necessary investment now would be of the order of £30 million. The earlier plan had been based on collaboration with the French; the collaboration possibilities would have to be looked at again, taking into account the fact that GEC would probably need to look to the Japanese for the technology for building the pressure vessels.

Sir Arnold went on to say that the Government ought to be moving towards a commitment to a fast reactor as well. This was needed as a complement to the PWR thermal stations. The fast reactor would make use of the plutonium and depleted uranium from thermal reactors, and thereby do much to meet the objections of the environmentalists to the nuclear programme. International collaboration was also needed on nuclear policy in order to ensure that the problem of nuclear waste was satisfactorily dealt with. It was crucial that the safety aspects of nuclear policy should be properly presented: there were too many groups, many of them politically motivated, who were trying to undermine the system.

Against the background outlined by the Prime Minister, GEC would be very glad to do their best to improve the performance of NNC. Changing the share-holding structure and the Board of NNC was less important, in his view, than changing the relationship of the CEGB to NNC. The NNC, and GEC, would not be able to improve

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on the current situation unless a proper arms-length relationship were established between CEGB and NNC. GEC would use its best endeavours to provide management to NNC so that it could fulfil its proper function; once NNC's competence had been built up, GEC would like to give up their supervisory role.

Rolls Royce

Sir Keith Joseph said that Sir Arnold was familiar with the current problems which Rolls Royce were facing. In brief, the RB2-11 engine had had to be sold at a low price in order to break into the American market; this price had been denominated in dollars and the exchange rate assumptions had proved false; and this problem had been exacerbated by poor productivity and inadequate cost control by management. Sir Kenneth Keith had made an important contribution to the company as a salesman, but his performance as a manager - and he admitted this himself - had been far less successful. The Government were hoping that GEC would be willing to let Mr. Morgan become Chief Executive of Rolls Royce, with the possibility of GEC providing management assistance on a consultancy basis as well. The Government thought it would be best not to impose a GEC consultancy upon Rolls Royce immediately since this might lead to a mass resignation of the Rolls Royce Board. It would be better for Mr. Morgan to assess the company's needs first, and then persuade the Board that GEC management assistance would be helpful. The position of Sir Kenneth Keith would in any case cause problems, since it seemed unlikely that he and Mr. Morgan would be compatible. It might be possible to promote Sir Kenneth to the Presidency of the company after a few months; but again it would be necessary to move delicately if a confrontation with the Board, and with Sir Kenneth himself, was to be avoided. Such a confrontation would be bad for customer confidence. There was also the question of Rolls Royce's relationship with the NEB: the Government had it in mind to make the Department of Industry directly responsible for the company again.

Sir Keith went on to say that he understood that GEC were interested in purchasing Rolls' Industrial and Marine Division and also perhaps its nuclear interests. But Ministers had concluded that it would not be wise politically, nor would it be

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commercially beneficial to either company, if either of these acquisitions were to go ahead at a time when GEC were taking on management responsibilities for Rolls Royce. However, assuming GEC went along with the Government's proposals, the option of acquiring these two parts of the Rolls Royce business would remain open for some later stage.

The Prime Minister reiterated that it was important to maintain an arms-length relationship between GEC and Rolls Royce. She would also like to be sure that GEC were able to take on the proposed responsibility for Rolls Royce, as well as playing a bigger role in the nuclear industry.

Sir Arnold Weinstock replied that the Government were absolutely right to rule out the option of taking Rolls Royce out of the aero-engine business; although the company's performance had been very poor in terms of profitability, nonetheless it would be very unwise to throw away this technology. The question was: how to improve Rolls Royce's performance? He had no doubt that, with better management, its performance could be improved. GEC would be prepared to assist on the lines suggested by Sir Keith Joseph, and he did not foresee any difficulty in doing this as well as providing a greater management input to NNC. But he was sure that Mr. Morgan would not get on with Sir Kenneth Keith, and it was therefore essential to find an early exit for him - at least from management responsibilities. He had heard that Sir Kenneth had been offered the chairmanship of STC, and wondered whether this would not provide a satisfactory alternative to his remaining with Rolls Royce. Also, Morgan would not be able to achieve success on his own: he would need help from Stanhope Gate, though he (Sir Arnold) understood that it should be for Morgan to ask for this support rather than having it imposed by the Government.

He accepted that there would be a presentational problem if GEC were now to acquire any of Rolls' interests, and that an arms-length relationship between the two companies was needed. However, this difficulty might not have arisen if GEC had been able to proceed with its ideas for splitting its own business. For some time, he had been considering splitting GEC into smaller companies. For

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example, he would have liked to hive-off Schreiber/Hotpoint so as to make it stand on its own feet. Similarly, he had considered the idea of hiving-off GEC's power engineering business and merging it with Rolls Royce's power engineering sections. If this latter plan had been viable, the presentational difficulty of GEC acquiring parts of Rolls Royce - while also providing management - might not have arisen. However, the plans for splitting GEC were made impossible by current tax legislation, which meant that shareholders in the newly formed companies would be liable to capital gains and income tax when they exchanged GEC shares for shares in the new companies.

Sir Arnold made the following further points:

- (i) GEC were interested in other acquisitions from the public sector - particularly Cable and Wireless and British Aerospace.
- (ii) If GEC were to help Rolls Royce, they would not be prepared to tolerate the unfair competition which Rolls Royce were engaged in on the gas turbine side. They had set up a joint company with a US company, Coopers, and were tendering on a loss-making basis at GEC's expense. Similarly, GEC/Marconi were having difficulties with unfair competition on the electronics side from British Aerospace. He hoped that the Government would make sure that these unfair practices were stopped. (Sir Keith asked Sir Arnold to send him further information on them.)
- (iii) He begged the Government not to give unnecessary publicity to credit and other arrangements provided to GEC by departments. The French Government was much less public in the assistance with which it provided companies: he hoped their practice could be followed in the UK. The previous Government had too often caused problems for GEC by publicising the assistance which they had provided.

The Prime Minister said that she was very grateful to Sir Arnold and his colleagues for coming and for agreeing in essence with the

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Government's proposals in relation to both the nuclear industry and Rolls Royce. She noted the points which Sir Arnold had raised and asked that he should not take any action on Rolls Royce before either she or Sir Keith had first seen Sir Kenneth Keith. Sir Arnold readily agreed to this.

The meeting finished at 11.15 p.m.

12.

24 October 1979

Distribution: Private Secretaries to:

The Foreign and Commonwealth Secretary
The Secretary of State for Industry
The Secretary of State for Trade
The Chancellor of the Exchequer
The Secretary of State for Defence
The Secretary of State for Energy
The Secretary of State for Employment
Sir John Hunt

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COMMERCIAL - IN CONFIDENCE

Mr. Lankester

Qa 04314

To: SIR JOHN HUNT

107 22/x

cc Mr Le Cheminant
Mr Mountfield

From: SIR KENNETH BERRILL

mb

GEC Management Style

1. At the Prime Minister's meeting this evening with Sir Arnold Weinstock one question which must be firmly in her mind is Sir Arnold's ability to handle yet more companies (Mr Prior raised this point at E this morning).
2. Hearing his intervention I thought I would sketch out the attached note which tries to say just why, as I see it, Weinstock is able to control effectively such a large and disparate empire (large by UK engineering standards, not in international terms or even in ICI/BP terms).
3. Questions were raised at this morning's meeting ^{of} E on whether Sir Arnold would be disappointed if the Government were not able to commit itself at this moment to moving over to PWRs for the remainder of its nuclear programme. Sir Arnold is, above all, a realist and has been in the middle of the nuclear issue for years. He knows that any move over to PWRs has to be undertaken with great care because of the public and political sensitivities. He also knows that no commitment could be undertaken until all safety enquiries and clearances have been obtained. What he will be concerned with is the commitment of this Government to a major nuclear programme and a desire to go PWR if it can be achieved. I think he would regard this as the most that could possibly be put to him in the circumstances.
4. If the attached note is of any interest, perhaps it might be put to Mr Lankester.

G. L. Lankester
for KENNETH BERRILL
23 October 1979

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GEC Management Style

Since GEC management capabilities are so much in our thoughts a short note on Sir Arnold Weinstock's management style and method might be useful.

Weinstock is, on the surface an emotional, impulsive man who wants to move into instant action as soon as he has thought of something and who is liable to get bored and lose interest if that cannot be achieved. He is also verbally aggressive, given to very strong statements about policies being terrible and individuals being useless and deserving to be sacked. In practice, however, his bark is very much worse than his bite. In particular, he is a teacher rather than a sacker. He is prepared first to haul someone over the coals and then painstakingly go through with him how to do things better. Most of the managers that he inherited when GEC took over other companies are still with him and the number of dismissals has been minimal.

Weinstock, Bond, Lewis (statistician, accountant, lawyer) are a remarkably effective team - each complementing the other: in particular Bond putting the brake on Weinstock impulsiveness. The management style is one of extreme decentralisation. The headquarters at Stanhope Gate has a tiny staff and Weinstock virtually never

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leaves it to walk round one of the GEC plants. Each division chief is completely responsible for running his own show and by the same token 100 per cent accountable for what happens there. He cannot make the excuse that the bureaucracy at headquarters got in his way because there isn't any.

What happens is that his detailed monthly figures will be crawled over by Weinstock at Stanhope Gate who lives in the perpetual pessimistic belief that bankruptcy stands ever just outside the office door and can only be kept at bay by the most continuing questioning and effort. (Weinstock would not have allowed the losses that EMI incurred on the scanner to go on for more than six months without a major reappraisal.)

Weinstock's personal analysis of the monthly figures is both detailed and shrewd - his nose for trouble is remarkable (a production of intelligence, experience and pessimism). If he has queries on the figures he reaches for the phone or if necessary gets the section head to come to Stanhope Gate. He does not start going out to the plants or getting people in Stanhope Gardens to override local decisions.

The point of this particular management style is that it is (a) very flexible in terms of the range of divisions it can handle; (b) is very dependent on Weinstock/Bond/Lewis.

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PS/ Secretary of State for Industry

22 October 1979

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

ms

Dear Tim

...

I enclose a speaking brief prepared by the Department of Energy and this Department for the Prime Minister's meeting with Sir Arnold Weinstock tomorrow evening. The material on the nuclear programme is subject to the outcome of discussions in E Committee tomorrow.

In view of the Prime Minister's familiarity with both the nuclear issue and Rolls Royce's position, as set out in papers previously circulated to Ministers, the brief does not describe the factual background. But, because of the complexity surrounding the proposed course of action over Rolls Royce, officials have prepared for reference purposes a summary of the MISC 22 decisions and notes on the various key issues.

You will recall that during the discussion in MISC 22 there was anxiety about the proposal that GEC should be allowed to negotiate for the acquisition of the Rolls Royce Industrial and Marine Division. In previous discussions with officials, Sir Arnold Weinstock has placed such emphasis upon this that officials here have been reflecting on the desirability of having a compromise fall-back position on this point should it be needed. One possibility would be the formation of a jointly owned company under GEC management in which Rolls Royce would have a shareholding equal to the relative value of its Industrial and Marine Division to the GEC analogue company. This is mentioned as a possibility in the supplementary briefing.

I am sending a copy of this to Bill Burroughs (Department of Energy).

Yours ever

Ian Ellison

IAN ELLISON
Private Secretary



C O N F I D E N T I A L

BRIEF FOR MEETING WITH SIR ARNOLD WEINSTOCK
TUESDAY 23 OCTOBER AT 9.30PM

OBJECTIVE

1. To persuade Sir Arnold Weinstock to maintain his shareholding in the National Nuclear Corporation and make a fresh attempt to revitalise the nuclear industry; and to assist in strengthening the management of Rolls Royce.

LINE TO TAKE

2. I know the two Departments concerned have been talking to you about the development of their thinking on the nuclear power programme and Rolls Royce. Before the Government goes any further I wanted to have an opportunity for a talk with you.

3. On the nuclear side, I hope our conclusions will be welcome to you. With Rolls Royce I want to be able to count on your help, frankly without offering you anything in return, unless you want to give us a complete surprise by offering to buy the business outright.

4. Take the nuclear industry first.

5. We have taken two major decisions, both of which I know will be welcome to you:-

First, we accept the need for the industry to have a clear prospect of continuing orders for power stations. We are therefore prepared to endorse a basic ordering programme of 1.5 gw a year over 10 years from 1982 as a reasonable expectation on which the industry can plan, together with a firm and immediate commitment to 5 gw orders over the first 3 years of the programme, subject to only safety and planning consents.

Second, we agree to the need for a firmer commitment to developing the PWRs. It is too soon to adopt the PWRs as the mainstream system of the UK and its introduction must be subject to satisfactory safety clearance. But subject to this



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we are prepared to make it clear that the first station in the programme will be a PWR; to indicate that further PWR orders are expected; and to authorise licensing arrangements with Westinghouse.

6. I know that the relationship between the CEGB and the NNC has been a problem and we accept that the demarcation between them must be clarified. We want to see a steady evolution in the NNC's role. In particular we very much hope that the NNC will get into a position to take total management responsibility for the first PWR with whatever help is needed from outside architect engineers and CEGB staff on sub-contract.

7. None of this will be possible unless the NNC are strengthened. This is where we want GEC's help. We realise that your involvement with NNC has been discouraging because of past decisions about the SGHWR, the new AGRs and the lack of a programme. But the Government's new approach is a turning point in the nuclear programme. The NNC has a major opportunity never open to it before.

8. The Government want GEC to make sure that NNC makes a success of the programme and the PWR by maintaining their shareholding in NNC, strengthening its management and revitalising the company. They will have the full backing of our shareholding in this task. We accept that the supervisory management agreement should end, as GEC wish. But there must be a new Board, a new managing director and a major effort to improve performance.

9. There will of course be criticism. The CEGB and some industrial parties will dislike GEC's continued role; and the environmental movement will attack the programme. But the Government are fully prepared to face these problems if GEC will take on the job.

Rolls Royce

10. Turning to Rolls Royce, you already know that we want to strengthen the management of the company's affairs, and have come to the conclusion that the breakdown in relations between Rolls Royce



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and the NEB is such that ownership of the company should be transferred back to the Department as soon as the necessary legislation could be put through, which will be next Spring or early Summer. We shall be glad if you would be ready to help us in strengthening the management.

11. We have considered very carefully how best to proceed with strengthening the management. Sir Peter Carey has discussed with you a number of possibilities. These have covered not only ways in which you could help with the management of Rolls Royce, but your interest in acquiring the Rolls' Industrial and Marine Division and perhaps also its nuclear interests.

12. If I can take the second of these aspects first, we have reached the conclusion that it would not be politically wise for us, or commercially beneficial for you or Rolls Royce, to take any action which seemed likely either to result in serious criticism that your company was unduly favoured and being paid a price for its help or to result in politically inspired dissatisfaction among Rolls Royce's employees.

13. This is not to say that the Government is opposed in principle to GEC negotiating the acquisition of the Industrial and Marine Division at some future stage, or indeed taking a wider interest in Rolls Royce. But we do not wish this to be linked in any way with your involvement in helping to solve the present management problems at Rolls Royce.

14. In dealing with the company, I know you understand our concern to retain for the company the services of Sir Kenneth Keith in a non-executive capacity. Whatever his limitations may be, he has rendered the company great and unstinted service over the last 8 years, and his standing with the major American aviation companies is an important asset to the company. He has critics within the company, but they have advised the Government of the reality of this factor.



C O N F I D E N T I A L

15. Keith recognises that the company needs a Chief Executive, and recently appointed consultants to find one. We understand the consultants are close to making recommendations, but we should like to feel able to call upon the services of Mr Morgan should our present view that this was the best course be confirmed following talks with the company.

16. We should like Mr Morgan to be an employee of Rolls Royce and not simply one of the GEC's senior executives on secondment. This will underline his commitment to Rolls Royce and his independence of GEC should there be any future negotiations between Rolls Royce and GEC about the disposals. Such an arrangement is also likely to be more acceptable to the members of the Rolls Royce board. Of course Rolls would have to offer terms that were sufficiently attractive to persuade Mr Morgan himself that this was in his own interests. The Government is ready to see the full rate being paid for this job.

17. We should also like to feel that if Mr Morgan was appointed, he was able to call upon the backup of your team at Stanhope Gate, should the Government be able to secure the agreement of the Rolls Royce board to such a course. This may not be possible immediately; it may provoke the kind of public confrontation and resignations we wish to avoid. But if it is not possible immediately we should like to feel you would be ready to help us later if asked.

18. May I say how much I appreciate the indication you gave in discussions with Sir Peter Carey to help us in solving the problem of Sir Kenneth Keith by offering him a Vice-Chairmanship on your board. In view of what I have said on the industrial and marine division, clearly that would not now be appropriate. Our thinking on Sir Kenneth Keith is to seek to move him immediately to the Presidency of Rolls Royce, and I know that would be the right course so far as Mr Morgan is concerned. But it may be necessary for us to move by two steps first to a part-time non-executive Chairmanship with the Presidency following a few months later, to give us time to get the Chairmanship settled satisfactorily. However, these are matters in which we shall be clearer when we have taken the next



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steps with the Rolls Royce board and the NEB.

19. To sum up before we speak to Sir Kenneth Keith and the NEB, I should like to be sure that Mr Morgan would be available if offered the job of Chief Executive and that you and your team at Stanhope Gate would be willing to back him up with consultancy services if asked to do so, either immediately after his appointment or later if that proves the feasible course.



SUPPLEMENTARY POINTS - NUCLEAR

What kind of further commitment does the Government have in mind on the PWR?

We have not finally decided and will certainly consider GEC's views.

Will there be more AGRs?

It would be wrong to rule out the possibility at this stage. But we are determined to see the first PWR go ahead, and are well aware of the difficulties which could arise if, for instance, the CEGB were to press for another AGR at Portskewett with a planning inquiry next year.

Will the CEGB agree to NNC taking on total management responsibility for the first PWR?

We intend to make clear our policies to all concerned and to insist on the CEGB's co-operation in meeting our objections. We believe there must be a single focus of responsibility for the first PWR and we want it to be in the private sector.

What about RNC? [The consortium which Rolls Royce, Combustion Engineering and Northern Engineering Industries have formed to tender for the PWR.]

It has been the policy of successive Governments that NNC is the chosen instrument for the design and construction of nuclear power stations in the UK, and we do not intend to change that for the PWR.

SUPPLEMENTARY POINTS - ROLLS ROYCE

Will a GEC role here tell against GEC's chances of getting Government approval for other acquisitions?

A GEC involvement in Rolls Royce at the Government's request would not militate in any way against other acquisition proposals GEC might make. These would be looked at on their individual merit by the Government.



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Will the Government amend its offers on compensation for nationalisation?

It would be entirely wrong for the Government to reward GEC for its services with Rolls Royce in any other way than through the terms of the contract for a consultancy service. The Government in opposition expressed its criticisms of the compensation terms in the Aircraft and Shipbuilding Act. If we legislated to change them, those on the Opposition side who have been speaking of renationalisation on severe terms might well win the support of the Labour Party as a whole with damaging effects to the Government's general policy of pushing back the frontiers of public ownership wherever possible.

We have therefore the disagreeable task of implementing legislation we do not like, which is, nevertheless, the law. The Secretary of State for Industry will be making the BAC stockholder's representatives a final offer shortly, but this will be severely circumscribed by the terms of the Act.

Will GEC be allowed to acquire British Aerospace or Cable and Wireless?

We have not yet settled our disposals policy. As you may have guessed, there is strong opposition to GEC buying the available shares in British Aerospace; Cable and Wireless may present less difficulties providing this would be acceptable to the Governments of Hong Kong and Bahrain and providing it can be shown that GEC paid the full market price.

Confidential Note

There are strong arguments against GEC buying BAe - the existing board of British Aerospace is strongly opposed and while they have been restraining the unions from a policy of outright and determined opposition to denationalisation, which could damage the prospects of sale, resignations by them in protest to a GEC course could lead to a very dangerous situation with the unions. The Ministry of Defence do not like the idea of a GEC takeover.



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Cable and Wireless is a better possibility, but overseas Governments have to feel satisfied that Cable and Wireless are providing them with as cheap and effective a service as possible. They may have reservations if Cable and Wireless passes into the control of an electronics manufacturing company.



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SUMMARY OF MINISTERIAL DISCUSSION AT MISC 22(79)2nd MEETING

The Ministerial discussion ^{on 18 October} ~~yesterday~~ may be summarised as follows:

Objective

To improve the management of Rolls Royce as a matter of urgency.

Constraints

- 1 Maintain consumer confidence and avoid financial costs of a crisis of confidence.
- 2 Retain Sir Kenneth Keith in a role which does not involve him in day to day management.

Method

If possible by making the expertise of Sir Arnold Weinstock and the GEC management team available to Rolls Royce; including the provision of a chief executive.

Constraints on Method

- 1 To seek to secure GEC assistance without preconditions about sales to GEC of the Rolls IMD and nuclear interests.
- 2 To avoid prejudicing decisions on the future of the nuclear industry and overburdening GEC senior management.

Process

- 1 Prime Minister and two Secretaries of State to see Sir Arnold Weinstock.
- 2 Secretary of State for Industry subsequently to see Sir Kenneth Keith.



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Position of Sir Kenneth Keith

<u>Alternatives:</u>	President	} concentrating on sales and customer relations
	Non-executive, part-time Chairman	

Constraints:

- 1 Weinstock considers that Morgan as Chief Executive could not work with Keith, except as President.
- 2 But as yet we have not settled on an alternative to Keith. A GEC man (like Sir Kenneth Bond) would add to the appearance of a GEC take-over and compound the difficulties over conflict of interest in relation to any possible future sales to GEC. Mr Ashley Raeburn, recently promoted to Vice Chairman on the RR board would be willing to take the job, but not if Keith is outraged and as a professional he would want to make up his own mind about Morgan and the GEC.
- 3 The more drastic the immediate change the greater the difficulty of getting the co-operation of Sir Kenneth Keith.

Conclusion

- 1 Preferred Choice: Aim to elevate Keith immediately to presidency and consult Sir Frank McFadzean (part-time RR board member for whom Raeburn worked in Shell) about chairmanship - himself or Raeburn.
- 2 As fall back: Against the possibility that an immediate solution in this way is not available seek Weinstock's agreement to fall back position in which
 - i) Keith becomes non-executive part-time chairman when Morgan arrives;
 - ii) Keith moves to presidency after 3-6 months.



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Status of Mr Morgan

Alternatives Rolls employee who severs links with GEC.
Secondment from GEC.

Constraints Mr Morgan's views, which are unknown.

Comment

Unless Mr Morgan severs his links with GEC no-one will have confidence that any subsequent negotiations on disposals of parts of or the whole of Rolls-Royce to GEC would be on an arm's length basis.

Conclusion

It is in the interests of Government and GEC that Mr Morgan should sever links with GEC and he should be offered a sufficiently attractive contract to induce him to accept that.

Note The employment of Mr Morgan derives from the Department of Industry's proposal that GEC should be employed to provide consultancy services. As part of such an arrangement GEC would provide a chief executive.

If the use of GEC as consultants were to be abandoned there would be no particular reason for employing Mr Morgan except that he has a good reputation as a tough engineering manager with a sufficiently distinguished record as an engineer to command respect among Rolls Royce engineers and a proven record as a managing director.

Rolls Royce have employed consultants to find a chief executive and their work has progressed to the point of identifying two possibilities, but their quality and availability is uncertain.



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Role of GEC - Beyond providing Mr Morgan

- Alternatives
- 1 No role.
 - 2 Employed immediately after Mr Morgan's appointment to provide a consultancy service to Rolls Royce.
 - 3 Agree with GEC that they would be ready to provide such a service to Rolls Royce (or to the Government) at some later stage if asked, but a decision on this to be deferred until Rolls severs formal connection with the NEB after legislation.

Comment

The DoI advise that one man cannot come to grips with the problems of Rolls Royce as quickly or effectively as a chief executive with the backing of the GEC's top management team at Stanhope Gate. The employment of GEC would be a good public justification for the removal of Rolls Royce from the control of the NEB: Parliament would have no reason to think that the DoI unaided would be more effective than the NEB in controlling Rolls Royce. A justification to Parliament of the removal of the NEB in terms of the breakdown in relations between Sir Leslie Murphy and Sir Kenneth Keith and as being the only way of retaining two distinguished public servants while true, is likely to lead to the same treatment being sought by British Leyland.

On the other hand, the employment of GEC could well be seen by the board of Rolls Royce as an expression of no confidence by the Government and if they accept GEC at all, it may be only after the chief executive has established himself and convinced his colleagues of the need.

Conclusion

Given that a determined effort should be made to persuade the Rolls Royce board that the use of GEC is in the best interests



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of the company, but recognising that it may be impossible without unacceptable resignations from the Rolls Royce board,

- (i) seek to secure Sir Arnold Weinstock's co-operation in all of the three possibilities but with 2 and 3, in that order, being preferred;
- (ii) seek Weinstock's help with Sir Kenneth Keith in getting 2 or, as a fallback, 3, noting that GEC's role is consultancy, not management.



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Disposals to GEC

Options

- 1 In accordance with anxieties expressed in the MISC 22 Committee, a firm decision against sales to GEC of Rolls Royce interests.
- 2 No negotiation now, and no commitment to future negotiations, but statement of intention to return Rolls or parts of it to the private sector in due course and recognition of GEC's potential interest in IMD and nuclear by provision in any consultancy contract that it will not extend to these two businesses so as to avoid future difficulties over conflict of interest.
- 3 Subject to the willingness of the MISC 22 Committee, explore with Sir Arnold Weinstock the possibility of a jointly owned RR/GEC company for industrial and marine engines, under GEC management.

Comment

GEC very much want IMD and previously made this a condition which, subject to Ministerial decisions, DoI officials had indicated should be acceptable, and which they considered had industrial logic from the UK point of view.

Disposal has so far been resisted by Sir Kenneth Keith and could be an obstacle to his concurrence.

Conclusion

In view of the strong Ministerial anxieties on this point, to seek to secure GEC co-operation to course 2 above, plus the nuclear decision, and an assurance that their role in RR will not weigh against them in any future acquisition they may envisage. (The last of these is crucial to GEC, but they should not be given any commitment on BAe where there are strong arguments against: Cable and Wireless is a possibility, but no more than that.)

The possibility of course 3 is to be put to the MISC 22 Committee as a compromise.



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Other Possibilities for Sir Kenneth Keith

Options

- 1 Public recognition.
- 2 Vice-chairmanship of GEC.
- 3 Chairmanship of Cable and Wireless.
- 4 A wider aerospace role.

Comment

Keith wants public recognition: he will want it even more if he is not to be seen as having failed at Rolls Royce.

Other appointments could be part of that public recognition.

The Vice-chairmanship of GEC has been offered to us by Sir Arnold Weinstock, but this probably falls if the IMD possibility is not for negotiation. Other Ministers may have been anxious about it.

The Chairmanship of Cable and Wireless is a much smaller job, but extremely important and difficult for the next two years. The new Chairman has the task of swinging a hostile board round to a changed view on disposals, to conduct very difficult but crucial negotiations with overseas Governments about concessions, and manage a sale of shares in Hong Kong and the UK. Keith has many of the qualities for a job of this kind.

Keith could be one of the two proposed Government nominees on the privatised BAe board, but the DoT are against Government direction in British Airways. The potential for a wider role in aerospace is therefore limited.

Conclusion

- 1 Keith could be useful with Cable and Wireless and the job is important. It does not match his aspirations but the offer could help to reassure him even if he did not accept it.
- 2 Tell Sir Arnold Weinstock that a Vice-chairmanship for Keith on his board is not wanted.

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PRIME MINISTER

Nuclear Power Policy and the Nuclear Industry
(E(79) 54)

BACKGROUND

This paper basically seeks a new political commitment to nuclear power. It looks for a change in direction rather than firm investment decisions - though the latter would follow later, and the political commitment would itself be expressed as a size of future programme.

2. Nuclear power has considerable economic advantages. The paper argues that it would be a good investment to install a very large volume of nuclear stations very quickly to displace old and inefficient fossil-fuelled plant even if the demand for electricity did not grow at all. The lower operating costs of nuclear stations is thought to validate this conclusion even for very pessimistic assumptions about capital cost or over-run in delivery times. And the more nuclear capacity the less the dependence on the coal industry for security of electricity supply.

3. But nuclear power takes a long time to install, the construction industry is weak and the cost, even if met in full by electricity consumers, is high. So in the real world only a relatively limited programme looks feasible. And even for that, given that the PWR studies on safety are not complete, it will be necessary to keep open options on the types of reactor and rate of ordering.

4. In addition it is worth remembering that a major nuclear programme will not cut significantly into the market for coal in the United Kingdom. By the end of the century oil is likely to be scarce and expensive and the North Sea oil provinces will be substantially depleted. The use of coal in power generation may have been reduced but the need for it in other markets, perhaps including the manufacture of synthetic gas, will be increasing (and the ability of our miners to deliver may still be in doubt). Thus an expanded programme of nuclear power may not be simply desirable - it may, as is the case in most other countries, be essential.

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5. The paper seeks three main things:-

- (a) Endorsement of a sizeable nuclear programme for the CEGB - 1.5 GW a year starting in 1982-83 - as a statement of intent on which the nuclear construction industry could plan, with an initial firm commitment to 5 GW.
- (b) Subject to safety clearance a greater role in the programme for PWRs.
- (c) A restructuring of the nuclear construction industry to make it more effective.

6. In addition the paper points to:-

- (a) Using the Westinghouse PWR system (a licensing agreement with Westinghouse already exists);
- (b) continuing to use GEC expertise in the management of the NC/NPC (though ending their present supervisory management agreement);
- (c) pushing the CEGB into a more arms length relationship with their suppliers and, consequently, altering the role of Barnwood.

HANDLING

7. You might want to tackle the various aspects separately.

The 15 GW Programme

8. There is already public expenditure provision for Mr. Howell's proposals in the PESC period (Appendix 3). Beyond that, provided electricity prices are raised to economic levels (agreed as being the aim over a 3-4 year period at E last week), the industry can finance new stations largely from revenue, and public sector borrowing need not be a constraint. The economic, and security of supply, arguments point in favour of early constructions. So the main determining factor is practicability. Mr. Howell proposes 15 GW over 10 years from 1982, with possibly more if things go well. Within this he suggests a firm political commitment for the first 5 GW between 1982-83 and 1984-85, subject only to safety and planning. It is, of course, important not to underestimate these two factors as potential sources of problems and delay. Experience with the Windscale inquiry, Mossmorran and many trunk

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road schemes shows how far determined objectors can impose delay especially when emotive 'safety' factors are involved. For example a few more accidents like Harrisburg - not in itself the fault of the "nuclear" engineers - could delay the achievement of any programme however modest. In addition there are various past Government commitments for full consultation before a "major" programme is embarked upon. And on the other side there are the studies under way in the 'strategy' context into planning procedures which may lead in time to an easing of the planning constraints. Having said all this it is difficult for the Committee to second-guess Mr. Howell and, in any case, the real programme will be developed by discrete decisions over the years ahead. The important thing is to make a start.

PWRs

9. There are strong arguments for making the PWR the dominant reactor system in the new programme. Care is needed because the safety review of the PWR has not yet been completed (when will it be ready?). But subject to this Mr. Howell's view - that we should try to find a place for the PWR in the initial programme - reflects widely-held opinion. (Note: Sir Arnold Weinstock is likely to press for a major PWR element from the outset.)

The Nuclear Construction Industry

10. It is common ground that the NNC/NPC, in its present form, is not an effective instrument for constructing nuclear power stations. Mr. Howell suggests various ways in which the company can be strengthened. These are partly a matter of organisation, partly a matter of defining the boundaries with CEGB, but above all require NNC/NPC to be provided with a strong and effective management. The role of the GEC in this connection is discussed further below. The boundary with the CEGB is however also a central issue. As matters stand the CEGB has responsibility for overall project management - with the NNC/NPC now consciously confined to the "nuclear island".

Mr. Howell urges that the role of the NNC/NPC should be steadily expanded and that of CEGB - mainly exercised through their powerful establishment at Barnwood - correspondingly reduced. Such a development seems desirable

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but depends critically on the NNC/NPC carrying conviction that they can do a good job - because the CEGB will continue to bear the main financial risks. Institutional resistance from CEGB is to be expected but in the last resort they will have to do what they are told.

The Westinghouse Licence

11. Westinghouse are far and away the most experienced PWR builders and designers in the world and it makes great sense, if we are to build PWRs, to use their expertise. A licensing agreement already exists which can be activated by an order or letter of intent. There is a problem arising from Westinghouse's current legal action against RTZ where Her Majesty's Government is assisting RTZ by disputing the jurisdiction of the United States courts. Mr. Howell implies that we should not let this lawsuit stand in the way of co-operation with Westinghouse on PWRs. This is no doubt right though could affect the timing of any announcement of Government policy (the court's judgment is expected in mid-November). You might ask Mr. Howell whether he thinks there is a real conflict of interest here and whether a fairly short delay would ease the problems.

The role of GEC

12. Sir Arnold Weinstock has long been unhappy about the whole nuclear picture - the vacillations over the choice of reactor and over the size of the programme, the domination of the CEGB, and the muddled organisation of the NNC. He should be very pleased at an outcome which gives a firm ordering programme, a major role for the PWR, cuts the CEGB down to size, and simplifies the organisation of the NNC. On this last he has long wanted to move to a single tier board and the shareholdings of GEC and the Government combined will enable him to determine the membership of the new board and who shall be the new Chief Executive. Sir Arnold wishes formally to give up his present management contract but if the Chief Executive is of his choosing and if Mr. Lewis of GEC is a member of the NNC board, the links should be very close (Sir Arnold, Sir Kenneth Bond and Mr. Lewis are the triumvirate who effectively run GEC). In fact, the arrangements could be very similar

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to those we hope to achieve for Rolls-Royce, and Sir Arnold's commitments in the power station supply industry are such that he would have great incentive to see that the new NNC was a success.

The form of Announcement

13. In view of the need to carry public opinion if the programme is to be achieved you may wish to ask Mr. Howell to give particular attention to the presentation of the decisions reached and to give plenty of opportunity for colleagues to comment.

CONCLUSION

14. Subject to discussion you might conclude:-

- (i) A substantial nuclear programme is desirable.
- (ii) In principle it should include PWRs but final decisions should depend on satisfactory safety assessments.
- (iii) A target of 15 GW over 10 years from 1982 and a firmer target of 5 GW over 3 years from 1982 should be accepted as the best likely to be achievable.
- (iv) The "selling" of the package needs great care and Mr. Howell should consult colleagues fully.
- (v) An announcement of the Westinghouse link might be deferred until the position on the court case with RTZ is clearer.
- (vi) NNC should evolve towards a role of total managerial responsibility for the construction of nuclear stations including the first PWR, and the CEGB should be told to co-operate in this aim.
- (vii) GEC's "supervisory management role" with NNC should end - and NNC should become a normal company with a single tier structure.

M.H.
fr.
(John Hunt)

22nd October 1979

*copy in
PS folder*

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ABM

*points already
put to the*

IL

WJW

Qa 04313

To: MR LANKESTER

From: SIR KENNETH BERRILL

Nuclear Power Policy and the Nuclear Industry

1. Since I sent you a paper on the reorganisation of the nuclear industry under cover of my minute of 26 September, the Secretary of State for Energy has swung round to the CPRS's view that a reinvigorated National Nuclear Corporation/Nuclear Power Company (NNC/NPC) under Sir Arnold Weinstock's leadership should take on total management responsibility for the construction of the first PWR (and presumably all subsequent PWRs which are ordered). The CPRS consequently supports strongly all the Secretary of State's recommendations in E(79)54 which, if adopted and implemented vigorously, should at last provide the basis for a successful nuclear power station construction programme.

2. There are, however, two points which I would like to draw to the Prime Minister's attention -

(a) Activation of the Westinghouse PWR Licence. NNC/NPC have been having inconclusive discussions with the CEGB for some twelve months on this subject. Although during the last six months NNC/NPC have put increased pressure on the CEGB, the Board continues to procrastinate (the Board's latest suggestion to Department of Energy officials is that the CEGB rather than NNC should hold the Westinghouse licence). The CPRS supports the Secretary of State's proposed decision to urge the Board and NNC to resolve this matter rapidly.

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It also supports his view that refraining from activating the PWR licence would do very serious damage to our nuclear programme by causing still further delays, while being a wholly ineffective gesture against Westinghouse in their dispute with RTZ which may drag on for years rather than months or weeks, if the Court's judgement in mid-November proves not to be the end of the matter.

(b) Monitoring. The construction delays in our nuclear programme and in our fossil-fired stations have been appalling. Bad labour relations on site have undoubtedly been the major cause of delay but there are other causes of delay (e.g. the procrastination of the CEGB over the activation of the Westinghouse licence which has meant, inter alia, that the Nuclear Installations Inspectorate has not been able to do any detailed work on the PWR for the past two years, which will again delay progress on the PWR further).

Too often in the past Ministers and officials have only become aware of such delays and setbacks when it has been too late to do anything about them. In his paper on coal (E(79)51), the Secretary of State indicated that he will be instituting a system for monitoring the coal strategy. The CPRS believes that he should institute a parallel system to monitor progress on the nuclear programme, which could be based on critical path charts.

The Prime Minister might be interested to glance at the attached copy of a critical path chart for the PWR which shows how progress could be monitored (if the chart were brought up-to-date now there would be some changes). While such monitoring would not resolve all the delays, Ministers would at least hear of any major problems and press for their resolution at an early date.

If the Prime Minister agrees, she might in her summing up ask the Secretary of State to undertake such monitoring on a regular basis. Alternatively she might wish to minute him on this subject.

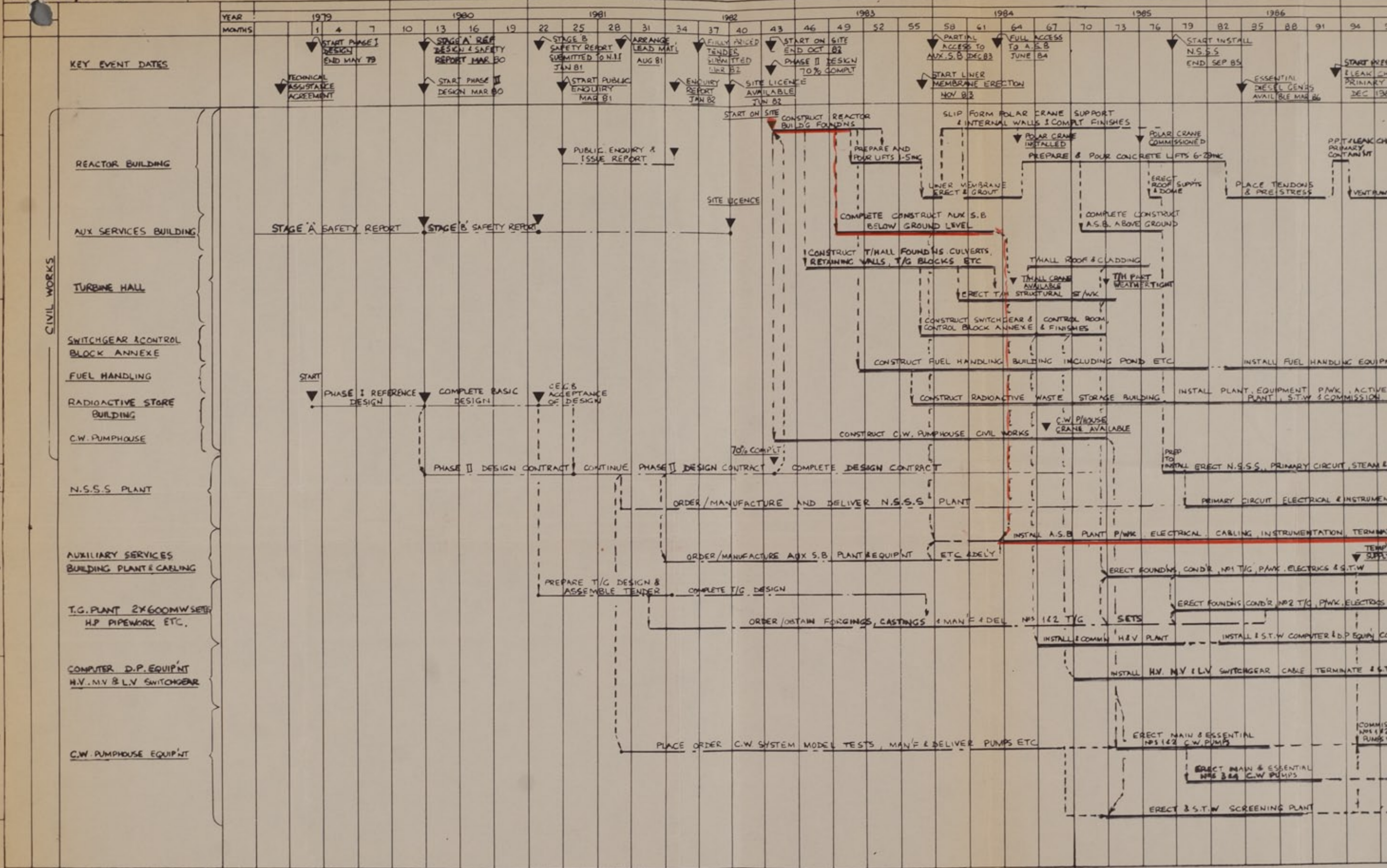
3. I am sending a copy of this minute to Sir John Hunt.

K2



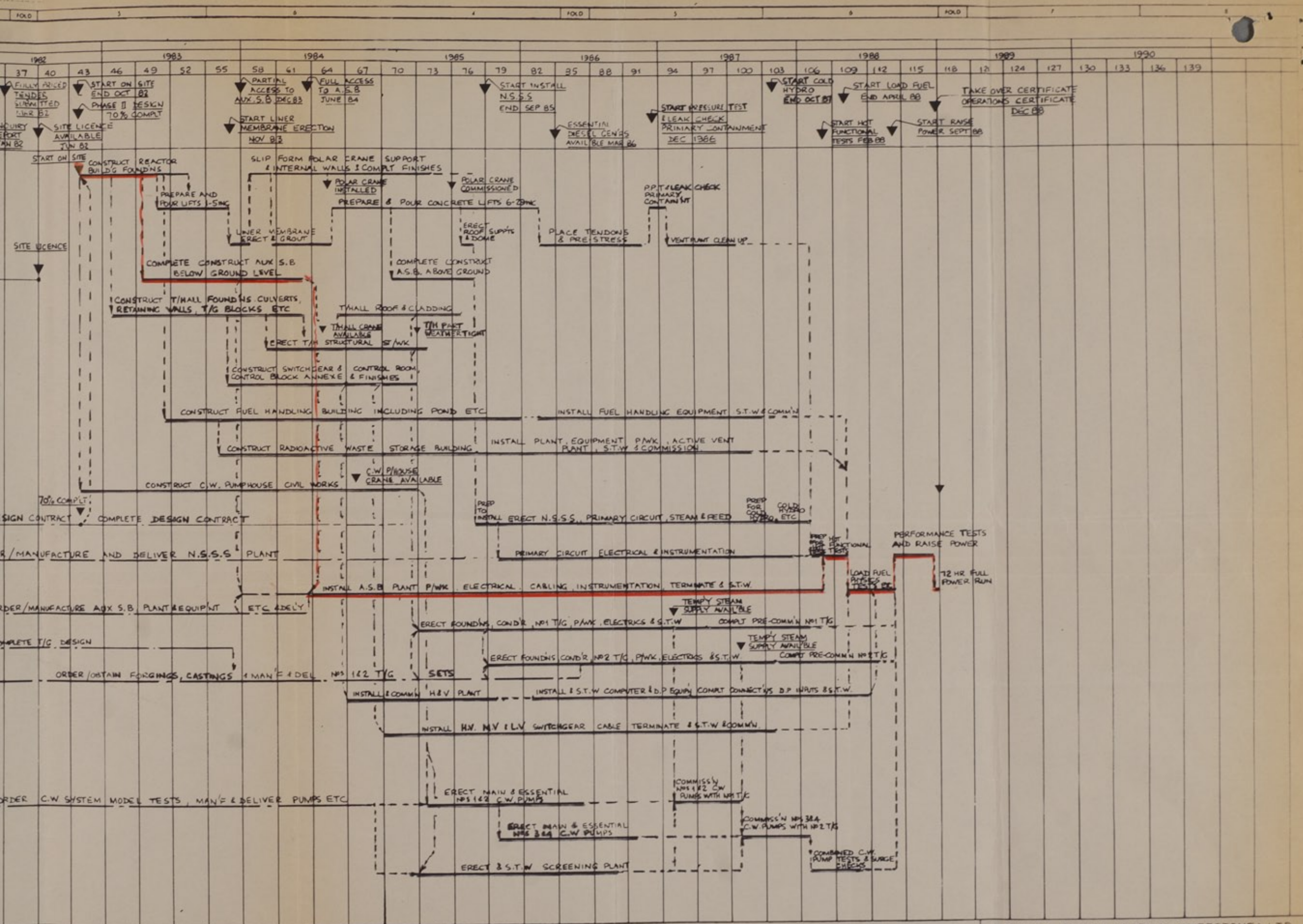
22 OCT 1979

DAG No 12.13/0017.



TARIST Programme for Internal Discussion (For Paper Only)

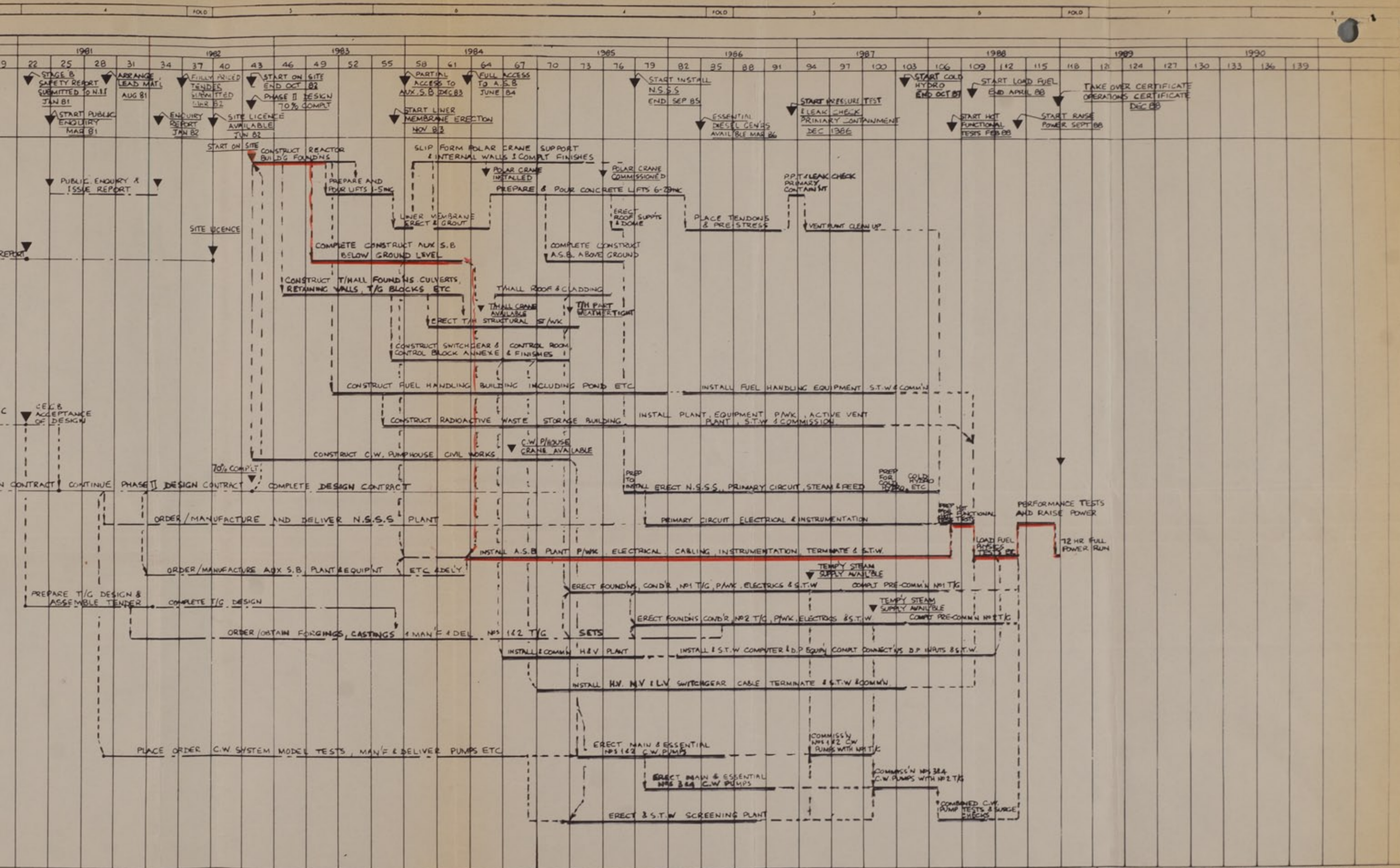
DESIGN SECTION TO APPROVE
DATE 1.5.79



AL DISCUSSION PURPOSE ONLY

PRELIMINARY

NUCLEAR POWER COMPANY (WHETSTONE) LTD			
WHETSTONE - LEICESTER - ENGLAND			
TITLE OVERALL DESIGN/MANUFACTURE/CONSTRUCTION MAIN ITEMS FOR P.W.R. STATION			
SCALE	DRY PLANNING E.S.D.	DRAWN J.B.R.	
DATE	1.2.13/0017	CHECKED	APPROVED
STATION	P.W.R.	CUTS	C.E.G.B.



For INTERNAL DISCUSSION PURPOSES ONLY

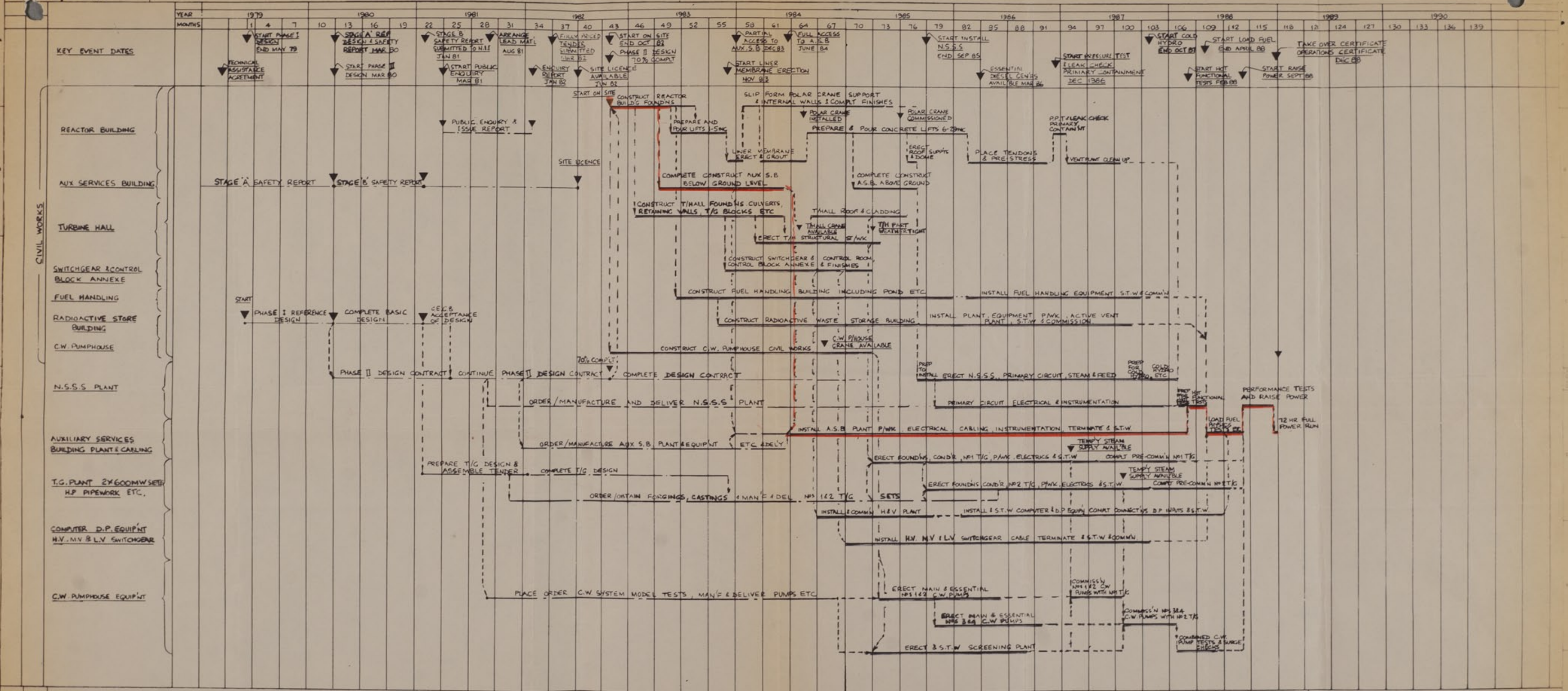
PRELIMINARY

NUCLEAR POWER COMPANY (WHETSTONE) LTD
WHETSTONE - LEICESTER - ENGLAND

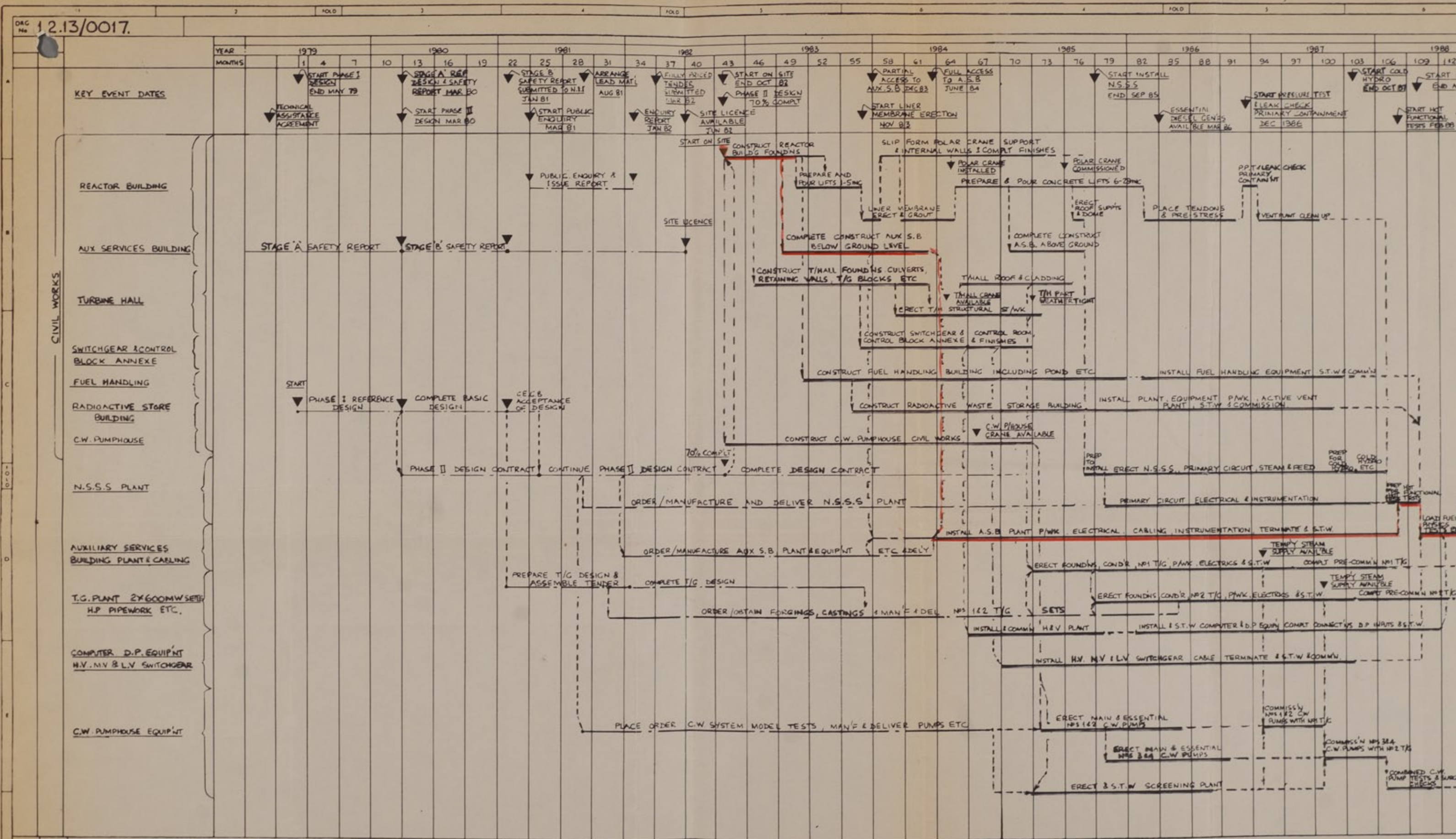
TITLE
OVERALL DESIGN/MANUFACTURE/CONSTRUCTION
MAIN ITEMS FOR P.W.R. STATION

SCALE: 1:1
DATE: 1.2.13/0017
STATION: P.W.R.
CUTS: C.E.G.B.

DWG No 12.13/0017.



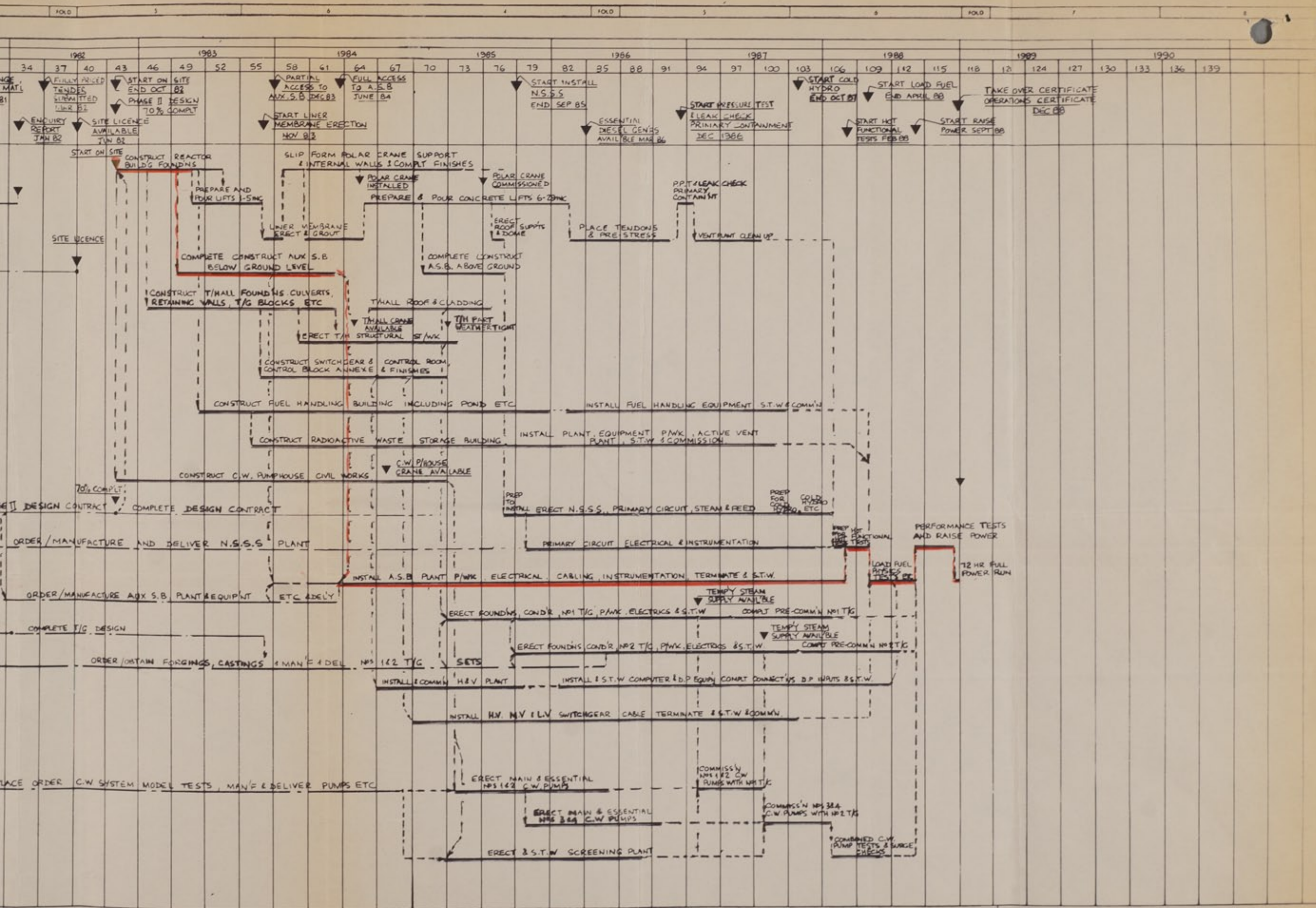
DAG No 12.13/0017.



TARGET PROGRAMME FOR INTERNAL DISCUSSION PURPOSES ONLY

PRELIMINARY

DESIGN SECTION TO SUPPLY DATE 1.5.79



INTERNAL DISCUSSION (FOR P303 ONLY)

PRELIMINARY

NUCLEAR POWER COMPANY (WHETSTONE) LTD
WHETSTONE - LEICESTER - ENGLAND

OVERALL DESIGN/MANUFACTURE/CONSTRUCTION
MAIN ITEMS FOR P.W.R. STATION

SCALE: 1:2.13/0017
STATION: PWR, CURVE: C.E.G.B.
DESIGNED BY: J.B.R.
CHECKED BY: J.B.R.
APPROVED BY: J.B.R.

PRIME MINISTER

NUCLEAR PROGRAMME

The attached paper from Mr. Howell will be discussed at E on Tuesday. The Cabinet Office brief will not be with us until Monday. But you might note the following points:-

- (i) Sir Kenneth Berrill, who has followed the nuclear industry and its failures as closely as anyone in Whitehall, strongly supports Mr. Howell's proposals. He has mentioned two points to me which are relevant to the speed with which we get the nuclear programme moving -
- (a) The FCO are likely to argue against an early activation of the Westinghouse license (see paragraph 14 of the paper accompanying Mr. Howell's covering note). This is because Westinghouse are claiming massive damages against RTZ, and the FCO may think postponing the license can be used as a lever against them. Ken Berrill thinks this will not help; but in any case, he does not think we can afford to wait any longer on the nuclear license. The Westinghouse license is the best available for PWR (Mr. Benn tried to find an alternative from Kraftwerk Union in Germany and Framatome, the French company; but produced nothing as good as the Westinghouse license); and until there is a firm project proposal, the Safety Inspectorate will not start any serious work. There has already been too much delay.
- (b) Whatever the arrangements for improving the performance of the nuclear industry, there are bound to be continuing problems which ought to be properly monitored by the Department of Energy. Up to now, the Department have not known enough about what is going on.

/((ii))

- (ii) As expected, Mr. Howell is recommending a stronger role for GEC, though he does not envisage asking them to increase their shareholding above its present level.* You will be seeing Sir Arnold Weinstock on Tuesday evening to sound him out on Rolls Royce; you will probably want to sound him out on whether he can take on a bigger nuclear role and also take over the management of Rolls Royce. It will be a difficult choice for us if he says he cannot do both - from a short-term point of view, no doubt Rolls Royce should come first; but the long-term costs of failure on the nuclear side must be incomparably greater.
- (iii) Annex D on the economics of nuclear show that it has a decisive advantage over coal-fired stations. This is as one would have expected, but the figures are certainly re-assuring - particularly the sensitivity analysis which shows that substantial delays in commissioning, significantly lower coal and oil prices than assumed, etc., still leave nuclear with a considerable advantage. However, the capital cost of the programme in the late 1980s will be high - over £1,000 million per year.

12

19 October 1979

cc: Mr. Wolfson
Mr. Duguid

*The paper does not actually say what GEC's enhanced role would be. But I understand that Mr. Howell's idea is that Weinstock would appoint one of his own people as Chief Executive of NNC, suggest names for the Chairmanship, and Mr. Lewis (one of the GEC triumvirate) would be on the NNC Board. The Board and top executive would effectively report to Weinstock.



SECRETARY OF STATE FOR ENERGY

THAMESHOUSE SOUTH
MILLBANK LONDON SW1P 4QJ 211 6402

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3HE

19 October 1979

Dec 10/79

R 28/10

ENERGY SUPPLY IN THE MEDIUM AND LONGER TERM

We agreed in earlier correspondence that a working group of officials, chaired by my Department, should be established to assess and report on major energy supply options as background to decisions on nuclear power and coal.

Officials have now completed their report, ahead of the timetable you originally envisaged. The report's conclusions are summarised at paragraph 23. In view of its relevance to our forthcoming discussion on nuclear ordering, I am circulating copies of the report, with this letter, to the Prime Minister, members of the E Committee and to Sir John Hunt.

Mrs W

Jan 5

D A R Howell



GOVERNMENT OF INDIA
MINISTRY OF POWER
NEW DELHI

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Mr. B. B. Dutt, Secretary to Government,
Ministry of Power,
1, Parliament Street,
New Delhi 110 001.

19 October 1979

15/10/79

15/10/79

REPLY TO THE MEMORANDUM DATED 15 OCTOBER 1979

1. The Ministry of Power has received your letter dated 15 October 1979 regarding the proposed amendment to the Electricity Act, 1948. The Ministry is currently examining the proposal and will submit a report to the Government in due time.

2. The Ministry is also examining the proposal for the amendment to the Electricity Act, 1948, in view of the fact that the same is being considered by the Ministry of Law and Justice.

3. The Ministry is also examining the proposal for the amendment to the Electricity Act, 1948, in view of the fact that the same is being considered by the Ministry of Law and Justice.

4. The Ministry is also examining the proposal for the amendment to the Electricity Act, 1948, in view of the fact that the same is being considered by the Ministry of Law and Justice.

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22 OCT 1979

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DEPARTMENT OF ENERGY INTERDEPARTMENTAL WORKING GROUP ON SUPPLY IN THE MEDIUM AND LONGER TERM REPORT ON NUCLEAR POWER AND COAL

I INTRODUCTION

The Working Group was set up, following agreement between the Chancellor of the Exchequer and the Secretary of State for Energy, to assess and report on major energy supply plans and options as background to Ministerial decisions on coal investment to 1982/83 and on proposals for a basic nuclear ordering programme. The Group has been chaired by the Department of Energy with membership drawn from the Treasury, CPRS, Scottish Office, Department of the Environment and Department of Industry.

Energy Policy

2. The objective of energy policy has, traditionally, been to ensure the adequacy, security and efficient use of energy supplies, at the lowest practicable cost to the nation in terms of real resources after paying due regard to safety and environmental considerations. Adequacy has meant that energy supplies should not be a constraint on economic growth. Self-sufficiency in energy is not an objective, though significant reliance on indigenous energy sources may be justified on cost and security of supply grounds.

3. The prospect is that oil will become scarcer and more expensive in the international market and that increasing reliance will need to be placed on nuclear power, conservation and coal in meeting future world energy needs. The UK is pledged, in its Tokyo Summit and other international commitments, to participating in wider efforts to facilitate this transition away from oil; these include the development of nuclear power and encouragement of coal as a substitute for oil in the industrial and electricity generation sectors. Within the UK, North Sea oil production is expected to be in decline by 1990 and we shall, at that stage, face rapidly growing requirements both for net imports of oil and replacement supplies of indigenous fuel.

4. It is clear that both nuclear power and coal will need to play increasingly important roles in the UK's longer term pattern of fuel supply. Nuclear power can make a growing contribution to electricity supply in the period to the end of the century and beyond. Coal will continue to be needed for power generation as the nuclear contribution expands and is the principal long term source to which we can look for lower grade industrial fuels and as a feedstock for gas manufacture and petrochemical conversion. There are, however, uncertainties about the size and timing of the future requirements and there are corresponding risks.

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There are also great uncertainties about what the relative cost of different fuels at home and abroad will be. Too low a level of present investment would mean foreclosing some future supply options and could, ultimately, entail shortages. Too high an investment would reduce future flexibility and could waste resources. We have, therefore, assessed the coal and nuclear investment proposals before Ministers against a wide range of potential future requirements.

Projections

5. The Department of Energy's projections are based on two main scenarios which examine the possible demands for energy associated with annual economic growth rates averaging 2% and 3%. These indicate that energy demand might rise from 360 million tonnes of coal equivalent (mtce) today to some 445-515 mtce in 2000. With potential indigenous supply in 2000 put in the range 390-410 mtce, there would be an import requirement of some 35-120 mtce. This requirement would be growing as we move into the next century and at higher future oil prices would imply an annual charge on the balance of payments of some £2½-8½ billion in 2000 (1977 money values and compared with £3 billion in 1977 when we imported about 100 mtce).

6. It should be emphasised that the energy balance given in these projections could be regarded as optimistic. In particular, the demand figures depend on a very considerable increase in conservation, equivalent to a reduction of around 100 mtce on what demand might otherwise have been. Present conservation measures and including price increases cannot be relied upon to achieve savings of this magnitude. On the supply side, the coal projections (up to 155 million tonnes) and the nuclear power projections (up to 40 Gigawatts (GW) of installed capacity) in 2000 are maxima which may not prove fully realisable in the event. Whatever balance, therefore, between imports and indigenous production we may plan for, a substantial level of imports is likely.

7. It is possible, however, that economic growth will fall short of the 2% annual average assumed in the Department of Energy's low case, with consequences for the rate of growth in demand for electricity and other fuels. We have, therefore, examined, as a sensitivity analysis, a case which assumes near economic stagnation to 1985 and 1.9% annual growth in GDP thereafter. This represents an average rate of growth in the economy of about 1.4% a year to the end of the century. The scenario also maintains the strong assumption of substantial progress with energy conservation at these low growth rates, with the result that total demand for energy remains static to 1990 and falls in 1985. The principal results are described at Annex B. While very low growth is plausible for the next 2 - 3 years, these assumptions offer an insecure basis for planning designed to ensure that supplies are adequate and do not constrain economic expansion in the longer term.

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Public Expenditure

8. Plans for investment in energy supplies have, also, to be considered in relation to the Government's wider financial and economic policies including the reining back of public expenditure in absolute terms and a reduction in its share of GDP. Evidence that a particular investment is likely to meet the required rate of return may not be a sufficient or conclusive argument for approving it. If Ministers wished to adopt a capital rationing approach for a period of years, as part of overall public expenditure policies, they might decide to forgo future operating cost savings which would arise from medium term investment in excess of that needed purely on capacity grounds. On such an approach, judgements about likely rates of growth in GDP, in demand for electricity and other fuels and the appropriate planning margin for the electricity supply industry would take on increased importance. We have, accordingly attempted to distinguish, where possible, between arguments on capacity and cost saving grounds for proceeding with investments and to quantify some of the uncertainties.

II NUCLEAR INVESTMENT

9. The proposal before Ministers is a basic thermal reactor ordering programme of 15GW, with an immediate and firm commitment to around 5 GW of new nuclear orders in the first three years from 1982/83 and involving at least 1.5 GW of orders each year over a ten year period. The first stations would be expected to start generating in the late 1980s and early 1990s and the full programme should yield 15GW of commissioned capacity by the end of the century. Total capital cost would be of the order of £10-12 billion over about 17 years, with an initial firm commitment to expenditure of some £3-4 billion. The proposed programme would help strengthen the industry (steps to improve the management of the industry will also be necessary). The programme would hold out the prospect of a continuing level of activity to which the industry could gear up and at which it would maintain the capability for further expansion.

10. Despite the uncertainties about capital costs and construction times, we see little risk of failure to achieve a satisfactory rate of return on the investment involved in a basic ordering programme of 15 GW with the initial firm commitment limited to £3-4 billion. The risk of investing more than was required purely on capacity grounds would also be low. The total potential requirement by the end of the century, in the Department of Energy's projections, is for up to about 30GW of new nuclear capacity - probably an upper limit to what can be achieved, assuming an early start to orders and no undue delays at planning inquiries.

11. In the very low economic growth case which we have studied the capacity requirement for nuclear power in 2000 would be at least equal to the basic programme. It is possible that, with very low economic growth, there would be some temporary surplus of generating capacity in the 1990s. In that event, the CEGB and the Department of Energy would still expect the investment to pay for itself in terms of its effect in displacing more costly electricity generated in fossil fuel plant. We have attempted to

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quantify the capacity and public expenditure implications of this risk materialising at Annex B. However, the primary justification for proceeding rests not on cost saving arguments but on expected capacity requirements at rates of economic growth averaging 2% or more over the period, on the need to diversify sources of electricity generation and on the need to prepare the industry for possible further expansion.

12. We have examined the alternative options of ordering stations singly and of adopting a larger programme at this stage. These are discussed further at Annex C. Single station ordering would, in view of the industry's history and experience, be unlikely to generate the confidence necessary to build up our construction capability. There would be little industrial or other advantage in a larger present commitment than is proposed and there would be some increased risks and likelihood of more intense environmental opposition.

Environmental Considerations

13. Future nuclear power station orders can be expected to provoke criticism from environmental and other groups and this opposition may well be stronger in the case of a commitment to a nuclear programme stretching over a period of years ahead. A maximum thermal reactor programme (say 30GW) would undoubtedly bring increased pressure to set in hand the special procedure for public consultation on major questions of nuclear development which the last Government promised in reply to the Royal Commission on Environmental Pollution (RCEP). It would also attract criticism on the lines of another RCEP recommendation that there should be no commitment to a large scale nuclear power programme until it had been demonstrated beyond reasonable doubt that a method exists to ensure the safe containment of long-lived highly radioactive waste for the indefinite future. A basic programme of 15GW, with an initial commitment no greater than similar decisions announced in 1957 and 1965, would be more easily defended against these arguments. But there inevitably remain risks of delays to the construction of stations, either because of a need for longer than usual planning inquiries or other protest action. The handling of inquiries will need very careful consideration.

III COAL INVESTMENT

14. The issue, in the case of coal, concerns endorsement in the normal way of the National Coal Board's planned capital expenditure to 1982/83: in full for 1980/81, at 85% for 1981/82 and at 70% for 1982/83. Nearly half the proposed expenditure is in support of present production (on plant and minor projects). A further third is on the development of new capacity at existing pits and the opening of new mines. Details of the approvals sought and the make-up of the Board's investment programme are at Annex D. Approval of the programme is without prejudice to the separate Ministerial decision and approval required, in each case, for new mines.

Indigenous Coal

15. We see little risk of over-investment for the longer term if NCB capital expenditure to 1982/83 is approved. If no further investment were undertaken - this is an extreme assumption - this expenditure should result in total production of 110 million tonnes in 2000 (i.e. lower than today's). Potential requirements for coal at the end of the century are put in the range 128-165 million tonnes, in the Department of Energy's projections, and growing rapidly. By that stage power station demand for coal would be falling, as new nuclear capacity came on stream and assuming no undue delays in construction. But expansion in industrial demand for coal, as a substitute for fuel oil and "interruptible" gas, is likely. At the mid-point of the inter-departmentally agreed range of planning prices for oil and on the Department of Energy's coal cost assumptions (see Annex A), the price of coal to the industrialist in 2000 would be about half that of fuel oil. There is also likely to be a growing coal requirement for manufacturing substitute natural gas and, beyond the turn of the century, for petrochemical use and synthesising oils.

16. Coal supply is forecast in the range 137-155 million tonnes in 2000, allowing for varying rates of progress in opening new capacity and levels of productivity achieved. The upper figure assumes maximum, sustained and successful investment and deferment of present investment would make it even harder to reach. Deferment of new capacity, in particular, would make more difficult the Board's task in building up and maintaining the planning teams required for a sustained programme of expansion. It would also reduce scope for dovetailing closures with neighbouring new developments, which is important to the fostering of a less negative attitude in the industry to individual closures as well as helping to avoid the loss of skilled men. The capital cost for new developments is substantial: about £100 million for each 1 million tonnes capacity in new mines. But shortfall in meeting coal requirements would need to be made good by imports and the balance of payments burden is also large - an additional annual charge in 2000 of perhaps £50 million or more for each 1 million tonnes imported.

17. The projections suggest the possibility of coal surplus in the 1980s - perhaps of the order of 10 million tonnes in 1985 on the Department of Energy's projections. However, production at the levels forecast might not be achieved and, if it were, resort could be had to a more adequate level of stocking, to a higher level of closure of uneconomic capacity (which would be more easily attainable in conditions of surplus) and, if necessary, to reducing opencast output. Projects to increase capacity which will be initiated in the investment programme to 1982/83 will not be completed until after 1985. Reducing the investment programme to help avoid the risk of a surplus in the mid-1980's would, therefore, mean cutting expenditure in support of existing production, thereby enforcing a reduction in output through lower efficiency. This would increase costs of production and frustrate the aim of increasing efficiency and productivity.

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Very Low Growth Case

18. In the very low growth case which we have studied demand for coal in 2000 would still be some 115 million tonnes and would exceed production resulting from the proposed investment programme. With sustained very low growth, the potential for medium term surplus would be greater, perhaps of the order of 20 million tonnes (Details at Annex B). If surplus production at these levels emerged, it would be difficult and costly to deal with. However, as we have said at paragraph 7, the very low growth assumptions offer an insecure basis for planning designed to ensure that supplies are adequate and do not constrain economic expansion in the longer term.

19. It is possible that, if very low economic growth persisted and it were decided - on cost saving rather than capacity grounds - to proceed with maximum nuclear investment over and above the proposed basic nuclear programme, demand for coal in the 1990s would be still further reduced. However, the longer term prospect of an expanding demand for coal, as a progressive substitute for oil and natural gas, in the first quarter of the next century would remain. Our strategy must have regard to the expected need for coal in the longer term and the impossibility of maintaining the option of expanding coal supply on the scale required if demand fell to very low levels in the 1990s.

Departments' Recommendations

20. A majority of the Group are agreed in recommending that relatively little risk attaches to endorsing the NCB's investment programme to 1982/83. The primary arguments for proceeding turn on capacity grounds but there are also important cost saving considerations. Present investment in new capacity and in improved efficiency at existing pits will bear both on the industry's competitiveness in the later 1980s and 1990s and its ability to undertake the expansion that will be required later. While it is possible that there will be coal surplus in the medium term, reducing investment now will impair the industry's efficiency and will detract from our ability to meet an increased demand for coal in the longer term.

21. The Treasury, while agreeing that the risks alone do not call for a reduction in the investment programme, argue that if the public expenditure reductions of £150m proposed by the Chief Secretary in E(79)50 fell entirely on investment (contrary to his preference for an improvement in operating costs), the effect on coal capacity of up to a maximum of 5 million tonnes would be acceptable, bearing in mind margins of forecasting error and on the basis that any shortfall of coal could be made good by imports.

Coal Imports

22. We have examined, as a potential option open to Ministers, the scope for planning on the basis of significant future reliance on imported coal. At present price relativities coal imports only offer cost savings at coastal sites already equipped for import.

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There are considerable uncertainties about when and how world trade in coal may develop and what future pressure of demand from countries diversifying out of imported oil may be. Possible future price relativities are discussed at Annex E. Imports provide a useful supplement to home production, as an insurance against interruptions and a means of obtaining different qualities of coal. But planning for significant reliance on imports holds out no assurance of cost advantage, risks insecurity of supply and would mean adding substantially to an already rapidly growing energy import bill in the 1990s.

IV CONCLUSIONS

23. In summary our conclusions are:

Nuclear Power

- (i) Despite uncertainties about capital costs there is little risk of an inadequate return on the sums that would be committed with a basic thermal reactor ordering programme of 15 GW and a minimum commitment of £3-4 billion. The programme would not involve investing more than was justified on capacity grounds alone unless electricity demand rose at an average annual rate of 1½% or less (on the present electricity industry planning margin). If growth turned out to be very low there could be public expenditure implications (see Annex B). (Paragraphs 10-11).
- (ii) The alternative option of single station ordering would be unlikely to win the confidence necessary to build up our nuclear construction capability. A larger programme than the one proposed is unnecessary at this stage. (Paragraph 12).
- (iii) A basic ordering programme, with initial commitment only to 5GW, should, the Departments of the Environment and Energy believe, be defensible on environmental and radioactive waste management grounds. But there are risks of delays to construction and careful consideration will need to be given to the handling of planning inquiries. (Paragraph 13).

Coal

- (iv) A majority of the Group are agreed in recommending that approving NCB capital expenditure to 1982/83 holds out little risk for the longer term. Some medium term coal surplus is possible but measures for dealing with this are available if needed. Reducing present investment would impair the future competitiveness of the industry and detract from our ability to meet an increased demand for coal in the longer term. (Paragraphs 15-20).

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- (v) The Treasury, while agreeing that the risks alone do not call for a reduction in the investment programme, argue that, if public expenditure reductions fell wholly on investment, the effect on up to a maximum of 5 million tonnes of coal capacity would be acceptable on the basis that any shortfall could be made good by imports. (Paragraph 21).
- (vi) Planning for significant reliance on imports offers no assurance of cost advantage, risks insecurity of supply and would mean adding substantially to an already rapidly growing energy import bill in the 1990s. (Paragraph 22).

ENERGY PROJECTIONS

The Department of Energy's projections which assume average economic growth of 2% and 3% p.a. in their two cases and incorporate allowances for energy conservation equivalent to a 20% reduction in demand by the end of the century yield the following energy balances:

D/Energy Projections

	Million tonnes of coal equivalent			
	1977	1985	1990	2000
<u>DEMAND</u>				
Energy	322	350-360	370-390	400-460
Non Energy (incl gas and bunkers)	28	40	40-45	45-55
TOTAL	360	390-405	410-435	445-510
<u>INDIGENOUS SUPPLY</u>				
Coal	122	122-127	127-138	137-155
Gas	60	62-65	68-71	62-65
Oil	65	218	153	100
Nuclear & Hydro	16	27	34-35	88-95
TOTAL	263	430-435	380-395	390-140
Net Fuel Imports	97	(-30-45)	15-50	35-120
Cost of Imports (Value of Exports)	£3bn	(£1½-2bn)	£2½-2½bn	£2½-8½bn

The projections assume that real oil prices will rise progressively towards \$30 a barrel in 2000 (1977 money values), the mid point of the interdepartmentally agreed range of planning prices. For coal they assume that mining productivity will improve slowly but steadily as new investment takes effect and that miners'

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wages will be maintained at their peak level of 25% above national average. The extent to which expected rise in oil prices would create "economic rent" (which miners might bid to convert into additional wages) for indigenous coal at these cost assumptions is uncertain. The level of any "rent" would turn partly on price and availability of imported coal and partly on the price advantage new consumers actually require for burning coal rather than oil.

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SENSITIVITY ANALYSIS: VERY LOW ECONOMIC GROWTH

We have examined, as a special sensitivity, a very low economic growth case. On a basis comparable with the Department of Energy projections (Annex A) this assumes near economic stagnation to 1985 and growth at 1.9% thereafter (i.e. average annual growth of 1.4% in GDP over the period to the end of the century). On the 1975 GDP basis used by the Treasury (including growth attributable to North Sea oil production), the assumptions are 0.5% annual growth to 1985 and 1.75% thereafter.

2. In this scenario, which also assumes substantial continuing progress with energy conservation at these low economic growth rates, total primary fuel demand might develop as follows:

	m.t.c.e			
	1977	1985	1990	2000
Total Primary Fuel Demand	360	350	360	385

3. As is stated in the paper, these scenario assumptions offer an insecure basis for energy supply planning. But we have explored their implications.

Nuclear Power

4. The proposed basic nuclear programme would still be required to meet these levels of demand by later part of the century. But there could, on these assumptions, be some temporary surplus of generating capacity in the early 1990s. If this risk materialised, the capacity at issue would, at maximum point of surplus, be about 4 GW, the effects of which could be mitigated by accelerated closure of other capacity. This corresponds to around £3 billion of the proposed basic programme expenditure. On strict capacity criteria, it could then be argued that this investment (involving some £200 m. in the PESC period around £400m in the next year and some £650m annually thereafter) had been incurred about 2 years in advance of need.

5. Reduction in the electricity supply industry's planning margin (from the 28% used at present to the previous 20% level) could have a similar effect (i.e. postponement of about 2 years). However, varying the planning margin would involve overriding the considered technical judgement of the electricity supply industry and would mean risk of supply interruptions in severe winters.

Coal

6. Demand for coal in this scenario, compared with forecast supply resulting from approval of investment to 1982/83, might be:

	million tonnes		
	1985	1990	2000
Demand	105	110	115
Supply (with investment to 1982/83 and including 15 m. tonnes opencast)	122-127	127-138	110
Potential Shortfall (Surplus)	(17-22)	(17-28)	5

ALTERNATIVE NUCLEAR OPTIONS

In addition to the proposal before Ministers we have considered two alternative options, to take decisions singly and to adopt a maximum programme now.

Station by Station Ordering

2. In this option, stations would be ordered one by one in the light of developing projections of electricity demand, and there would be no long-term commitments beyond stations which had been firmly announced. New stations would only be ordered when they had been assessed against the most up-to-date projections. The shape of our nuclear programme would be left to evolve gradually as orders were placed.

3. This has been the dominant approach to power station ordering in recent years. Its major advantage is that it keeps the financial risks and public expenditure commitments involved in orders to a minimum. But a rapid build-up of nuclear power which might be needed to supply our demands would be seriously prejudiced by a station by station approach. It would not give the nuclear industry the confidence in its future which it requires if investment, recruitment and re-organisation are to take place, and it would not serve to strengthen the industry which is currently in a weak state. The consequences to our energy supplies and the economy of not having nuclear power when we need it could be grave. The present weakness of the industry means that it is currently incapable of the expansion that may be needed in the longer term.

A Maximum Programme Now

4. This might involve a firm commitment now to a large and expanding programme aimed, for instance, at providing the 40GW of installed nuclear capacity envisaged as a maximum in the Department of Energy's projections. Such a programme would require the ordering of some 30GW of nuclear stations between 1982 and 1993 and would give the nuclear industry a clear future. But there would be major risks. In particular:

- a. The capital cost would be of the order of £20 - £25 billion, or more. If electricity demand grew slowly, the programme could produce a substantial surplus generating capacity in the 1990s. For instance, if there were no growth in electricity demand until 1985, and average growth thereafter were only 1.5% per annum (as is predicted in the extreme low growth case), the need for nuclear capacity by 2000 would be around 15 - 20 GW, and substantially less than the maximum programme.
- b. There could be no guarantee that the programme would not be pruned back to a later date, for instance because of low demand growth. The nuclear industry has suffered a number of major reverses in the last decade and a further change in direction of this kind would be damaging.

NCB INVESTMENT PROGRAMME

The approvals sought by the NCB are as follows:

	£m (1978 Survey Prices)		
	1980/81	1981/82	1982/82
A. <u>Total</u> (including leasing and agreed cuts) of which:	587	575	583
B. Approved July 1978	481	375	
C. Approval now sought	106	114	418
B + C as %age of A	100%	85%	70%

2. The elements of the programme can be considered separately as follows:

- a. Expenditure in support of present production. More than half of this is on plant (roof supports, coal cutting machines, conveyors etc) and the rest on minor projects costing less than £1 million each to facilitate production and improve efficiency. Any significant inroad into this category of expenditure would lead to increased costs of production; for instance, deferment of the replacement of ageing equipment would increase the incidence of breakdowns, reducing machine time utilisation, lowering output and productivity and increasing expenditure on repairs. Significant 'economies' in this area would be contrary to Ministers' aim of securing an improvement in the Board's financial performance.
- b. Other capital expenditure. This is a term of art covering
 1. Exploration - this programme, at present running at about £10 million a year, includes the proving of new areas of coal at existing long-life collieries, thus improving the effectiveness of seam layout and extraction, and the identification of areas for new mines. It is essential if we wish to retain the potential to increase economic production, and would anyway provide only small savings.
 2. Non-mining - about £20 million a year is planned to be invested in NCB's subsidiary activities, chiefly coking and manufactured fuel plants. This is outside the scope of the Working Group's remit.
 3. Opencast mining - about £9 million a year is planned to be spent in support of the very profitable opencast production programme - on coal processing and disposal facilities, purchase of land, and of large earth-moving machines for hire to contractors.

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- c. Selby. To 1982/83 over £80 million a year is planned to be spent on development of this 10 million tonnes a mine, construction of which commenced in 1976. To restrict expenditure could involve contractual penalties, would defer the start of low-cost output for Drax II power station, and would be contrary to the policy of transforming the industry into a capital-intensive, highly productive industry. Labour costs at Selby are planned to be only 25% of total production cost compared to an average of 50% at existing pits.
- d. Major projects at existing pits. These are projects each estimated to cost more than £1 million and aimed at increased efficiency, improved proceeds, and the extension of the lives and output potential of profitable pits. These extensions to profitable pits will provide an additional 5 million tonnes of capacity by 1990, at a rate of about 0.8 m tonnes a year from 1984/85. In respect of 1980/81, the Board are likely to have entered into sizable commitments, within their present allocation for that year. Deferment of unapproved projects would yield some savings in 1981/82 and 1982/83, but at the cost of slowing down the pace of modernisation and at the risk of production falling short of demand in the 1990s if demand turns out to be of the order foreseen in the main scenarios of the energy projections.
- e. Unapproved new mines. The identified new mines are:
- | | m tonnes capacity |
|-------------------------------------|-------------------|
| North East Leicestershire (Belvoir) | 7 |
| Park, Staffordshire | 2 |
| Margam, Wales | 1 |

Endorsement of the investment programme to 1982/83 will not relieve the Board of their obligation to seek endorsement for the economic and financial case for proceeding with the new mines projects. The endorsements will not be sought simultaneously or immediately. In the first instance, probably next year if planning permission is granted, Ministerial approval would be sought only for the first 5 million tonnes of Belvoir and the 2 million tonnes of Park. Decisions on the remaining 2 m tonnes of Belvoir and on Margam would follow later in the period and not before 1981. The financial implications of a commitment to the first tranche of Belvoir and to Park would be of the order of £600 million overall, over eight to ten years. In the PES period the commitment would amount to about 160 million - £120 million for Belvoir and £40 million for Park.

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COAL IMPORTS

The extent to which reliance might be placed on imports rather than indigenous production will depend on views of the comparative weight of public expenditure constraints early in the period and balance of payments considerations later, as well as on assessments of the costs - resource as well as financial - and possible development of indigenous resources against the likely price and possible security and availability of imported energy supplies.

2. On the agreed inter-departmental central assumption for the price of oil at the end of the century, it is possible to quantify the effect of making good domestic shortfalls of coal with imported oil. For instance a decision not to proceed with the 7 million tonnes of new capacity at Belvoir and Park might save capital expenditure over the next decade of some £600 million and operating costs in subsequent years. The import of equivalent quantities of oil (on a thermal equivalent basis) in 2000 could however represent an annual balance of payments cost of the same order. If such supplies were not available at the time, the wider penalties for the economy would be incalculably greater.

3. Assessment of reliance on imports of coal is more difficult. In recent years, with world trade in coal small and fragmented and with no cartelisation, the price of coal sold into Europe has generally been between 20% and 40% below the level of heavy fuel oil on a thermal equivalent basis. This is probably a fair indication of what the consumer has been prepared to pay given the greater inconvenience of burning coal. On this basis, substitution of 7 million tonnes of imported coal to make up for deferred domestic production might involve a charge on the balance of payments in 2000 of some £350 to £450 million annually.

4. At present, imports of coal would present a fairly neutral option in terms of cost. The average c.i.f. price of coal at Rotterdam is £22 a tonne. Transshipment to smaller carriers that could dock in British ports (from the very large bulk carriers that dock at Rotterdam) would add £3 to this, and a further £4/5 would be added for additional transport costs to inland power stations, giving a cost of about £30 a tonne for imports, compared with an average delivered price for NCB power station coal of £28.50 a tonne. If the coal were brought direct to UK deep-water ports, the delivered cost to inland power stations would be about £27 a tonne. Present port facilities would limit coal imports (including existing steel contracts) to some 10 million tonnes.

5. It is difficult to assess either the future price and future availability of coal imports. As the world price of oil moves up, world demand for internationally traded coal could increase substantially, but supplies could be constrained by growing domestic needs in the producer countries, slow investment in very large bulk carriers, and corresponding port facilities, and by environmental and depletion considerations. For instance,

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if coal owners in America find adequate profitable markets at home and succeed in producing coal to meet them, there is no assurance that they will take on further environmental opposition in order to increase production for export.

6. Such uncertainties raise important questions for the 1990s - first and foremost the question of security of supply, which would be seriously jeopardised if our import dependence became substantial and supply by world producing countries fell short of developing demand. But there are equal uncertainties about the price at which coal might be traded.

7. If an international trade in coal developed in such a way that recent price relativities with heavy fuel oil were maintained, imported coal in 2000 might be available to customers in the UK at some £49 - £65 a tonne. At the same date, assuming an average annual real increase in NCB's costs of 2%, UK power station coal costs - even if based on expensive older marginal capacity rather than, as at present, on average costs - could be about £43 a tonne, or about £6 - £22 a tonne less than imports.

8. However NCB's costs could rise more steeply - they have risen an average 3.0% over the past five years in real terms (although this may be held to reflect the low level of investment in the 1960s and disincentives to productivity presented by surpluses and declining real wages over part of the period). It could also be that prices for internationally traded coal were not linked to oil prices (although it might seem unreasonable to assume that producers would charge less than the market would bear) and were based on transport and production costs.

9. On this basis, imports would be likely to be competitive with older high cost capacity, although in 2000 as now extra shipping costs could add significantly to costs. If the comparison were made on an average cost basis, perhaps only South African imports could show a real price advantage over indigenous coal, and even these might not be competitive with new efficient capacity.

10. In either case, greater reliance on imports would require considerable investment in deep port facilities for very large bulk carriers. It is difficult to obtain reliable estimates of the cost of such facilities, but a possible indication might be given by recent CEEGB consideration of import facilities for a new coastal coal-fired station at Killingholme. Their estimate for deep docking facilities is around £60 million to handle some 5 million tonnes of coal a year.

11. The price of imported coal is a useful indicator of the extent to which UK coal production may be said to be uneconomic. At present, assuming a 40% margin between world coal and oil prices, about 10 million tonnes of UK production is wholly uneconomic and about 10 million tonnes marginally uneconomic but virtually all this capacity should have closed down by the 1990s.

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P.M.

GALLOP on Fuel + Nuclear.

SUMMARY.

① They don't think there is a fuel shortage!

② They do think that there will be fuel shortages.

③ They blame the Oil Companies or the Government!

Daniel W.

④ Attitude to Nuclear aren't entirely favourable!



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH

MILLBANK LONDON SW1P 4QJ

01 211 6402

PERSONAL

D Wolfson Esq
No 10 Downing Street
London SW1

18 October 1979

De David

I am attaching a copy of extracts from the September Gallup poll which the Prime Minister may be interested to see, if she has not already done so.

D A R Howell

In c
David

Table 3 : Urgent problems

Questions and answers	Today	Comparison
1 What would you say is the most urgent problem facing the country at the present time?		(i)
Cost of living	25	32
Strikes	20	7
Unemployment	18	22
Other economic problems	6	7
Ireland	6	1
Fuel shortage	3	5
Other	18	22
Don't know	4	4
2 And what would you say is the next most urgent problem? (Includes top problem)		
Cost of living	43	50
Unemployment	32	37
Strikes	30	15
Other economic problems	10	12
Ireland	12	4
Immigrants	7	10
Health	6	5
Law and order	5	6
Housing	4	6
Increase productivity	4	4
Pensions	4	4
Fuel shortage	5	9
Other	13	20
Don't know	4	4

X

X

(1)



X

X

(1)



(i) August 1979

Table 10 - Energy crisis; nuclear energy

Questions and answers	Today	Comparison	Questions and answers	Today	Comparison
<p>1 Have you heard or read anything recently about there being a shortage of all types of energy, including fuel oil, heating and other fuels over the next few years?</p> <p>Yes → (2) 82 95 No 15 4 Don't know 3 1</p>		(1)	<p>5 At present, about 10 per cent of the total electricity in Great Britain comes from nuclear power. What do you think should be the development of nuclear power generation in this country?</p> <p>They should increase nuclear power generation (45) 47 They should not develop any more than at present (21) 25 They should stop generating nuclear power (17) 14 Don't know 17 14</p>		(1)
<p>2 Do you believe that such shortages are likely?</p> <p>Yes → (2) 74 85 No 17 10 Don't know 9 5</p>			<p>6 What would you do if a nuclear power station were to be built in your area?</p> <p>Would agree to its being built 16 17 Would not oppose though would feel anxious about it 24 28 Would oppose it (4) → 42 42 Would not feel anything 11 8 Don't know 6 6</p>		
<p>3 Would you expect such shortages to be a very serious problem for this country, a somewhat serious problem or not a problem at all?</p> <p>Very serious → (2) 47 65 Somewhat serious 34 25 Not a problem 12 8 Don't know 6 3</p>					
<p>4 Who or what do you think is mainly responsible for the high price of petrol?</p> <p>→ (3) The Arabs, oil producers 50 51 → (3) British government, taxation 16 11 → (3) Oil/petrol companies 8 6 → (3) World situation 7 7 Trouble in the Middle East 4 6 The consumer, car owners 4 4 America (using too much) 3 3 Trade unions 1 1 Other 8 7 Don't know 13 9</p>					

(1) June/July 1979



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

Tim Lancaster Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

28 September 1979

Dear Tim,

MEETING OF THE SUMMIT ENERGY MINISTERS : 26 SEPTEMBER 1979

My Secretary of State minuted the Prime Minister last Friday about the line he proposed to take at this meeting and there has been separate correspondence about the Community's 1985 import targets.

In the event all our objectives were successfully achieved. In the run-up to the meeting the individual targets for the EEC countries were finally settled, with the UK accepting a figure of minus 5, as agreed. These targets were formally announced at the meeting; my Secretary of State made it clear that if in the event UK net exports were higher than 5 million tons, that would be solely a matter for the British Government and would not affect the targets of other Community countries. This was not disputed. It means that from the point of view of targetry other Community countries have no interest in pressing us to a higher level of production.

On the other agenda items, it was agreed that further work on the oil import register should continue in the EEC and the IEA. The mandate for the proposed International Energy Technology Group was agreed on a satisfactory basis. The High Level Group to monitor the 1985 targets will meet at official level and will have strictly limited terms of reference. There is no commitment to any further meeting of the Energy Ministers of the Summit countries.

I am sending copies of this letter to the Private Secretaries to the members of OD(E) and to Martin Vile in the Cabinet Office.

Yours ever,

Denis

Denis Walker
Private Secretary

cc Euro Energy Policy
Prime Minister's Energy
Mans 79

R
28/9

Energy
pm



28 SEP 1979



→ (BF)

3/10

Prime Minister

2

An interesting note.

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Qa 04272

To: MR LANKESTER

From: SIR KENNETH BERRILL

Would you ask
David Wofson to look
at it please?
R

Re-organisation of the Nuclear Industry

1. You will be aware that the CPRS has been thinking about the re-organisation of the United Kingdom nuclear industry on and off for the past five or six years. I attach a note which tries to set out (at some length I am afraid) the position as we currently see it.
2. I expect that the time will come when the CPRS would wish to put something like this to Ministers - probably when the Secretary of State for Energy puts his own paper to E Committee.
3. In the meantime it could form a piece of background briefing on the subject which you might find useful.
4. I am sending a copy of this to Sir John Hunt.

KB

26 September 1979

Att

Spoke to
C.O. : King
on considering.

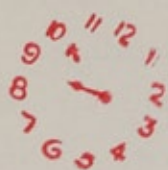
R
1/10

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Time. We must soon
set up a major workshop
on this. Public exposure
will have to be set in train
now.

cc Mr Wofson.

27 SEP 1979



RE-ORGANISATION OF THE NUCLEAR INDUSTRY

Note by the Central Policy Review Staff

Introduction

1. The Government will need soon to take policy decisions on the PWR and the Fast Reactor but, in addition, the nuclear industry and the Generating Boards are looking to the Government for early decisions on three issues:

- (i) a minimum ordering programme for nuclear power stations;
- (ii) the relative roles of the Generating Boards and the nuclear industry in carrying out that programme;
- (iii) the necessary re-organisation of the nuclear industry to enable it to carry out the role assigned to it.

2. Of these three issues the industry and the Boards at the moment seem to regard the first, a decision on the minimum ordering programme, as the most important. This is in fact the most tractable of the three issues, and the Secretary of State for Energy will soon bring forward proposals to his colleagues on this subject which, if accepted, are likely to satisfy both the Boards and the industry. However, unless the second and third issues can also be satisfactorily resolved the programme will face the likelihood of enormous cost over-runs and delays which have bedevilled United Kingdom power station construction for so many years. The purpose of this paper is to outline possible ways of resolving the second and third issues which are, of course, closely related.

Background

3. Any plan for re-organising the United Kingdom nuclear industry has to be seen against the background of the present imbalance between the customer and the contractor. The customer is the Generating Board (CEGB and the

SSEB): the 'contractor' is a conglomerate of the National Nuclear Corporation (NNC), the boiler makers, the generator manufacturers, and the site construction companies.

4. The CEGB is the largest supplier of electricity in the western World; powerful, self-confident and 'efficient'. It is 'efficient' in the sense that the British generating system has a very high insurance against overload and breakdown. As a monopoly supplier of electricity it can pass on to its customers the costs of over-insurance, i.e. large 'plant margins'. Similarly, it can pass on increases in costs quite safely to its consumers (increases in coal costs, large over-runs in the cost of construction of new power stations). It is a monopoly both ways - in its power over electricity consumers and its power over the plant manufacturers. It can and does insist on its own standards irrespective of the requirements of the plant manufacturers' export markets. It can (through its huge, 2000 staff, power station construction and development establishment at Barnwood) interfere prodigiously and in daily detail with the work of the plant manufacturers. (In this its role is analogous to that of the Post Office with its suppliers - only more powerfully.)

5. In contrast the 'contractors' are divided and weak. The boiler makers, turbo generator manufacturers and site construction contractors have all experienced in recent years weak and contracting markets at home and abroad and frequent changes of Government policy on choice of reactor systems and scale of ordering. Partly, but only partly, due to this imbalance in the customer/contractor relationship, the United Kingdom record in power station construction has been lamentable. The time taken to plan and construct power stations, both nuclear and conventional, has been almost unbelievable and the cost, in terms of capital locked up in partly completed power stations, has constituted a heavy drain on electricity consumers - industrial and domestic.

6. This sad record and the ever-growing imbalance between the customer and contractor has meant a steady increase in the role of the customer. The

CEGB has increasingly become not only the supplier of electricity but the prime contractor first on non-nuclear power stations and more recently in the design and construction of nuclear power stations.

7. At the time of Magnox and the original four AGR stations in England, the CEGB played the role of the 'well-informed' buyer. The delays in the construction of these stations, notably Dungeness B, and the obvious weakness of the three nuclear consortia and their successor, National Nuclear Corporation/Nuclear Power Company (NPC), has led to the CEGB pressing for an increased role in the control of the construction of nuclear power stations. The result has been that for the new AGR station at Heysham NNC/NPC has recently agreed to the CEGB's proposal that the Board for the first time should play the lead role on site construction but sub-contract the nuclear island (45 per cent of the total cost) to NPC, although the CEGB (through Barnwood) exercises a continual critical oversight into the nuclear island area. (Barnwood is said to be sending some 70 letters a week to NPC on Heysham II alone.) The NNC/NPC consider this arrangement a one-off compromise, the CEGB probably consider it a suitable model for the future.

8. The crucial question on the organisation of power station construction in the United Kingdom is where we should try to move to in the future. The following paragraphs set out the pros and cons of three possible approaches, namely -

(i) Continue as at present, i.e. confirm the CEGB's prime role in the construction of nuclear power stations. This means giving an essentially secondary role to the NNC/NPC.

(ii) Try to move gradually towards a more equal customer/contractor balance, i.e. as in (i) but envisage the possibility of NNC/NPC gradually developing a manufacturing capability and/or gradually assuming CEGB's prime role.

(iii) Try to move decisively and immediately to a better balance, i. e. put a revitalised NNC/NPC under Sir Arnold Weinstock's leadership in charge of all future nuclear power station construction, thus reducing the CEGB to its earlier role of well-informed purchaser.

There are, of course, infinite variations on these three broad approaches.

9. Continue as at present, i. e. confirm CEGB's prime role in the construction of nuclear power stations giving an essentially secondary role to NNC/NPC. This would in effect confirm the ad hoc arrangements reached for Heysham II early this year for all future nuclear power stations.

In favour of this course -

- (a) it reflects the current strength of the customer and weakness of the contractor and, as the customer, the CEGB has a clear interest in ensuring power stations are constructed on time and within budget;
- (b) it ensures that the maximum use is made of the CEGB's 2000-strong development and construction division at Barnwood;
- (c) it is similar to the French set-up (though what works in a French context does not always work in this country).

But not
if cost
over-runs
can be
passed on!
TL

Against such a course -

- (a) it would be wholly inconsistent with the Government's general approach to nationalised industries in general and the CEGB in particular;
- (b) the CEGB should concentrate on its prime task of generating electricity and not attempt to shoulder a second major task on a permanent basis, i. e. the construction of power stations;
- (c) the divided responsibility between NNC/NPC and CEGB will almost inevitably result in misunderstandings, delays and cost over-runs. There are already signs of this happening at Heysham II;

- (d) the CEGB do not have the right senior management to support the supervision of a nuclear construction programme (a point on which Sir Arnold Weinstock is emphatic). Nor are they likely to be able to recruit the necessary management. Their Barnwood establishment is first class at monitoring and questioning. It is not geared towards design, manufacture, production and construction on a commercial basis;
- (e) given its secondary role, the NNC/NPC will also be unable to recruit first class managers;
- (f) such an arrangement will reduce to zero our very limited chances of exporting nuclear power stations on a turnkey basis in the foreseeable future;
- (g) delays on fossil fired stations, where the CEGB has had the prime role, are as great or greater than on nuclear stations. This gives no confidence for believing that the CEGB will do better than NNC/NPC.

I assume that on political, economic and managerial grounds, the Government will not wish to adopt this solution.

10. Try to move gradually towards a more equal customer/contractor balance, i. e. confirm CEGB's prime role for the construction of nuclear power stations for the time being, but envisage that NNC/NPC might develop a manufacturing capability and/or slowly assume CEGB's prime role.

In favour of this course -

- (a) it is the approach favoured by the CEGB and most of the nuclear industry (apart from Sir Arnold Weinstock and the NNC/NPC itself who have not yet made their position clear);
- (b) it recognises the comparative strength of the CEGB and the current weakness of NNC/NPC, while permitting evolution as confidence in NNC/NPC grows;

- (c) it would avoid a confrontation with the CEBG and the danger that the CEBG would be unco-operative with any solution it did not like;
- (d) it would enable NNC/NPC to concentrate on the nuclear island.

Against this course -

- (a) once the CEBG's newly acquired prime role has been confirmed it would be very difficult in practice to take it away again - interim solutions have a habit of becoming permanent;
- (b) the industry needs certainty. This solution with its prospect of continuing change will maintain debilitating uncertainty;
- (c) until the NNC/NPC assumes the prime role, which is unlikely to be until the mid-1980s at the earliest, most of the other significant drawbacks of confirming CEBG's role sine die also apply to this solution, e. g. the ill effects of divided responsibility, lack of first class production and construction management, too great a burden on CEBG, etc.;
- (d) it would involve a reduction in the role played by GEC/Sir Arnold Weinstock.

Hitherto the Secretary of State for Energy has favoured this course largely because it has widespread support in industry and is overtly supported by the CEBG (who doubtless assume that such an interim regime is likely to last for a long time). NNC/NPC have not yet put forward a united view on this approach. Sir Arnold Weinstock appears only recently to have become aware of the full deleterious implications of this approach.

11. Try to move decisively and immediately to a better balance, i. e. give back to a revitalised NNC/NPC the prime role in the construction of nuclear power stations, while reducing CEBG to its earlier role of well-informed purchaser. This approach would involve the Prime Minister

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and the Secretary of State for Energy personally asking Sir Arnold Weinstock/GEC to resume leadership of the construction of nuclear power stations and making it clear to everybody that they were looking to the revitalised NNC/NPC to carry out the proposed nuclear programme on time and within budget. To emphasise its determination HMG would instruct the Atomic Energy Authority (AEA) to sell back to GEC the 20 per cent shareholding which AEA acquired from GEC in 1976. (Indeed, the whole AEA shareholding might be sold to private sector companies.) The Government would make the CEGB sub-contract most of its staff at Barnwood to NNC/NPC, thus reducing the Board's ability to interfere and ensuring that all our nuclear construction expertise was in one organisation working under a single leader to a common objective.

In favour of this course -

- (a) it, together with a minimum ordering programme, could provide a degree of commitment, certainty and leadership that has been lacking for years to the great detriment of civil nuclear power;
- (b) this solution gives a large but manageable role to a private sector NNC/NPC, which should raise its morale and enable it to recruit - under Sir Arnold Weinstock's leadership - top class management;
- (c) by reducing the role of CEGB to that of a well-informed purchaser, it will enable the Board to concentrate on its prime role of generating electricity;
- (d) it will avoid divided responsibilities on site with their inherent problems which arise under both the other approaches.

Against this course -

- (a) some will argue that this will place too great an immediate burden on NNC/NPC;

(b) the CEGB and other parts of the nuclear industry will dislike the role assigned to Sir Arnold Weinstock/GEC. In particular, CEGB's staff at Barnwood might dislike having their service sub-contracted to NNC/NPC, even perhaps to the point of refusing to work for NNC/NPC;

(c) it will create a major upheaval in the industry. (N.B. As all or the great majority of power stations ordered in the 1980s will be nuclear, if such a solution were adopted it might be desirable to put the new company in charge of all power station construction.)

12. The CPRS favours a solution along these lines as providing the best chance of ensuring that a nuclear power station construction programme is carried out on time and within budget. There are, however, two pre-requisites of success. First, Sir Arnold Weinstock must be prepared to assume the role allotted to him. Despite his numerous frustrations in this field in recent years, he would be likely to respond to the challenge positively if approached by the Prime Minister and Mr Howell. Secondly, the Government must be prepared for a tough fight with the CEGB. Although the CEGB is used to getting its own way the last time a Conservative Government stood up to the Board over Littlebrook D in 1973/74, it won. But unless it is so determined HMG would be wiser not to adopt this option.

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P.0104

MR LANKESTER

cc: Mr Mountfield
Mr Vile

SUPPLIES OF COAL TO POWER STATIONS

When we spoke on Friday you told me that, so far as you were aware, the Prime Minister had had no recent reports from Mr Howell about the supply of coal to power stations in the coming winter. I promised to dig out the reference when the Prime Minister made the request. It is to be found in the minutes of the E meeting held on 24 July (E(79) 6th Meeting, Item 3) when the Prime Minister, in summing up, said:-

"It was important that every effort should be made to ensure adequate supplies of coal to the power stations and the Secretary of State for Energy should keep her in touch with the progress being made."

2. I imagine that an up to date report would be germane to the discussion of the Secretary of State for Energy's paper on Coal Industry Strategy due to be taken at E this Thursday.



P Le CHEMINANT

24 September 1979

*Submit to Energy.
Howell will be
ready to report.*

L.F. 12/26/79



NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Energy ✓
MS

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1

24 September 1979

Dear David,

NUCLEAR POWER POLICY

I fully endorse the point made in Michael Heseltine's letter of 23 August about the need to ensure that adequate resources are made available for research into radioactive waste management over the coming years.

So far as the public in Scotland are concerned the apparent lack of a balanced programme of research has aroused opposition which now embraces, and to some extent confuses, both research on disposal and nuclear development in general. It is only within the framework of a fully comprehensive UK programme of research that we are likely to be able to make progress, and even that is going to be extremely difficult. Adequate funding to ensure that all reasonable possibilities for disposal are explored seems to be an essential prerequisite for further advance.

I am copying this letter to the recipients of Michael Heseltine's letter to you.

Yours sincerely,

George



25 SEP 1979

cc Euro En Policy
2

fs.

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Prime Minister

The Prime Minister

Ans.

Ans.

MEETING OF SUMMIT ENERGY MINISTERS

1 As you know, I am attending a meeting of the Energy Ministers of the seven Summit countries in Paris on 26 September.

2 The purpose of the meeting is to review progress on the follow-up to the energy commitments agreed at the Tokyo Summit in June. It is obviously right for us to work for a positive outcome, and to try to establish a broad consensus of a sort which will help advance the work already in hand in the Community and the IEA. But at the same time, I believe that our interests lie very strongly in the direction of confining the meeting strictly to reviewing the general state of the follow-up to Tokyo, and resisting any pressure for essentially new decisions or new action which could limit our freedom to develop our energy resources to the best national advantage. It would be particularly damaging to allow the meeting to undermine the position of the International Energy Agency as the principal focus of international work on energy matters, and to do so would of course risk a sharp reaction from the non-Summit countries.

3 We are likely to have support for these broad objectives from most other Summit countries (particularly the Germans). However the French, who are not members of IEA, and whose initiative was largely responsible for agreement that the Summit Energy Ministers should meet, have an interest in trying to shift the focus of international discussion on energy away from the IEA and into groupings to which they belong. I intend, if necessary, to resist firmly any pressure from them to agree to, for instance, the holding of Summit Energy Ministers' meetings on a regular basis. Such meetings would put us under undesirable pressure on issues like our North Sea policies.

4 The agenda for the meeting is attached. Discussion of the World Energy Situation and its Perspective is expected to be brief; the IEA Executive Secretary will introduce a short paper. On Restraint of Oil Imports and Consumption as I mentioned to you this morning some progress was made at the Energy Council on 20 September on defining oil import ceilings for 1985 for individual Member States. OD(E) will be discussing on Monday how we should take this further including the possibility of using any concessions we make as a counter in the negotiations on the Community budget. (I am sending you separately my letter to Lord Carrington on this). The item on oil transactions covers such subjects as measures to regulate the spot market, and the proposed register of oil transactions. I will take the line that measures of this sort which are agreed in IEA or the Community must address themselves to real problems, not just to the symptoms. Discussion of alternative energy sources will necessarily be at a fairly general level, but it will be an opportunity for us to restate our commitment to developing nuclear

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power and coal. There will also be discussion of the mandate for the International Energy Technology Group, upon which a substantial measure of agreement was reached at a meeting of Summit Personal Representatives on 15 September. I will only agree a mandate which limits the work of the group to studies and contains no commitment to participation in expensive new international projects. Relations between producer and consumer countries may be discussed at lunch; I will make clear our scepticism over the possibility of making progress towards better producer/consumer understanding in the context of a "global negotiation" covering all the main North/South issues.

5 I am copying this minute to Peter Carrington, Geoffrey Howe and Sir John Hunt.

DA.

SECRETARY OF STATE FOR ENERGY
21 September 1979

ENERGY MINISTER'S MEETING

POSSIBLE ISSUES FOR DISCUSSION

1. World Energy Situation and its Perspective
 2. Restraint of Oil Import and Consumption in the Short- and Medium- Term
 3. Oil transactions
 4. Alternative energy sources
 - (a) Coal
 - (b) Nuclear energy
 - (c) New energy, including syn-fuel
 - (d) IETG
 5. Other matters agreed upon at the Tokyo Summit
-



22 SEP 1973

ENERGY MINISTER'S MEETING

POSSIBLE ISSUES FOR DISCUSSION

1. Energy Situation and its Perspective
2. Estimates of Oil Import and Consumption in the Near and Medium Term
3. Oil Transfers
4. Alternative Energy Sources
 - (a) Coal
 - (b) Nuclear energy
 - (c) New energy, including sun-fuel
 - (d) etc.
5. Other matters agreed upon at the Tokyo Summit



Energy

10 DOWNING STREET

From the Principal Private Secretary

SIR JOHN HUNT

Tokyo Summit Follow-up

The Prime Minister has seen your minute AO264 of 19 September, 1979 and agrees that Sir Robert Armstrong should succeed you as her Personal Representative. She does not object to the dates of 20-21 December, though she has commented that personally she thinks December is much too soon for an interim meeting.

C. ACVA. WHITMORE

20 September 1979

Ref. A0264

PRIME MINISTER

Prime Minister.

Agree to X/ later?

Hub

19ix.

Tokyo Summit Follow-up

I think you know that, in my unavoidable absence, Sir Jack Rampton represented me at a meeting of Personal Representatives in Paris on 15th September which was intended mainly to discuss energy issues. The results (see FCO telegram No. 357 to Paris) were satisfactory to us both in the energy context and from the point of view of avoiding "institutionalising" the Summit.

The Personal Representatives also agreed to meet again in Washington on 20th and 21st December to review progress since Tokyo and to take a first look at the prospects for the Venice Summit. Sir Jack Rampton had formally to reserve our position on the grounds that you had not yet designated a Personal Representative in succession to me and that he could not guarantee that these dates would therefore be suitable for us. I feel sure that you will want to ask Sir Robert Armstrong to take this on. It would take a certain amount of his time but over the years there seems to have been advantage in our fielding someone who can speak directly for the Prime Minister, accompanied at some meetings by Sir Michael Palliser and Sir Kenneth Couzens. An interim meeting of Personal Representatives between Summits has been the custom in the past, and the dates of 20th-21st December seem to suit well since if you visit Washington on 17th-18th December Sir Robert Armstrong could accompany you and stay on.

May I therefore tell my Personal Representative colleagues that Sir Robert Armstrong will be succeeding me and that we can accept the dates of 20th-21st ^{December} ~~September~~?

Agreed out

Personally I think

December is much too soon

for an interim meeting
my.

John Hunt

19th September, 1979

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GRS 1008

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FM FCO 171100Z SEPTEMBER 79

TO IMMEDIATE PARIS

TELEGRAM NUMBER 357 OF 17 SEPTEMBER 79

INFO IMMEDIATE VIENNA, BRUSSELS, OTTAWA, COPENHAGEN, BONN,
DUBLIN, ROME, TOKYO, LUXEMBOURG, THE HAGUE, MADRID,
STOCKHOLM, BERNE, ANKARA, WASHINGTON, OSLO, WELLINGTON,
UKREP BRUSSELS, UKDEL OECD

TOKYO FOLLOW-UP: ENERGY

1. THE PERSONAL REPRESENTATIVES MET IN PARIS ON THE MORNING
OF 15 SEPTEMBER AND THE PERSONAL REPRESENTATIVES TOGETHER
WITH ENERGY EXPERTS IN THE AFTERNOON TO DISCUSS THE ENERGY
FOLLOW UP TO TOKYO AND TO PREPARE THE MEETING OF ENERGY
MINISTERS ON 26 SEPTEMBER. THE IRISH PRESIDENCY ATTENDED
BOTH MEETINGS AND LANTZKE ATTENDED THE SECOND.

2. THE MAIN CONCLUSIONS REACHED WERE:

(I) HIGH LEVEL GROUP TO MONITOR OIL IMPORT CEILINGS.

THE GROUP WOULD MEET ON A SEVEN NATION BASIS,
TOGETHER WITH THE COMMISSION (AND PROBABLY ALSO THE
PRESIDENCY): REPRESENTATION WOULD BE AT SENIOR OFFICIAL

LEVEL AND NOT AT MINISTERIAL LEVEL WITH EACH COUNTRY
DECIDING ITS OWN LEVEL OF REPRESENTATION ON THE
BASIS OF SOMEONE WHO CAN SPEAK WITH AUTHORITY: IT
WOULD REPORT TO THE NEXT SUMMIT MEETING AND ITS
CONTINUED EXISTENCE BEYOND THAT DATE WAS NOT PRE-
JUDGED: IT MIGHT NORMALLY MEET SHORTLY AFTER MEETINGS
OF THE IEA GOVERNING BOARD TO TAKE ADVANTAGE OF THE
ATTENDANCE OF SENIOR OFFICIALS AT THE LATTER: IT
WOULD BE SERVICED BY LANTZKE AND THE OECD/IEA
JOINT ENERGY STAFF: THE FIRST MEETING, TO BE

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CONVOKED BY THE JAPANESE, WOULD TAKE PLACE BEFORE THE END OF THE YEAR. IT MIGHT REPORT TO THE PERSONAL REPRESENTATIVES BEFORE THE NEXT SUMMIT. IT WAS CLEAR THAT NOONE ENVISAGES A FORMAL OECD DECISION TO SET UP THE GROUP. CLAPPIER RESERVED THE FRENCH POSITION AND SAID HE WOULD HAVE TO SEEK INSTRUCTIONS FROM PRESIDENT GISCARD THOUGH HE ACCEPTED THAT WHAT WAS PROPOSED WAS A SENSIBLE AND EFFICIENT SOLUTION. IT WAS AGREED THAT, UNLESS THE FRENCH WERE UNABLE TO ACCEPT THESE CONCLUSIONS, THIS MATTER WOULD NOT NEED TO BE DISCUSSED ON 26 SEPTEMBER.

- (II) SCOPE AND NATURE OF 26 SEPTEMBER MEETING. IT WAS AGREED THAT THIS WAS LIMITED TO THE FOLLOW UP TO TOKYO. NO DELEGATION CONTESTED A TWICE REITERATED GERMAN INSISTENCE THAT IT WAS A ONE-OFF MEETING. IT WOULD ESSENTIALLY BE A MEETING TO SEE THAT ACTION TO IMPLEMENT TOKYO COMMITMENTS WAS INHAND IN MEMBER GOVERNMENTS AND APPROPRIATE INTERNATIONAL ORGANISATIONS:
- (III) ATTENDANCE ON 26 SEPTEMBER. LANTZKE IS TO BE INVITED IN AN UNSPECIFIED CAPACITY. CLAPPIER RESERVED HIS POSITION. THE JAPANESE CHAIRMAN EZAKI WILL BE TAKING THIS UP WITH GIRAUD. VAN LENNEP, WITH FRENCH AGREEMENT, IS NOT TO BE INVITED.
- (IV) THERE WAS TO BE NO COMMUNIQUE OR PRESS STATEMENT AFTER THE 26 SEPTEMBER MEETING. THE JAPANESE MINISTER WOULD BRIEF THE PRESS ORALLY AFTER THE MEETING.
- (V) OIL IMPORT CEILINGS. A LENGTHY DISCUSSION ABOUT THE INTERPRETATION OF THE TOKYO COMMITMENTS AND THE QUESTION OF WHETHER OR NOT TO COUNT NORTH SEA OIL IN THE FRENCH, GERMAN AND ITALIAN CEILINGS, IN WHICH THE GERMANS AND AMERICANS PLAYED THE LEADING ROLES, LED TO NO CLEAR-CUT CONCLUSION. BUT THERE WAS SOME NARROWING OF THE GAP BETWEEN THE TWO SIDES AND AN ACCEPTANCE THAT IT WAS NOT SO MUCH THE ISSUE OF

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PRINCIPLE OF THE INCLUSION OR NON-INCLUSION OF NORTH SEA OIL THAT MATTERED AS WHETHER THE CEILINGS ACCEPTED REPRESENTED A REAL EFFORT TO RESTRAIN OIL DEMAND. THE GERMANS HINTED THAT THEY COULD ACCEPT A CEILING OF 142 MILLION TONS FOR 1985 (THE BOTTOM END OF THE BRACKET OF WHAT THEY HAVE ASKED FOR). IT WAS AGREED THAT THE GERMANS AND THE AMERICANS WILL REFLECT FURTHER IN ADVANCE OF THE MEETING ON 26 SEPTEMBER AND THAT THERE MAY BE BILATERAL CONTACTS BETWEEN THEM TO TRY TO REACH A PRACTICAL SOLUTION. THE IMPORTANCE OF AVOIDING ARGUMENT OR CONFRONTATION ON 26 SEPTEMBER ON THIS ISSUE WAS ACCEPTED BY ALL.

3. THE AGENDA FOR THE MEETING ON 26 SEPTEMBER WAS AGREED ON THE BASIS OF A CONFLATION OF EARLIER GERMAN AND JAPANESE DRAFTS AS FOLLOWS:

(I) CURRENT WORLD ENERGY SITUATION. SUBJECT TO THE FRENCH RESERVE LANTZKE WILL PRODUCE A SHORT, FACTUAL PAPER WITH A VIEW TO KEEPING DISCUSSION OF THIS ITEM SHORT.

(II) REVIEW OF MEASURES TO RESTRAIN OIL CONSUMPTION AND IMPORTS. THOSE DELEGATIONS WHO WISHED TO WOULD CIRCULATE PAPERS DETAILING ACTION TAKEN BY THEM SINCE TOKYO (THE JAPANESE AND FRENCH DID SO). MINISTERS WOULD CONCENTRATE ON THE POINTS OF PARTICULAR IMPORTANCE TO THEM, SUCH AS OIL IMPORT CEILINGS AND THE PROGRESS OF DEMAND RESTRAINT UNDER THE EEC AND IEA PROGRAMMES.

(III) OIL TRANSACTIONS. IT WAS AGREED THAT THIS ITEM WOULD COVER ALL THOSE ISSUES IN THE TOKYO COMMUNIQUE DEALING WITH OIL MARKET QUESTIONS, THE REGISTER, THE SPOT MARKET ETC. DETERMINED US ATTEMPTS TO DOWNGRADE THIS ITEM IN RELATION TO (II) AND (IV) WERE RESISTED BY THE FRENCH, ITALIANS AND GERMANS.

(IV) ALTERNATIVE ENERGY RESOURCES. THIS ITEM WOULD COVER DISCUSSION OF COAL, NUCLEAR AND (BY THE US) THEIR PROGRAMME FOR SYNTHETIC OIL PRODUCTION. THE GERMANS SAID THEY WOULD WISH TO HEAR FROM THE AMERICANS ABOUT THE PROSPECTS FOR INCREASED SUPPLIES OF COAL.

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(V) INTERNATIONAL ENERGY TECHNOLOGY GROUP. THE RESULTS OF THE MEETING ON 16 SEPTEMBER WOULD NEED TO BE REVIEWED AND, IF APPROPRIATE, ENDORSED.

4. THE JAPANESE SAID EZAKI WOULD WISH TO DISCUSS PRODUCER/ CONSUMER CONTACTS OVER LUNCH. IT SHOULD NOT BE FORMALLY ON THE AGENDA. THEY THOUGHT IT WOULD BE USEFUL TO CONSIDER THE ALGERIAN AND MEXICAN IDEAS AND TO HEAR FROM THE FRENCH ABOUT THE EEC/GULF DIALOGUE. OTHERS WELCOMED AN INFORMAL DISCUSSION OVER LUNCH. THE US EMPHASISED THIS ISSUE SHOULD NOT BE GIVEN TOO GREAT PROMINENCE. THE TOKYO COMMUNIQUE HAD NOT SAID MUCH ABOUT IT AND SO IT WOULD NOT MAKE SENSE FOR THE FOLLOW-UP TO BE TOO AMBITIOUS.

CARRINGTON

MS

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PS/PUS
SIR A DUFF
MR BUTLER
MISS BROWN
MR FRIETWELL

PS/S OF S FOR ENERGY
PS/SIR J RAMPTON D/ENERGY
MR D LE B JONES D/ENERGY
MR BRETHERTON D/ENERGY
SIR J HUNT CAB OFFICE
MR PERETZ TREASURY

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10 DOWNING STREET

From the Private Secretary

13 September 1979

Follow-up to the Tokyo Summit : Energy

You will wish to be aware that the Belgian Foreign Minister, M. Simonet, raised at this morning's meeting between the Prime Minister and the Belgian Prime Minister the question of this weekend's preparatory meeting for the Ministerial meeting in Paris on 26 September to follow-up energy aspects of the Tokyo Summit.

M. Simonet pointed out that the meeting of officials preceded the meeting of EEC Energy Ministers on 20 September at which the Community's position would be, he hoped, agreed. He asked the Prime Minister for an assurance that nothing done by officials this weekend at a meeting at which Belgium would not be represented would prejudice the Community's later discussion.

The Prime Minister said that there could be no question of non-participants being committed by anything agreed before the meeting on 20 September. Sir Michael Palliser pointed out that the Presidency and the Commission would be present at the forthcoming meeting of officials and that this would help to ensure that the views of the EEC non-participants would be made known.

I understand that the United Kingdom will be represented by Sir Jack Rampton at the officials meeting. You may think it would be worthwhile ensuring that the above exchange is reflected in whatever briefing is being prepared for him.

I am sending a copy of this letter to George Walden (Foreign and Commonwealth Office) and Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

W.J. Burroughs, Esq.,
Department of Energy.

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Extract from the Prime Minister's talk with the PM
of Belgium, M. Wilfried Martens.

12/9/79.

Energy

Having commented briefly on the difficulties facing the Belgian economy, and in particular the high unemployment figures, M. Martens said that his country was very dependant on oil imports. His Government intended to place a programme before the Belgian Parliament this autumn designed to reduce the country's dependance on oil and to give additional emphasis to nuclear power. 25% of the country's electricity generation at present came from nuclear power plants: it was hoped to increase this to 50% by 1985. Although nuclear power generation was less controversial in Belgium than in the Netherlands, Denmark or the Federal Republic, it would nonetheless require a major Parliamentary debate. Three major questions would require decision:

- (a) whether to go ahead with the two major plants required by 1985;
- (b) whether Belgium should recycle its own nuclear waste; and
- (c) whether to go for a fast breeder reactor in addition to the two other plants.

CONFIDENTIAL

/ In reply to

In reply to a question from the Prime Minister, M. Simonet said that Belgium already had a small reprocessing unit in operation. M. Martens said that he expected the Belgian Parliament would approve the Government's proposals.

The Prime Minister said that the United Kingdom was not so far down the nuclear road as was Belgium. 13% of our electricity was at present produced by nuclear power stations. Three more power stations would be coming on stream in the relatively near future. We also were interested in developing a fast breeder reactor and had a good prototype at Dounreay. The French were being extremely ambitious in scaling up by a factor of 30 from their prototype to the commercial reactor, Super Phenix. This might give rise to problems: we intended to be less ambitious and to scale up in stages by a factor of 3, or thereabouts, each time. Britain's reputation in the nuclear field depended on never economising on safety. There would have to be a public enquiry before a fast breeder reactor was developed. The Prime Minister added that it was essential to put every effort into the development of nuclear power. There had been past failures to translate technical advances into commercial plants, but the present prospective shortage of oil would force us to develop the nuclear programme further. It would be important to overcome public anxiety about this. It needed to be stressed that no-one had ever lost their life as a result of the nuclear generation of electricity: this could not be said of oil or coal.

In the course of a brief discussion about energy problems over lunch, M. Martens said that Saudi Arabia had proposed a two year government to government contract to Belgium. This would be at the official OPEC price plus a fixed premium. M. Simonet pointed out that the less oil that passed through the hands of the multinationals and the more that came through government to government agreements, the easier it would be for the OPEC governments to exert pressure on the recipients. As an example of this, M. Martens described the difficulties his government were experiencing in making arrangements to have the oil they would be purchasing from Saudi Arabia refined. One of the major refinery companies based in Belgium was under Jewish ownership and the

CONFIDENTIAL

/ Saudi

Saudi Arabians were making difficulties about the use of this refinery. This sort of problem did not arise when private companies were responsible for buying and selling the oil.

Follow-up to Tokyo Summit

With reference to forthcoming meetings to pursue energy issues that had arisen at Tokyo, the Prime Minister said that she hoped there would not be too many extra meetings. There were enough as it was. She did not want to see sub summit meetings institutionalised. In response to a point made by M. Simonet (recorded separately) the Prime Minister said there could be no question of non-participants being committed to meetings they had not attended. In Tokyo she had argued strongly for sticking to the language agreed at Strasbourg on oil imports. Chancellor Schmidt had commented that he was not used to the British being more Communautaire than others

/ EMS

Subject file

Belgium - Mtg with Martens. June 1979.



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

M Pattison Esq
Private Secretary
10 Downing Street
LONDON SW1

12 September 1979

Dear Mike,

REORGANISATION OF THE NUCLEAR INDUSTRY

Thank you for your letter of 15 August inviting my Secretary of State's comments on Sir Edwin McAlpine's paper on the nuclear industry.

My Secretary of State set out his general approach to the question of reorganisation in his minute of 10 August to the Prime Minister. He fully accepts that early decisions are needed, as Sir Edwin stresses, and he will be circulating proposals to colleagues this autumn. He has himself talked to Sir Edwin, and finds it helpful to have the views in the memorandum.

Certainly my Secretary of State has found general agreement among the parties that the present structure of the nuclear industry is unsatisfactory and that it should be replaced by a single-tier Board on normal lines. He also feels that the question whether GEC's supervisory management should be brought to an end and if so when, has to be very carefully looked at. These points will all be covered in his proposals to colleagues.

There is also a case for saying that the new company should concentrate on the design and construction of the nuclear island, for the time being at least. The roles of the bodies involved in power station construction have been a source of friction recently and must be clarified. But it would be wrong to rule out the possibility of a steady evolution in the responsibilities of the company, perhaps in the direction of manufacturing, perhaps in the direction of architect-engineering and overall site management, as confidence in, and the scale of, our nuclear programme grows.

My Secretary of State agrees with Sir Edwin that a new chairman will need to be found for the company, in place of Toby Aldington, but



(2)

more thought needs to be given to suitable names. He has considerable doubts about Sir John Hill as a candidate.

If we decide on the early replacement of Toby Aldington, it would be sensible to discuss with his successor management matters generally.

Yours sincerely
Bill

W J Burroughs
Private Secretary



12 SEP 1979

6 5 4 3 2 1 12 11 10 9 8 7

CONFIDENTIAL

193

7

Prime Minister.

Nothing very
startling.

12

12/9

PRIME MINISTER

My colleagues on E Committee may wish to see
James Schlesinger's valedictory letter to me
and his summary of US energy policy achievements.
I am also sending copies to the Secretaries
of State for Scotland, Wales and Northern Ireland.

DA.
2

D A R HOWELL

10 September 1979

amb



The Secretary

August 23, 1979

Dear Mr. Secretary:

As a battle-scarred veteran, I depart from the energy wars after two and a half years of service. My successor, Charles Duncan, former Deputy Secretary of Defense, will be assuming office on August 24. He also has a strong interest in international energy policy and I hope he will have the opportunity to meet you at the Energy Ministers meeting this fall.

While I look forward to my return to the private sector, I remain concerned about the bleak outlook for future world oil developments. I believe that world oil production and consumption will probably never much exceed 65 million barrels a day, not much more than present levels. The political security and cohesion of many of the producer states is precarious and another major disruption, as took place in Iran, would result in immediate and severe economic and political damage to industrialized countries. Oil states are also showing a proclivity to use the tight market situation for short-term economic and political gains. Foreign policy and defense objectives are being altered by traditional allies as they take this new situation into account. Our countries face the stark prospect of higher oil prices, lower economic growth rates, and the introduction of import restrictions in the attempt to redress trade deficits.

The recent Tokyo Economic Summit focused almost exclusively on energy. I consider our commitment to achieve short and medium-term oil import targets as a decision of the highest political importance. The successful attainment of such goals requires much greater steam coal utilization, steady expansion of nuclear power with appropriate safeguards, rapid commercialization of new energy technologies for synthetics and renewables, strong conservation programs and greater control of speculative oil market behavior. As evidence of our strong support for Summit commitments, on July 15, President Carter set forth a comprehensive set of new energy proposals including development of a quota system to limit oil imports; creation of an Energy Security Corporation to direct the development of 2.5 million barrels a day of oil substitutes by 1990; and other programs aimed at unconventional gas, heavy oil, fuel switching, residential conservation, mass transit and improved auto efficiency. We would like to see similar efforts made by other Summit countries.

While the United States is often castigated as a profligate user of energy, our recently enacted energy programs are beginning to have strongly positive effects. In 1978 for example we:

- reduced our net oil imports substantially to 8.3 mmb/d;
- increased our energy consumption by less than 2 percent and our oil consumption by less than 1 percent;
- continued our extremely low energy consumption/GNP elasticity at less than 0.5;
- expanded nuclear power with adequate safeguards;
- displaced oil with alternative fuels in the utility and industrial sectors; and
- enforced mandatory new car fuel standards at 18 miles per gallon.

My talks with you have been informative and productive. I hope our joint efforts to alleviate the energy crisis will be successful.

Sincerely,

James R. Schlesinger

James R. Schlesinger

Honorable D. Howell, M.P.
Secretary of State for Energy
of the United Kingdom
London

SECRETARY OF STATE'S OFFICE	
TO <i>Mr. Bretherton</i>	Copies to
FOR ADVICE (AND	<i>mos</i>
DRAFT REPLY IF	<i>pus</i>
APPROPRIATE)	<i>pus</i>
PLEASE BY:	<i>pus</i>
<i>ASAP</i>	<i>Mr. D. Jones</i>
	<i>Mr. Lucas</i>

4 September 1979

DEPARTMENT OF ENERGY

Tel: 01-211-6928

ENERGY STATISTICS - WEEKLY STATEMENT ⁽¹⁾

			Week ending				
			26.8.78	4.8.79	11.8.79	18.8.79	25.8.79
COAL							
Production ⁽²⁾	(m tonnes)		2.30	1.19	1.74	2.05	2.19
Undistributed stocks	"		10.97	11.61	11.35	11.19	11.02
Voluntary absence ⁽³⁾	(%)		4.4	2.3	4.2	3.9	4.2
Involuntary absence ⁽³⁾	"		12.7	9.6	9.4	9.6	10.0
Output per manshift overall ⁽³⁾	(tonnes)		2.17	1.78	2.02	2.15	2.18
POWER STATIONS							
Coal: Stocks	(m tonnes)		20.01	14.11	14.24	14.31	14.50
Consumption	"		1.28	1.23	1.34	1.45	1.45
Receipts	"		1.50	1.19	1.47	1.52	1.63
Oil ⁽⁴⁾ Stocks	"		1.04	0.87	1.00	1.10	1.17
Consumption	"		0.13	0.08	0.09	0.09	0.10
Receipts	"		0.15	0.12	0.21	0.19	0.17
Electricity supplied ⁽⁵⁾	(GWh)		3,769	3,350	3,593	3,796	3,916
Temperature corrected	"		(3,791)	(3,350)	(3,598)	(3,796)	(3,793)
GAS INDUSTRY							
Oil: Stocks	(m tonnes)		0.25	0.13	0.12	0.12	0.12
Gas: Sent out ⁽⁶⁾	(m therms)		178	158	174	190	208
			Month ending				
			31.8.78	31.5.79	30.6.79	31.7.79	31.8.79
OIL COMPANIES' STOCKS - UK ⁽⁷⁾							
Stock level	(m tonnes)		19.6	17.3	18.4	18.4	19.3
Estimated endurance:	(days supply)						
Motor spirit			56	61	62	64	67
Kerosene			84	71	74	74	74
Gas/Diesel			96	102	108	97	90
Fuel oil			87	112	112	101	91
Naphtha			68	71	73	63	68
All finished products ⁽⁸⁾			82	86	90	85	82

(1) Great Britain unless otherwise stated. All latest figures subject to revision.

(2) Including opencast

(3) NCB mines only

(4) Oil fired boilers only

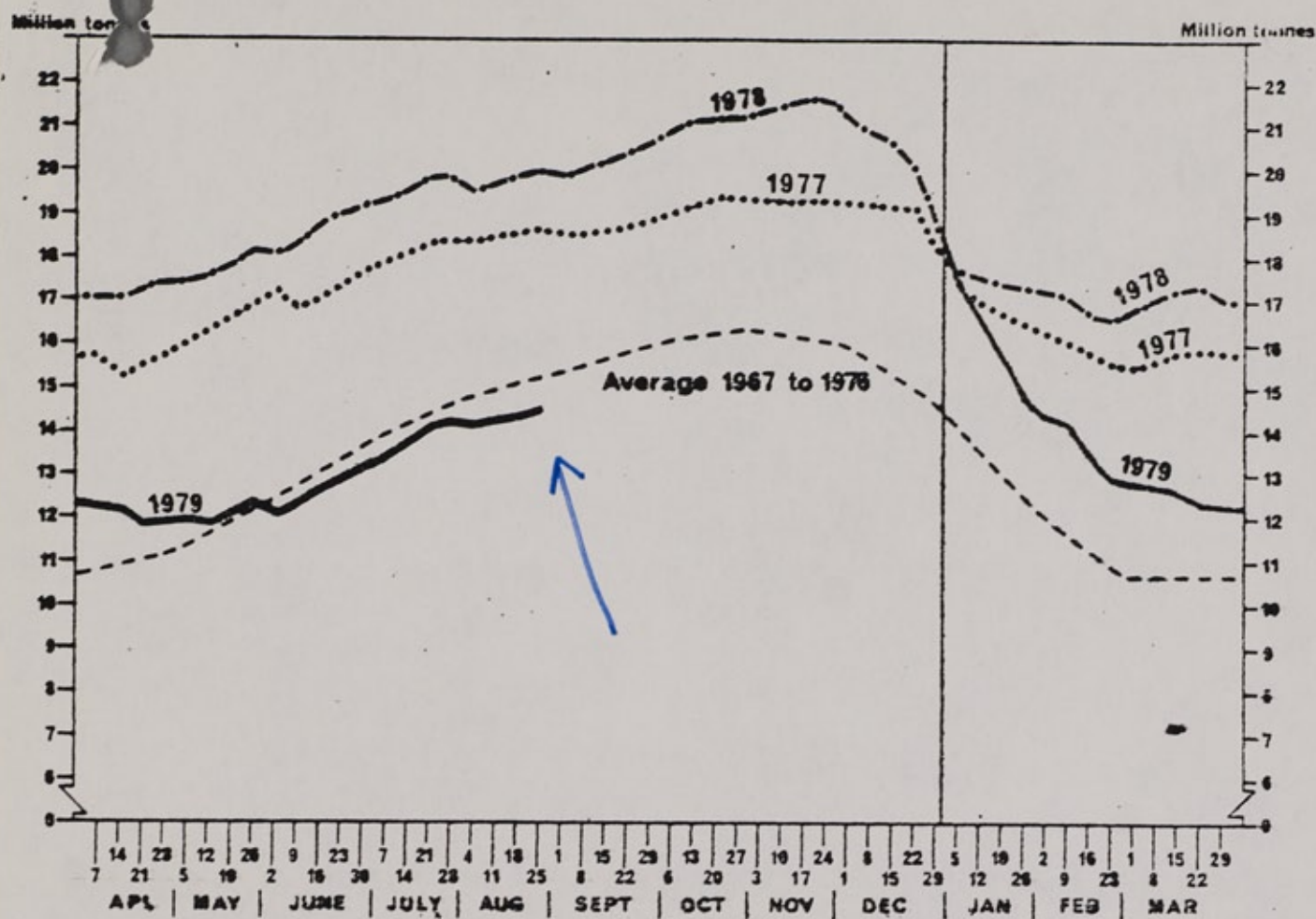
(5) Steam stations including nuclear

(6) Natural and town gas

(7) Includes the product equivalent of crude and process oils

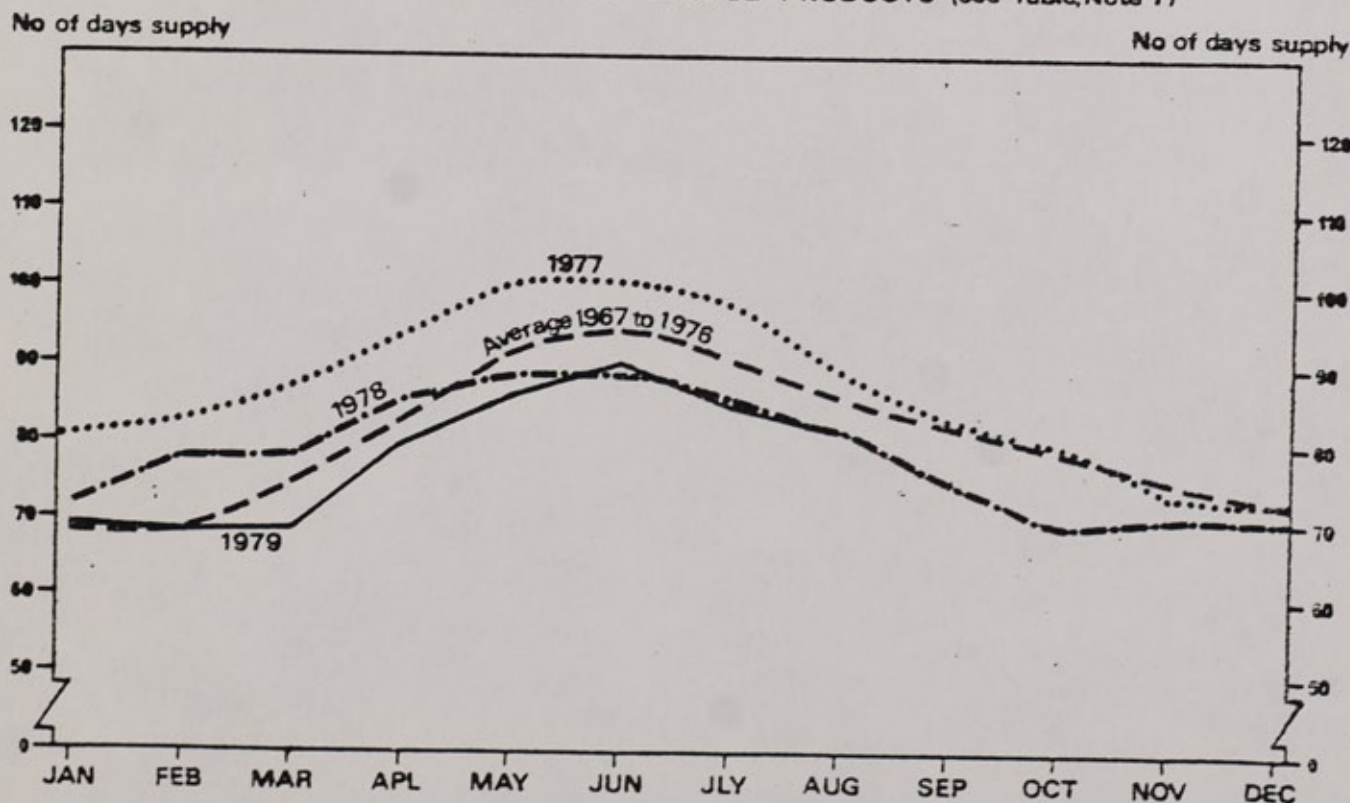
(8) Includes products not specified above.

COAL STOCKS AT PUBLIC SUPPLY POWER STATIONS IN GREAT BRITAIN



OIL COMPANIES STOCKS - UK

ESTIMATED ENDURANCE: ALL FINISHED PRODUCTS (see Table, Note 7)





UK ENERGY : SOME KEY FIGURES

August 1979

Demand

- 1 Total primary energy demand including non-energy and bunkers in 1978 - 361 million tonnes of coal equivalent (mtce). Could rise, after allowing for 20% conservation in heat supplied, to around 500 mtce in 2000.

Conservation

- 2 Conservation measures in place and higher prices are estimated to have produced savings of about 20 mtce a year, expected to rise to about 40 mtce a year within ten years.

Investment

- 3 Energy investment accounts for about 3% of GDP: expenditure in the North Sea responsible for more than half.
- 4 Investment in energy in the UK as a proportion of total investment by EEC Member States is expected to be around 25% of the overall figure up to 1985: about 45% for coal and 40% for oil and gas (both land-based and offshore expenditure).

Coal

- 5 Estimated operating reserves are 6,000 million tonnes - enough to sustain current rates of production for more than 50 years.
- 6 Total resources may be as high as 190,000m tonnes, of which about 45,000m tonnes might be ultimately recoverable.
- 7 Capital cost of National Coal Board's ten year investment programme 'Plan for Coal' £5,170m (July 1979 prices).

Oil

- 8 Estimated remaining United Kingdom Continental Shelf reserves - 2,300-4,300m tonnes.
- 9 Production cost per barrel - \$4-13 (1978 prices) compared with current market value of about \$20 (1978 prices).
- 10 Production in 1978 - 54m tonnes. 1980 production between 85-105m tonnes.



Gas

- 11 Proven UKCS reserves amount to 25 trillion cubic feet (tcf) and probable and possible reserves to a further 27 tcf.
In addition, 4.5 tcf of gas from the Norweigan part of the Frigg field is contracted to BGC. For planning purposes a central estimate of 60 tcf (2,400 mtce) is used, which assumes both new discoveries and the importation of more gas by pipeline.
- 12 UKCS production was around 3,700m cubic feet a day (55 mtce a year) in 1978. With imports, consumption was about 4,300 mcfcd and is expected to peak at around 6,000 mcfcd in 1990.

Oil and Gas

- 13 GNP at market prices arising from oil and gas production - about £4,500m in 1980 and about £6,000m in the mid 1980s (1978 prices). (Economic Progress Report, August 1979).
- 14 Estimate of balance of payments benefit from oil and gas in 1980 - £7,300 million (1978 prices). (Economic Progress Report, August 1979).
- 15 Government revenue from tax and royalty rising to around £4,750m a year by mid 1980s, 1978 prices. (Economic Progress Report, August 1979).
- 16 UK share of orders for offshore-related work has risen from 40% in 1974 to 66% in 1978 (worth more than £1,000 million).
- 17 Capital cost of offshore developments to end 1980 - about £13,000m.

Electricity

- 18 Output capacity at public supply generating stations, 1 January 1979: 66.6 GW. Supplied 248 TWh of electricity in 1978.
- 19 Fuel burn in public supply power stations in 1978: 115 mtce, of which coal 81 mtce (70%). Estimate of coal burn in 1979 90 mtce.
- 20 Share of final energy demand, 1978: 13%.
- 21 Average generating cost in 1978-79 of CEBG power stations commissioned since 1 April 1965:
- | | |
|--------------------|------------|
| - oil | 1.31 p/kWh |
| - coal | 1.29 p/kWh |
| - nuclear (Magnox) | 1.02 p/kWh |



Nuclear

- 22 1978 contribution to primary energy requirements - 4%
to electricity generation - 11½%
- 23 Current estimate for completion of commissioning of first reactors at the 3 AGR stations presently under construction - 1981/82.
- 24 When these stations are fully commissioned in the early 1980s, the contribution of nuclear power is expected to be:
- to primary requirements - around 6% (20 mtce)
to electricity generation - around 20%
- 25 Site work on the AGR at Torness started in late 1978 and is expected to begin on Heysham II in 1980. Completion around 1987.
- 26 Net commercial cost of AEA research and development in direct support of the nuclear power programme since 1954 - about £1,100m.

Renewable Sources of Energy

- 27 Largest contribution to energy supply likely to be economic by 2000 - 10 mtce.
- 28 R & D programme - £16m (£6m solar, £5.4m waves, £1.8m geothermal, £1m wind and £1.6m tidal, of which £1.5m is allocated for work to be recommended by the Severn Barrage Committee).



NBPM yet. *TL to see 28/11/79*

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref: *Energy*

23 23 August 1979

Dear David

NUCLEAR POWER POLICY

I have seen your minute of 10 August to the Prime Minister and Nigel Lawson's letter of 14 August to you, about nuclear power policy.

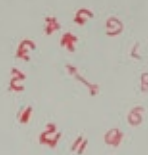
I entirely agree that our future nuclear power policy needs urgent examination, so that we can give the nuclear industry a clear indication of the way ahead, both for the next few years and in the longer term. I also strongly endorse Nigel Lawson's comment that decisions involving such enormous investment costs must be based on a thorough assessment of all the factors involved. One of these is that we cannot proceed with a major expansion of nuclear power unless we have a credible strategy for dealing with the various kinds of radioactive wastes from the nuclear fuel cycle.

As you point out, research and development on nuclear technology is expensive. Research on radioactive waste management is, however, only a small fraction of the total cost of even one reactor, yet it is crucial for the identification of safe and acceptable disposal methods. Government support for the waste management research programme has increased since my Department took over responsibility for developing a coherent radioactive waste management policy 2 years ago. But we must continue to ensure that there are adequate resources for this research over the next decade if any expansion of nuclear power is to command public acceptance. There is, I believe, every reason for confidence that it will in due course be possible to solve the outstanding problems of waste management, but we have to acknowledge that the safe containment of long-lived highly radioactive waste will be a dominant factor for us to take account of in deciding about the size of the future nuclear power programme.

I am copying this to the Prime Minister, the Foreign Secretary, the Secretaries of State for Scotland, Wales and Industry and to Sir John Hunt and Sir Kenneth Berrill.

yes
am
all
MICHAEL HESELTINE

The Rt Hon David Howell MP



24 AUG 1979



10 DOWNING STREET

From the Private Secretary

22 August 1979

The Prime Minister has seen your Secretary of State's minute of 17 August, about power station fuel.

She has noted the reduced forecast for opening winter stock of coal. She would be grateful to be kept informed of any significant variation in the forecast, and of your Secretary of State's progress in his search for other means of raising the industry's endurance.

M. A. PATTISON

W. Burroughs, Esq.,
Department of Energy.

A handwritten signature, possibly 'W.B.', in dark ink, located at the bottom right of the letter.

To see. This is worrying, because the peak stock figure will now be a lot lower than the previous forecast (flag B) of 'under 16m tonnes'.

PRIME MINISTER

POWER STATION FUEL

E(79)64 mty
min 3
flag A
(summary)

At the meeting of the Committee on Economic Strategy on 24 July you drew attention to the importance of ensuring adequate supplies of coal to power stations and asked to be kept in touch.

Energy say that the reason is that coal burn has stayed high through June and July, although the supply side has behaved according to plan. The 13-13½m tonne figure is said to be a realistic one: it leaves us extremely vulnerable.

MS

17/8

am.

I and my colleagues here have reviewed the position with the CEGB and the NCB; the Chairmen have assured me that every effort is being made to put as much coal as possible into power stations. There is close liaison at national and local levels between the two industries and with British Rail, which is working well. Coal deliveries are up to programme and the CEGB is importing some additional supplies. Coal stocks at power stations in England and Wales had reached 12.6 mln tonnes by early August. This is lower than we and they would like but a cold spring and early summer combined with some switching to electricity from oil raised electricity demand and coal burn above expectations.

The CEGB now forecast their opening winter stock of coal will reach 13-13½ mln tonnes at 1 October, a level well below that of recent years. This offers about 4-5 weeks' endurance at peak winter consumption rates, but any interruption in coal supplies or a cold winter could cause problems.

I am therefore seeing what can be done to raise the industry's endurance in other ways. Gas burnt now can conserve coal for later consumption, and increased gas supplies to the CEGB are now being negotiated with British Gas. CEGB could also take more oil than they have at present, and we are seeking means whereby crude oil available to BNOC is used to increase CEGB's stocks of fuel oil, so as to provide some further insurance for the winter months.

/On this

On this basis, CEGB believe they should be able to see the winter through without difficulty in normal circumstances. However by the end of the winter power station coal stocks will again be low and next summer's task of restocking against the following winter is likely to require further special measures, both with coal and other fuels.

I shall continue to keep a close watch on the fuel position and have asked the industry to keep my Department fully informed of progress and prospects.

I am copying to members of E Committee, to the Secretary of State for Scotland, to the Minister of Transport and to Sir John Hunt.

JH.
2

SECRETARY OF STATE FOR ENERGY
17 AUGUST 1979

...the ...
...the ...
...the ...
...the ...
...the ...



17 AUG 1979

CONFIDENTIAL

CF.

BF 30.8.79

15 August 1979

13.8.79

I enclose a copy of a letter and paper about the nuclear industry passed to the Prime Minister by Sir Edwin McAlpine, together with a copy of the Prime Minister's reply to him.

The Prime Minister would be interested to see your Secretary of State's comments on Sir Edwin's paper in due course. It would be helpful if you could arrange for these to be forwarded by the end of the month.

MAP

Denis Walker, Esq.,
Department of Energy.



10 DOWNING STREET

THE PRIME MINISTER

15 August 1979

Dear Sir,

Thank you for your letter of 13 August with which you enclosed a paper recording your views on the structure of the nuclear industry.

I hope you will not mind my passing it on to David Howell for his personal information.

It is quite clear from the opportunities I have had that the present arrangements are thoroughly unsatisfactory. There is less agreement on the way forward

Yours

Sir Edwin McAlpine.

Raymond

to

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

15 August 1979

c. (Dengy)
FO SO
FCO WO
HMT CO
DI
LPO
Dem
MAFF
DTde
HMT (CS)

File
Energy

Nuclear Power Policy

The Prime Minister has seen your Secretary of State's minute of 10 August. She has commented that she is delighted that progress is being made quickly, and that she looks forward to seeing the next stages. She hopes that they will not be long delayed.

I am copying this letter to the Private Secretaries to the Members of E Committee, Kenneth MacKenzie (Scottish Office), George Craig (Welsh Office) and Martin Vile (Cabinet Office).

N. J. SANDERS

W.J. Burroughs, Esq.,
Department of Energy.

CONFIDENTIAL

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

15 August 1979

Nuclear Power Policy

The Prime Minister has seen your minute to me dated 13 August.

She has commented that she does not like this proposed "solution". In her view, part of the trouble lies in the CEGB and it cannot be eliminated by an amalgamation with the CEGB. Since private industry cannot flourish if its future is in the hands of one buyer, because neither jobs nor investment are secure, the Prime Minister thinks that a much more radical "solution" is needed.

I am copying this letter to Martin Vile (Cabinet Office).

N. J. SANDERS

Sir Kenneth Berrill, G.C.B.

CONFIDENTIAL



PRIME MINISTER

PRIME MINISTER

Sir Edwin McAlpine's attached letter sets out his views on the structure of the national nuclear industry. Would you like to pass this to David Howell for his consideration? If so, you might want to send a brief acknowledgement to Sir Edwin as in the attached draft.

*Papers back to me,
with extra copy of
PM's letter, etc*

14 August 1979



PRIME MINISTER

Mr. Sanders has not seen
this.

Duty Clerk
14.8.79

Treasury Chambers, Parliament Street, SW1P 3AG

14 August 1979

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1

WORK ON ENERGY POLICIES AND NUCLEAR POWER POLICY

I am writing in the Chancellor of the Exchequer's absence to comment on your minute of 10 August to the Prime Minister about nuclear power policy and on your letter of the same day to the Chancellor on work energy policies.

I entirely agree with you that we need to consider the development of our nuclear power policies in a systematic way and I am glad to see from your minute of 10 August that you accept that it would be useful for our officials to prepare for us a report as a basis for the investment decisions we shall need to take. As the Chancellor pointed out in his letter of 20 July, enormous costs are involved: two nuclear power stations or three years of coal investment are roughly equivalent to the total cost of the UK of the Concorde programme. And you point out yourself in your minute to the Prime Minister that a basic programme of orders, of say $1\frac{1}{2}$ GW of new capacity per annum, could cost some £10bn. This represents an enormous investment of national resources which would be largely financed from public expenditure. Great uncertainties are inevitably involved. Much of the expenditure is indeed not incurred until after the end of the PES period, but this does not absolve us from taking decisions on the basis of a thorough assessment of the economic and financial case.

You suggest in your minute of 10 August that we could in September take decisions, with minimum financial risk, on a basic nuclear programme embracing some commitment to orders in earlier years together with a clear statement of a longer term need. It may be possible for officials to produce the assessment needed for such decisions by September, but I think that it would be a great mistake to rush the appraisals so that decisions are taken upon the basis of

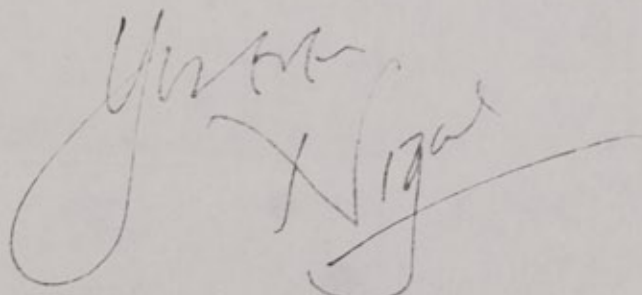
an incomplete assessment. However, I entirely agree that officials should be asked to complete their work quickly so that the question of the future ordering programme can be considered as soon as possible. Meanwhile, although I entirely agree that we should continue to affirm publicly that we see a growing need for nuclear power, it would be counter productive to build up any expectation in the nuclear industry to any particular size of ordering programme which was not supported by our eventual decision.

You also refer in your minute to the Prime Minister to the need to reorganise the nuclear industry, to press ahead with the PWR option announced by the last government and to the consideration of fast reactor policy. Again I agree that these are matters which we ought to consider collectively in the coming months so that we give a new impetus to nuclear power policy. But I ought to point out that these policies could involve public expenditure. I must therefore ask that no commitments are entered into until Ministers collectively have taken decisions.

I am glad of your agreement to carry forward the work on energy pricing and medium term financial targets for the gas and electricity industries for completion in the Autumn. I do not want to make an issue of which Department is in the lead in view of your agreement that the Treasury should take the initiative in examining possible tax implications. On that basis I agree that we should leave the co-ordination of the work to officials.

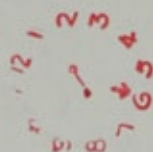
Finally, on the short term matters referred to in your letter I note that you will shortly be letting colleagues know of your contingency plans for dealing with oil shortages in the winter; that you will be offering further thoughts on petrol duty and on interaction of fiscal measures and energy policy more generally and that you may wish to contribute some suggestions about increasing Government take from the UKCS.

I am sending a copy of this letter to the Prime Minister, the Foreign Secretary and the Secretary of State for Scotland, Industry and Environment and to Sir John Hunt and Sir Kenneth Berrill.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', with a large, sweeping initial 'N' and 'L'.

NIGEL LAWSON

14 AUG 1979



Top copy on: Energy,
May 1979, Power Plant
Manufacturing Industry.



File RB

10 DOWNING STREET

From the Private Secretary

14 August 1979

SIR JOHN KING: MEETING WITH THE PRIME MINISTER

When Sir John King met the Prime Minister yesterday, he told her of his views on the future of the steam generating industry and the nuclear industry more generally. He urged the case for a regular ordering programme from the CEGB sufficiently large to ensure the survival of these industries. He said that there was a real risk that without a re-organisation of the steam generating industry and a proper programme of orders, the industry might go to waste.

He also said that in his view the nuclear industry needed a much more vigorous education programme than anything which had been attempted so far. The public were afraid of the unknown and needed a better understanding of what nuclear power was all about.

The Prime Minister undertook to pass his views on to your Secretary of State.

I am copying this letter to Martin Vile (Cabinet Office).

N. H. SANDERS

KRB

W. J. Burroughs, Esq.,
Department of Energy.

From
Sir Edwin McAlpine
Telephone: 01-837 3377

Dr D Wolfson
10, Bernard Street,
London, WC1N 1LG

Private & Confidential

13th August, 1979.

R13/8

My dear Prime Minister

In spite of the fact that your Government has only been in office for a comparatively short time, your Ministers concerned with the nuclear industry have made a very thorough and complete examination of the problems, and I suspect and hope that their conclusions are similar to my own. I am enclosing a paper which records my views, after discussion with some of the more able people with whom I worked in the old days of T.N.P.G.

In restoring this operation, there will have to be something of a U-turn in your policy compared with that of the previous Governments. It is my personal view that no single manufacturing company or group of manufacturing companies should have control of the new organisation.

In closing, may I say how happy everybody is to welcome you safely home, and I sincerely hope that you will manage to have a short and relaxing holiday.

Best regards

The Rt. Hon. Margaret Thatcher, M.P.,
10 Downing Street,
S.W. 1.

Yours ever

Edwin

Nuclear Power Design and Construction Company

1. It is now generally accepted that the structure of the National Nuclear Corporation/Nuclear Power Company formulated in 1973/74 has proved most unsatisfactory, and that the 3-tier arrangement and the supervisory management control should be abandoned.
2. The management and the composition of the board of the company are more important than the shareholding. No single manufacturer should have any special power to control the company.
3. There is agreement between the electricity supply industry, the A.E.A. and the majority of those who have had genuine experience of the industry on the following lines:-
 - (1) The redistribution of the shares and the offer of some shares to other companies that may wish to take them up.
 - (2) The need to have a normal board structure consisting of a chairman, a few non-executive directors and appropriate full-time executive directors.
 - (3) A most suitable Chairman would be Sir John Hill.
 - (4) The company should remain a design and construction company responsible for the nuclear island.
4. In the normal way this restructuring could have been implemented long ago, in view of the agreement already reached between those involved in the industry and the main customers. There has however been procrastination for nearly two years, not unconnected with the special powers given by the Government to the supervisory management, and swift action is therefore required by the present Government to remedy this situation. You will appreciate better than most the need to press on with a nuclear programme, and to achieve this it is vital that the structure of the Nuclear Power Company be normalised. The matter is urgent, and therefore needs the Margaret Thatcher touch to move it along.
5. Once the Government has dealt with the supervisory management situation the chairman elect, after consultation with those preliminarily involved with the industry, can put to the Secretary of State for Energy detailed proposals for shareholdings and a composition of the board on the basis suggested earlier in this paper.

13th August, 1979.

John Hill

CONFIDENTIAL

Tsy
1
PRIME MINISTER

Qa 04242

To: MR SANDERS

From: SIR KENNETH BERRILL

Would you like me to
to make Ken Berrill's
point?

MS 14/8

Nuclear Power Policy

1. The Secretary of State for Energy minuted the Prime Minister on 10 August on giving a new thrust to the United Kingdom nuclear programme.
2. The minute covers the four main elements (size of the UK ordering programme: PWRs; fast reactors; and the reorganisation of the nuclear industry). It is in very general terms and promises reports on each of these issues in the early Autumn.
3. But there is one section (paragraph 3) on the reorganisation of the nuclear industry which suggests that the Secretary of State is thinking of a rather limited role for the reorganised industry, and if the Prime Minister is thinking of replying to the Secretary of State's minute she might consider asking Mr Howell to set out the arguments for and against different dividing lines between the nuclear industry and the CEBG. The CPRS believes that there is a case for at least considering such an alternative which can be briefly set out as follows.
4. The need to re-create a dynamic and forward looking UK nuclear industry has been recognised for some years but the means of achieving this have been the subject of much bickering. The National Nuclear Corporation (NNC) is a deeply unhappy organisation which has been losing its best employees at a crippling rate.
5. What is required is:

an organisation strong enough to stand up both to the electricity supply industry (essentially the CEBG) and the Atomic Energy Authority. The ad hoc arrangements agreed between the NNC and the CEBG/SSEB for building the two new AGR stations at Heysham

The trouble is
one buyer
No industry can
be efficient in the
face of CEBG's
vagaries.

CONFIDENTIAL

and Torness is an unsatisfactory compromise forced on the NNC because it had to be admitted that the NNC was not competent to take full charge of the operation:

- a new relationship between the public and private sector shareholdings. (Some public sector involvement is almost certainly required because of the safety and security aspects of nuclear power. In any case, it is doubtful if the private sector interests would be willing or able to support a completely privately owned NNC):
- the recruitment of a strong and independent management team that is not under the influence of directors representing the interests of the shareholding companies. Until the new organisation is defined it will not be possible to recruit the sort of management talent which is required.

6. An ambitious solution, but one that has a lot of appeal, would involve the creation of a 'turnkey' power station construction company. That is to say, an organisation capable of taking full charge of both design and construction. Such a company would have two divisions: a Design Authority responsible for the design and supply of nuclear reactor systems, and an Architect Engineering Authority (on the style of the Bechtel organisation in the USA) responsible for power station design (nuclear and fossil), procurement of the major systems (turbine generators, civil engineering, and so on) and overall on-site management of construction.

7. This ambitious solution would involve amalgamating the NNC with a small part of the CEGB (i.e. its Barnwood establishment) under one management. The electricity supply industry would oppose such a proposal (as would the public sector unions at Barnwood). But the reduction in the scope of the CEGB's responsibilities (which is what they would dislike) is one of the attractions of the proposal! Another is that it would be an exciting

CONFIDENTIAL

development, capable of attracting the right sort of top management talent into NNC. A third reason is that it would hold out the prospect of improving the appalling record of delays in power station construction in a way which the ad hoc arrangement for building Torness and Heysham AGRs are unlikely to achieve.

8. I attach a draft minute which, if the Prime Minister agrees, you might send to Mr Howell's Private Secretary.

9. I am sending a copy of this minute and attachment to Sir John Hunt.

KR

13 August 1979

Att.

I don't like this proposed
"solution". Part of the trouble lies
in C&GB and you would eliminate that
trouble by an amalgamation with C&GB.
Private industry can't grow if its future
is in the hands of one big guy. This we must
leave - not in investment. We shall need
a much more radical "solution" than this.
John King (Babcock) came to see
me yesterday³. I have asked David
Worson to take up the
several points with David Howell.
deparment. ref.

CONFIDENTIAL

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DRAFT MINUTE FROM MR SANDERS TO DR BURROUGHS

Nuclear Power Policy

The Prime Minister has read your Secretary of State's minute of 10 August on nuclear power policy and awaits with interest the outcome of the various studies and discussions which are listed therein.

Nuclear power policy has many difficult aspects, not least the much needed reorganisation of the nuclear industry. Central to this is where the frontier should be drawn between the role of the CEGB and the role of the reorganised nuclear industry.

The Prime Minister would be grateful if, in putting his suggestions to his colleagues on where this frontier could best be drawn, your Secretary of State could set out the alternatives and the pros and cons.

I am sending a copy of this minute to the members of E Committee, and to Sir John Hunt.

CONFIDENTIAL

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PA
MS

Qa 04236

? pp with N45

To: MR WHITMORE
From: SIR KENNETH BERRILL

Giving New Impetus to the United Kingdom
Nuclear Power Programme

1. Some three weeks ago the Secretary of State for Energy said that he would be letting the Prime Minister have 'shortly' a minute suggesting how we can give new impetus to the nuclear programme.
2. The CPRS would like to have the opportunity to comment on this minute when it arrives so could I ask that we should be allowed to do that before the Prime Minister responds?
3. I am sending a copy of this to Sir John Hunt.

KR

13 August 1979

CONFIDENTIAL

13 AUG 1974



Top of/on: Energy, May 1979, Power Next Manufacturing, Ltd.

NOTE OF A MEETING WITH SIR JOHN KING (BABCOCK & WILCOX) AT 1630
AT 10 DOWNING STREET ON 13 AUGUST 1979

Present:

Prime Minister
Sir John King
Mr. David Wolfson
Nr. Nick Sanders

* * * * *

Sir John King said that a Government initiative was needed to reorganise the nuclear and steam-generating industries. There were a number of plans which had been proposed. In his view, the need was for a strong industry which could compete with Westinghouse or Kraft Werk Union. Unless there was a reorganisation of the steam-generating industry, it would go to waste. Clark Chapman and Babcock and Wilcox were at present competing for scraps of business. They needed a firm home base founded on a regular ordering programme from the CEGB.

He said that Babcock & Wilcox were one of the largest employers on the Clyde. They had received an order for the Peterhead power station in 1972 and another for Drax in 1979. They wanted to modernise their factories and invest in new plant and equipment. To do so, they needed a sound Government programme for the home market.

Babcock were hoping to get a further order from Hong Kong for the Castle Peak power station. But apart from Drax, they had no other major orders in prospect.

The Prime Minister asked about the Harrisburg accident. Sir John King said that the American firm of Babcock and Wilcox was wholly separate from the British firm. He understood, however, that the Harrisburg enquiry would show that the plant had withstood the most ghastly mismanagement. Everything would have been fine if the plant operators had done nothing, but they had panicked.

The Prime Minister asked about the prospects for PWRs. Sir John King said that if a PWR was ordered then the reactor and

/ the

the steam-generating equipment would have to be imported. The same would be true if a second PWR was ordered.

In answer to a question about the breeder reactor, Sir John King said that Dounreay was a first class operation, but they should be pushed. The 1990s were almost here in ordering terms.

He said that the NNC and NPC were a design and contract manufacturing organisation with no real centre. They seemed to him to be a very temporary arrangement. The whole of the manufacturing industry needed to be brought together into one unit.

Finally, Sir John said that the nuclear industry needed a voice speaking for it and a much more vigorous education programme than anything which had been attempted so far. The public were afraid of the unknown and did not understand what nuclear power was all about. The dangers of fossil fuels were very great.

The Prime Minister said that she thought there was more work to be done in research on accelerating the disintegration of actinides. So far as publicity was concerned, Walter Marshall had done a lot of good work already and so had John Hill.

The Prime Minister thanked Sir John for giving her his views and undertook to speak to Mr. Howell about them.

MS

I am delighted that
D.H. is going ahead quickly
look forward to the

PRIME MINISTER

NUCLEAR POWER POLICY

Nuclear power is an essential element in energy strategy, as the Tokyo communique emphasised. I have been considering how we should now develop our policy.

THERMAL REACTOR POLICY

The first priority must be our thermal reactor programme. We do not at present have a thermal reactor system readily available for series ordering or an industry which could take on a substantial programme at once. It will take time to put this right and we must make a start forthwith.

There is general agreement that our nuclear industry is weak and in need of reorganisation. I have held an intensive round of discussions with the main parties, including the Generating Boards, Babcocks and GEC, and I believe that it should be possible to achieve an agreed solution on the basis of a single company under strong management responsible for the supply of the nuclear island and perhaps in due course for some manufacturing.

But there really is no hope of a strong industry without a firm Government commitment to nuclear power. It will help if we continue to affirm publicly that we see a growing need for nuclear power. But even more important is the issue of future orders.

The CEGB's present approach to ordering is cautious. I believe that if we are to resolve the key industrial problems and give our nuclear strategy a real chance of success we must give some greater assurance about the longer term. We should aim for a clear statement of the expected need for nuclear stations to the end of the century together with a specific commitment to orders in the earlier years. We shall of course have to look very carefully at the financial aspects and at the implications for the Generating Board's strategy on fuel-burn and replacement of existing capacity. But this is the right way to tackle the problem and give the question of structure its proper perspective.

PRIME MINISTER 2

This is relevant to your meeting

with Sir John King on Monday.

We await reactions from your
colleagues.

MJ5

See: Energy May 1979
Power Plant I

A basic programme of orders, of say $1\frac{1}{2}$ GW of new capacity per annum, could cost some £10 billion at current prices with major expenditure beginning in the mid-1980's; and a larger programme at the upper end of my Department's forecasts could cost twice this amount or more. Research and development on nuclear technology is also expensive. But unless we supply the resources needed for a nuclear programme, we shall not have one. Any alternatives would in any case be very costly whether in terms of investment or failure to ensure the supplies of energy we must have.

I have started discussions with the Central Electricity Generating Board (CEGB) about the concept of a basic nuclear programme, and my initial exchanges with them have been promising. More work needs to be done on the precise nature of any commitment, and I am following this up.

In parallel with this I believe we must press ahead with the PWR option announced by the last Government. A decision on licensing arrangements is the first step and I shall be considering it urgently when I know the views of the CEGB and NNC who are currently assessing the options.

Thereafter we must encourage the parties to move ahead with their design work on the PWR, giving full weight to the important issue of safety in the light of the report from President Carter's Commission into the Harrisburg incident, expected in October. An inquiry into the PWR seems inevitable and industry must prepare for it if the timetable is not to suffer.

FAST REACTOR POLICY

Fast reactors are not likely to be in commercial operation in quantity this century but given the long lead times involved major decisions will be needed in the next few years. We need to begin the process now.

International collaboration is a key factor. Sir John Hill, chairman of the UK Atomic Energy Authority (UKAEA), has reported that he has made progress in exploratory discussions with the French

and Germans, and there seems a real possibility of negotiating satisfactory arrangements with them. But before we can consider this we need to have from the nuclear and electricity supply industries agreed advice not only on international collaboration but also on the options open on fast reactor policy and their associated costs; recommendations on how parties would like to proceed, particularly on the Commercial Demonstration Fast Reactor (CDFR); and a timetable for decisions.

I am asking the UKAEA to let me have a report covering these points by October. Our aim should be to take a preliminary round of decisions by the end of the year, though we will not of course be able to take final decisions on a CDFR until an inquiry has been held.

CONCLUSION

Our nuclear programmes and industry are weak. We cannot overnight achieve the position which the French have developed over a decade. But if we tackle successfully the issues outlined above we shall begin to reverse the decline in our nuclear capability which has taken place in the 1970's and lay a practical foundation for future growth in our nuclear programme.

This is only a preliminary survey. I shall be circulating fuller proposals about the reorganisation of the nuclear industry after the holiday period, and continuing my talks about a basic nuclear programme in parallel with this.

Copies of this minute go to other members of E Committee, the Secretaries of State for Scotland and for Wales, and Sir John Hunt.

JH.

Secretary of State for Energy

10 August 1979

110 AUG 1979

11 12 1 2 3 4 5 6 7 8 9 10

CA



Geoffrey
✓
Mr

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1

10 August 1979

Dear Sir

WORK ON ENERGY POLICIES

Thank you for your letter of 20 July in which you refer to a number of issues in the energy field. These matters are, of course, being studied in my Department and I welcome your further proposals although I do have some detailed comments. Perhaps I could take them in turn.

Supply in the Medium and Longer Term

We have, of course, already done a lot of the work you suggest as part of the Coal Review and the inter-relationship between all the various fuels, not just coal and nuclear, as an essential element of my Department's energy forecasts. I agree however that it would be useful for our officials to prepare for us a report as a basis for the investment decisions we shall need to take. My officials have established a Working Group with the composition you suggested, and a first meeting has already taken place.

I am however concerned that the review by officials should not hold up necessary decisions. I know that this is not your intention, but I doubt if we can afford to wait, as you suggest, for officials' report until the New Year. I would certainly hope that as a result of the extensive work already done, we can take in the early Autumn decisions on coal investment extending at least to 1982/3. You will have also seen from my minute of 10 August to the Prime Minister that we need, as a matter of urgency, to strengthen the nuclear industry and that this requires a firm Government commitment to nuclear power.

Preliminary discussions with the CEGB lead me to believe that we could in September take decisions, with minimum financial risk, on a basic nuclear programme embracing some commitment to orders in earlier years together with a clear statement of the longer term need. We would



also need to be satisfied that the proposed coal investment and a minimum nuclear programme did not involve unacceptable financial risks. In practice I believe we could establish fairly quickly that the proposed investments were robust and entailed very little risk indeed. I hope therefore that we can reach decisions in these areas well before the New Year.

I suggest that we ask officials to complete their work as soon as possible. If they cannot let us have a full report by the Autumn an interim report could be requested which would cover the more immediate investment decisions. We will need in any case to give in the Autumn to the nationalised industries approvals for their investment programmes on the usual percentage basis.

You also mention that the Group should cover the future of the National Nuclear Corporation. I take it that you are referring here to the possible future load on the nuclear industry. The question of how best to reorganise the industry to meet the load is a quite separate subject which is also covered in my minute to the Prime Minister.

Energy Pricing

Work is, as you know, already in hand on energy pricing and medium term financial targets for the two industries for completion in Autumn. In parallel with this we need to study both the possibility of ending BGC's monopsony position and of a Gas Tax. The first in particular raises important considerations in relation to the development of our gas resources in the UKCS and these need to be properly evaluated in an overall energy context. I would prefer my Department to be in the lead on these aspects also although I am of course content that the Treasury should take the initiative in examining possible tax implications and also the application of extra revenue and associated questions of public presentation. We can leave the co-ordination of the work in these areas and the question of whether the results should be combined to officials.

It is also very much in my mind, as no doubt in yours, that the sooner we can clarify BGC's future trading and pricing arrangements, the sooner we can consider ways of attracting private capital into the Corporation.

Short Term Matters

I shall be letting colleagues know of our contingency plans for dealing with the possibility of serious oil shortages this winter and will be circulating a report during September.

You mentioned also the possibility of increasing Government take from the UKCS which we discussed briefly in Cabinet. I agree it might be useful for our officials to study this further and I may wish to contribute some suggestions on this front.

I shall also have some further thoughts to offer on petrol duty (I have already written to you on diesel duty) and on the interaction of fiscal measures and energy policy more generally, since while I realise that Treasury Ministers were under enormous time pressure in the



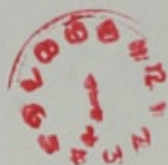
the run-up to the last Budget, I think we are all agreed that in more normal circumstances somewhat further consultation can only be to the benefit of Government policy overall.

I am copying this letter to the Prime Minister, the Foreign Secretary and the Secretaries of State for Scotland, Industry and the Environment, and to Sir John Hunt and Sir Kenneth Berrill.

D A R Howell

Yours
David

103 AUG 1919



in decline. Production of indigenous gas, which is a valuable resource and can only make a limited contribution to fully displacing oil, may begin a few years later. In the next decade of the century, the UK will be producing an increasing proportion of its oil and gas requirements, at a growing rate. There will be substantial indigenous sources of energy.



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH

MILLEBANK LONDON SW1P 4QJ

01 211 6402

Energy
NBPM at this stage
ms

The Rt Hon Partick Jenkin MP
Secretary of State for Health
and Social Security
Alexander Fleming House
Elephant & Castle
LONDON SE1 6BY

3 August 1979

Dear Partick

Thank you for your further letter of 26 July about problems which the Property Services Agency are having in securing contract cover for their various clients for oil supply over the coming annual contract period.

In the context of an overall forecast supply position of about the same volumes as were delivered last year, a shortfall in supply to PSA clients of 20 per cent is clearly unacceptable. This point has been registered in the Petroleum Industry Advisory Committee (PIAC), in which I meet all the major oil companies, and has been recognised by them.

In their negotiations this year, the PSA has encountered three basic problems.

The first of these is that some major companies, while they are offering supplies at the same allocation rates as apply to their other customers, are proposing changes in product mix and delivery points. This has been normal practice in the past; but this year, because new supplies are difficult to find, it is clearly essential that acceptable arrangements are arrived at within the context of PSA's negotiations with the particular company concerned. This point has been made to PIAC.

The second problem is that two companies who are PIAC members have so far declined to tender. The reason they give is that their particular supply positions are such that they must shed supply obligations where this can be done legally. I am putting pressure on both companies to improve their UK market positions, but cannot guarantee a better response to PSA in either case.

Finally, the current holders of some annual contracts are independent distributors, whose supply positions for the coming year are



particularly open to serious doubt and who may therefore be in no position to make firm offers to roll over the whole of the former contract.

I am not in a position to direct oil companies on their market commitments and clearly it is for PSA, like other buyers, to press negotiations on all fronts with the present suppliers: they have considerable potential muscle as a major buyer. I would expect most of the locational and product mix difficulties to be resolved in the course of such discussions. But I recognise that, at the end of the day, there may still be considerable gaps left and that time is getting short.

My officials have therefore agreed that PSA will let us know the complete position reached in negotiations up to 6 August. We will then take up with the industry the question of filling the remaining gaps in supply undertakings. We have told the PIAC companies what we expect of them in this respect; and, while there may still remain much to do, I have reasonable confidence that we shall be able to achieve a satisfactory position. In the longer term, I am sure you will be reviewing the experience of this year's supply difficulties and drawing the appropriate lessons about the premium which may be required, over the lowest price achievable at any particular point in the market, in order to achieve a proper balance between cost and security of supply.

I am copying this letter to our colleagues in Cabinet and to Sir John Hunt.

D A R HOWELL

Howell
David



CONFIDENTIAL



Energy *WBP*
MS

Foreign and Commonwealth Office
London SW1A 2AH

31 July 1979

Mr Gifford,

WORK ON ENERGY SUPPLIES

Thank you for sending Peter Carrington (who is away) a copy of your letter of 20 July to David Howell in which you suggested that additional work be put in hand on a number of energy related issues.

I agree that work along the lines you propose would be helpful. In view of the implications for our international obligations to the EEC and the IEA, I hope you will agree that FCO officials should be involved in the work on short term issues which you propose, specifically that related to contingency planning against serious oil shortage this winter. For similar reasons, and as there will be close interest in our performance by our industrialised partners, I would like my officials to be involved with the work proposed to review our medium and long term investment plans. I hope that we can be kept informed of progress, but not participate in the work on electricity and gas pricing.

I am sending copies of this letter to the recipients of yours.

Yours *✓*
lar.

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers

-1 AUG 1979



CONFIDENTIAL

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PP TOKYO

PP ROME

PP CANBERRA

PP WELLINGTON

GRS 538

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FM FCO 301730 JULY 79

TO PRIORITY TOKYO

TELEGRAM NUMBER 405 OF 30 JULY

REPEATED FOR INFO TO PRIORITY PARIS, BONN, ROME, WASHINGTON, OTTAWA, UKREP BRUSSELS, UKDEL OECD, DUBLIN, ALL OTHER EEC POSTS, OSLO, STOCKHOLM, CANBERRA, WELLINGTON

REPEATED FOR INFO SAVING TO BERNE, VIENNA, ATHENS, ANKARA, MADRID
YOUR TEL NO 411, TOKYO FOLLOW-UP: ENERGY

1. THE PROMISED LETTER FROM MIYAZAKI TO SIR JOHN JUNT, DATED 25 JULY, WAS RECEIVED FROM THE JAPANESE EMBASSY LAST WEEK AND SIR JOHN HUNT'S REPLY, DATED 30 JULY, HAS BEEN SENT TO THE JAPANESE EMBASSY HERE TODAY. THE TEXTS, FOR YOUR INFORMATION, WERE AS FOLLOWS:

DEAR SIR JOHN,

WE NOW HAVE BEHIND US A VERY SUCCESSFUL SUMMIT. THE RESULTS APPARENTLY WERE RECEIVED VERY WELL BY THE INTERNATIONAL COMMUNITY. I WISH TO THANK YOU WHOLE-HEARTEDLY FOR YOUR CO-OPERATION EXTENDED TO ME THROUGHOUT THE PREPARATORY STAGES TILL THE VERY LAST CLOSING MOMENTS.

AS I LOOK BACK AT THOSE HECTIC TWO DAYS, WHEN WE STRUGGLED UNTIL THE VERY LAST HOUR OVER THE ENERGY PART IN THE DECLARATION, THERE WAS NO OPPORTUNITY FOR US PERSONAL REPRESENTATIVES NOR FOR THE LEADERS THEMSELVES TO DISCUSS ABOUT CONCRETE PROCEDURES FOR THE FOLLOW-UP OF THE AGREEMENTS REACHED. I AM SURE THERE ARE VARIOUS VIEWS AND APPROACHES TO THIS QUESTION. ALREADY IN THE ENERGY FIELD, WE HAVE THE FRENCH SUGGESTION FOR A MEETING OF MINISTERS RESPONSIBLE FOR ENERGY MATTERS. WHILE JAPAN SUPPORTS THIS SUGGESTION IN PRINCIPLE, I BELIEVE IT NECESSARY FOR US TO BETTER DEFINE THE ROLES TO BE PLAYED BY SUCH A MEETING AND THE REVIEW MEETING OF HIGH OFFICIALS STIPULATED IN THE TOKYO DECLAR-

CONFIDENTIAL

4773 - 1

TION BEFORE WE PROCEED TO ACT ALONG THE LINES OF THIS SUGGESTION.

FURTHERMORE, ALTHOUGH NOT AS URGENT AS THE REVIEW OF AGREEMENTS IN THE ENERGY AREA, A REVIEW PROCESS IN NON-ENERGY FIELDS IS NONETHELESS IMPORTANT.

THUS I WOULD LIKE TO SUGGEST AN INFORMAL MEETING AMONG US PERSONAL REPRESENTATIVES IN EARLY SEPTEMBER, AND AT A MUTUALLY CONVENIENT VENUE, FOR SORTING OUT AND STREAMLINING OUR VIEWS ON THE FOLLOW-UP PROCEDURE.

I WOULD APPRECIATE YOUR EARLY RESPONSE ON THIS PROPOSAL FOR AN INFORMAL MEETING.

LOOKING FORWARD TO HEARING FROM YOU, AND WITH MY WARMEST PERSONAL REGARDS.

YOURS SINCERELY,
HIROMICHI MIYAZAKI

DEPUTY MINISTER FOR FOREIGN AFFAIRS

DEAR HIRO,

THANK YOU VERY MUCH FOR YOUR LETTER OF 25 JULY.

I AGREE THAN AN INFORMAL MEETING OF PERSONAL REPRESENTATIVES IN EARLY SEPTEMBER WOULD BE VALUABLE, AND ALSO THAT IT COULD USEFULLY DISCUSS THE GROUND TO BE COVERED BY A POSSIBLE SUBSEQUENT MEETING OF ENERGY MINISTERS AS SUGGESTED BY THE FRENCH. I AM GRATEFUL TO YOU FOR TAKING THIS INITIATIVE.

I UNDERSTAND FROM YOUR EMBASSY IN LONDON THAT YOU HAVE IN MIND 3 SEPTEMBER AS THE DATE AND PARIS AS THE VENUE. I REGRET THAT I AM DUE TO BE IN THE UNITED STATES THEN AND COULD NOT MANAGE ANY OTHER DAY THAT WEEK. HOWEVER JACK RAMPTON IS FREE AND COULD REPRESENT ME IF THAT IS ACCEPTABLE TO YOU. IF 3 SEPTEMBER IS NOT CONVENIENT TO OUR OTHER COLLEAGUES YOU MAY LIKE TO KNOW THAT I COULD MANAGE A MEETING IN PARIS ON ANY DAY IN THE FOLLOWING WEEK EXCEPT THURSDAY, 13 SEPTEMBER. BUT JACK RAMPTON KNOWS MY VIEWS AND I WOULD BE QUITE HAPPY FOR HIM TO REPRESENT ME ON 3 SEPTEMBER IF YOU DECIDE TO SETTLE ON THAT DATE.

WITH WARM PERSONAL REGARDS,

YOURS SINCERELY,
JOHN HUNT

CARRINGTON

FILES

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COPIES SENT TO
No. 11 DOWNING STREET

FILES

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PS/ SOFS FOR ENERGY

MR. D. JONES

PS/ SIR J. RAMPTON

MR BRETHERTON

} D/ ENERGY

PS/ SIR K. COUZENS TREASURY

PS/ SIR J. HUNT, CABINET OFFICE



DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1

26 July 1979

OIL SUPPLIES FOR HOSPITALS

Since you wrote to me on 10 July I have seen a copy of the letter which the Assistant Controller (Purchasing) of the Property Services Agency wrote on 13 July to Mr R J Priddle in your Department about the tenders for the supply of oil to the public sector, including NHS hospitals, from 1 September next.

I understand that the PSA have since succeeded in discussion with suppliers in reducing the shortfall to around 20 per cent, but this is still far from satisfactory. An overall deficit of 20 per cent would itself cause much hardship and embarrassment in the hospital service, but the appendices to the letter make it clear that a very large proportion of the burden would fall on the NHS so that the percentage reduction there would be much higher. Unless something is done quickly, therefore, this winter will see the rapid development of a catastrophic situation in the National Health Service.

I undertook in my letter to you of 26 June that the NHS would play its part in effecting good housekeeping measures so as to reduce its demand for oil, but there are no measures short of the complete and widespread closure of hospitals which could cope with the percentage shortfalls illustrated in the appendices to the PSA letter. In the light of what was said in Cabinet last Friday about the increased profits of oil companies, this would be completely indefensible.

I must press you in the strongest possible terms for action by whatever means are available to you to secure sufficient oil supplies for the next contract period.

I am copying this letter to Cabinet colleagues and Sir John Hunt.

Yours
Peter

Energy

NBPM at this stage

MS
30/vn

see Energy Unit (now)

226 JUL 1979



cc FLD
Energy Policy P+2

Energy 2
T49/79T

Subject filed as USA:
Carter Energy Policy July 79

Prime Minister

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T49/79T

23
7

Dear Prime Minister:

I very much appreciate your statement of
July 16 concerning my announcements on energy
policy. Your support is valued here, and is
very much in the spirit of the Tokyo Summit.

Sincerely,

/s/ Jimmy Carter

23.7.79

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

23 July 1979

Dear David

R2617

WORK ON ENERGY POLICIES

My Treasury colleagues and I recently discussed a number of issues in the energy field with major economic implications for our fiscal and monetary policies, and our external finance, with the object of seeing whether any further work needed to be commissioned. We came up with three proposals, on which I would welcome your views.

Supply in the Medium and Longer Term

Starting with the longer term, I suggest a review of our major plans on the supply side. These involve investment now to help meet demand in the rest of the century. The review would bring together nuclear development with the work you have already done on coal. (It would also cover the future of the National Nuclear Corporation and its operating arm in the Nuclear Power Company.)

Enormous costs are involved: two nuclear power stations or three years of coal investment are each roughly equivalent to the total cost to the UK of the Concorde programme; and just as vulnerable to miscalculation about the level of future demand. The aim would be for officials, led of course by the Department of Energy, to produce a basis for Ministerial decisions on the size and composition of our investment plans for coal and power stations, whether fossil-fueled or nuclear, and on other associated investment e.g. on nuclear fuel or technology for using coal.

The essence of the policy problem is uncertainty - increased by the possibility of lower economic growth in the world and the UK. Because of this and long lead times much energy investment amounts to taking out insurance policies. As well as defining policy options, officials should bring out both the premiums we are paying in the coal and nuclear fields and what we are getting for them, on various assumptions about the costs and availability of alternative fuels. Meanwhile I hope we can minimise firm decisions beyond 1980/81.

/I suggest

The Rt Hon David Howell MP



I suggest that officials from the Treasury, the CPRS and the Departments of Industry, Scotland and perhaps Environment would take part. I would hope the report could be ready early in the New Year.

Electricity and Gas Pricing in 1980-81 and Later Years

Proposals to move towards economic prices for electricity and domestic gas have been agreed in E(EA) and MISC(11) and credit has been taken for this in the public expenditure exercise. You have undertaken to provide a paper on energy pricing in the autumn. Work is also needed on the best way of presenting and channelling the extra revenue. This will be large but it will be presentationally helpful that the energy industries as a whole will need substantial external finance over at least the next two years, particularly if R & D is taken into account. The future position depends partly on whether the Gas Corporation has to meet the cost of a gas gathering pipeline in the years 1981-82 to 1984-85. But we do not need to prejudge that issue now; and I certainly do not think we should be led into unnecessary public expenditure as a by-product of economic pricing. The real increase in energy prices will of course be criticised but can be defended not only on energy policy grounds but because, given our monetary and fiscal objectives, it will enable other prices or taxes to be lower than they otherwise would be. There should therefore be no net effect on overall living standards and little or no effect on the general price level.

You and the Secretary of State for Scotland will no doubt wish to set medium-term financial targets for the electricity and gas corporations. But we also need to consider either charging the Gas Corporation a rental for its monopolistic access to North Sea gas fields or the alternative you have in mind. As I understand it this would mean allowing the producers of North Sea gas to renegotiate contracts so that the Gas Corporation pays higher prices but at the same time to raise more tax from the producers. I suspect that under this arrangement some of the economic rent which would otherwise come to the Exchequer would leak away to the oil companies. However both these possibilities ought to be examined. Because of the important tax aspects I suggest that this work should be led by the Treasury with representatives from the Departments of Energy, Scotland, CPRS and the Revenue. I hope a report could be ready by the autumn. (It could either be taken at the same time as the paper on energy pricing or combined with it: we could leave it to officials to do whatever is convenient.)

/Short-Term

Short-Term Matters

Finally, turning to the short term we must recognise the risk that an incident could create a serious oil shortage this winter. The seriousness of the potential damage to productive industry and the economy generally does not need stressing. In such circumstances we should, no doubt, feel obliged to use the Energy Act to implement such measures as those listed in Annex B to MISC 9(79)3, the recent report by officials on fuel supplies. I suggest that it would be useful if you could circulate to the Ministers most closely concerned a report on the state of readiness of our contingency plans - to call attention in particular to those options for which appreciable notice would be required before action could be taken and how far reasonable priority of supplies could be ensured for industry and agriculture. I should also like to suggest that the feasibility and economics of a rapid increase in supplies in a crisis should be considered during the current review of North Sea depletion policy.

Incidentally, at yesterday's Cabinet the possibility of increasing our share of the total "take" from the UK continental shelf was raised. We are as you know already studying the possibility of accelerating the receipt of PRT take in 1980-81. I would of course be willing to examine any other ideas which you or colleagues may have for maximising our UKCS revenues without adversely affecting the development of the UKCS.

I am sending copies of this minute to the Prime Minister, the Foreign Secretary and the Secretaries of State for Scotland, Industry and the Environment, and to Sir John Hunt and Sir Kenneth Berrill.

A handwritten signature in dark ink, appearing to be "G. Howe", written over a horizontal line.

GEOFFREY HOWE



7 5 JUL 1979

CONFIDENTIAL

CONFIDENTIAL

FM FCO 201611Z JUL 79

TO PRIORITY TOKYO

TEL 395 OF 20 JULY

AND TO PRIORITY PARIS, BONN, ROME, WASHINGTON, OTTAWA,
UKREP BRUSSELS, UKDEL OECD, DUBLIN, ALL OTHER EEC POSTS,
OSLO, STOCKHOLM, BERNE, VIENNA, ATHENS, ANKARA, MADRID,
CANBERRA, WELLINGTON.

YOUR TELNO 401: TOKYO SUMMIT FOLLOW-UP

1. THE SECRETARY OF STATE FOR ENERGY DULY MET MR ESAKI,
JAPANESE MINISTER FOR INTERNATIONAL TRADE AND INDUSTRY,
20 JULY.
2. ON THE FOLLOW-UP TO THE TOKYO SUMMIT, ESAKI ASKED FOR
UK VIEWS ON THE FRENCH PROPOSAL FOR A MEETING OF ENERGY
MINISTERS THIS MONTH, PARTICULARLY IN VIEW OF THE IMPLICATIONS
FOR THIS WORK OF THE IEA. THERE WAS ALSO THE QUESTION OF
WHICH COUNTRY SHOULD CHAIR THE MEETING.
3. MR HOWELL EXPLAINED OUR REASONS FOR BELIEVING THAT A
MEETING THIS MONTH WOULD BE PREMATURE, AND OUR CONCERN THAT
THE IEA SHOULD NOT BE UNDERMINED. HE HAD SPOKEN TO DR SCHLESINGER,
WHO WAS OF THE SAME VIEW. ON THE QUESTION OF CHAIRMANSHIP
WE FELT IT WOULD BE RIGHT FOR THE JAPANESE TO TAKE THIS ON. !!
(MR HOWELL RESISTED A SUGGESTION THAT THE UK SHOULD BE IN THE
CHAIR, ON THE PRECEDENT OF THE IEA MINISTERIAL MEETING IN MAY.
HE AGREED HOWEVER THAT THE MEETING NEED NOT BE IN TOKYO, AND
MIGHT MORE CONVENIENTLY BE HELD IN PARIS OR LONDON).
4. ESAKI SAID THAT THE JAPANESE BASICALLY SHARED OUR VIEW
OF THE FRENCH PROPOSAL. THERE WAS MUCH MORE WORK TO BE DONE ON
THE IMPLEMENTATION OF THE TOKYO TARGETS AND THE MEETING CERTAINLY
SHOULD NOT TAKE PLACE BEFORE SEPTEMBER. (ESAKI APPEARED RECEPTIVE
TO FURTHER ARGUMENT TO THE EFFECT THAT A MEETING IN MID-OCTOBER
WOULD PROVIDE MORE TIME FOR PREPARATION AND FOR CO-ORDINATION IN
THE EEC AND THE IEA). IT WAS IMPORTANT NOT TO CAUSE RESENTMENT
IN THE NON-SUMMIT IEA AND EEC COUNTRIES. IT WAS ALSO IMPORTANT
FOR THE IEA SECRETARIAT TO CONTINUE TO MAKE A CONTRIBUTION, AS
IT HAD DONE IN THE PREPARATIONS FOR THE TOKYO SUMMIT. THE TWO
COUNTRIES SHOULD CONTINUE TO KEEP IN CLOSE TOUCH ABOUT THE
DEVELOPMENT OF THEIR THINKING.

CARDINGTON

FILES

ESSD

FRD

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ECON.D

EID

WED

NEWS.D

PS

PS/LPS

PS/MR ADLEY

PS/PVS

SIR A DUFF

MR BUTLER

MISS BROWN

MR FRATWELL

COPIES TO 1

PS/ SECRETARY OF STATE

MR JONES

MR BRATHURTON

PS/SIR JOHN HUNT

PS/ NO 10 DOWNING ST

DEPT
OF
ENERGY
CABINET
OFFICE

CONFIDENTIAL

Energy 2

HWH
23/7

1. Mr. Whitman

2. Prime Minister

2 Mr.

HWH
23/7

CONFIDENTIAL

80

CONFIDENTIAL

FM WASHINGTON 202102Z JUL 79

TO PRIORITY F C O

TELEGRAM NUMBER 2015 OF 20 JULY 1979

INFO PRIORITY UKDEL OECD, UKREP BRUSSELS, BONN, PARIS, ROME,
TOKYO, OTTAWA AND ROUTINE TO ALL OTHER EC POSTS.

OUR TELNO 1944: FOLLOW-UP TO TOKYO SUMMIT ON ENERGY

1. HENRY OWEN RANG ME THIS MORNING TO LET US KNOW HOW THE AMERICANS HAD REPLIED TO THE FRENCH PROPOSAL FOR A MEETING OF ENERGY MINISTERS OF THE SEVEN SUMMIT COUNTRIES IN LATE JULY. THE U.S. RESPONSE WAS THAT, THOUGH THEY SUPPORTED THE IDEA IN PRINCIPLE, THEY THOUGHT MID-SEPTEMBER WOULD BE A BETTER TIME.
2. OWEN ADDED THAT THE AMERICANS WOULD NOT WISH TO SEE THE MEETING DEFERRED MUCH BEYOND THAT.
3. FCO PLEASE ADVANCE TO NO. 10 DOWNING STREET.

HENDERSON

[COPIES SENT TO NO 10 DOWNING ST]

Files

ESVSD

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EID

WED

NEWS.D

OID

PS

PS/LPS

PS/MR RIDLEY

PS/PUS

SIR A DUFF

MR BUTLER

MISS BROWN

COPIES TO:

MR D LE B JONES

MR BRETHERTON

} DEPT
OF
ENERGY

CONFIDENTIAL



Mr. Cartledge 197 p.a.

Energy

I agree. I have the Foreign and Commonwealth Office
from Minister yesterday and the
from the Secretary of State
in July and
the in the
reminiscent.

London SW1A 2AH

16 July 1979

Mr. Whitmore.

NGEM at present?
17/7

Dear Bill,

Energy Policy: Message to the Foreign and Commonwealth
Secretary from M. Francois-Poncet

The French Ambassador called on the Foreign and Commonwealth Secretary this afternoon to deliver a message, a copy and translation of which I attach, from M. Francois-Poncet about the follow-up to the Tokyo Summit decisions on energy.

Lord Carrington told the Ambassador that his initial reaction to the message was to wonder whether the Community countries not represented at the Tokyo Summit, and indeed the other members of the IEA generally, might not be concerned by such an early convocation of a further ministerial meeting among the Tokyo participants. The role of the meeting as set out by M. Francois-Poncet seemed to go beyond the monitoring function envisaged at Tokyo and might be construed by the other members of the Nine as a deliberate institutionalisation of the economic summit forum. The member countries of the Community had not yet agreed among themselves on specific targets for oil imports and might well resent an attempt by the Seven to establish yet another new forum in the energy field before any follow-up in the Community to the Strasbourg and Tokyo meetings had taken place. M. Sauvagnargues replied that the meeting envisaged by M. Francois-Poncet would be within the framework of the decisions taken at Tokyo and that there was no disposition on the part of the French Government to shift priority in energy policy away from the Community. He recognised however that others of the Nine might not see things the same way.

FCO officials will be in touch with your Department about the preparation of a reply to M. Francois-Poncet's message in the light of the response which the Prime Minister makes to the message addressed to her by President Carter.

I am sending a copy of this letter to Bryan Cartledge (No 10) and Martin Vile (Cabinet Office).

Yours GEN

Paul

P Lever
Private Secretary

W J Burroughs Esq
Private Secretary to the Secretary
of State for Energy
Dept of Energy

Message de Monsieur Jean FRANCOIS-PONCET à Monsieur le
Secrétaire d'Etat au Foreign Office

"Mon cher Collègue,

La conférence au sommet de TOKYO a permis de définir les principaux éléments d'une stratégie globale destinée à répondre de manière concertée au grave problème de l'approvisionnement énergétique de l'économie mondiale. Les décisions prises manifestent notre volonté de contribuer à un meilleur équilibre du marché pétrolier par un plafonnement de nos importations et une surveillance des transactions.

Le retentissement des conclusions de la conférence au sommet de TOKYO a été considérable tant auprès des pays producteurs qu'à l'égard de nos opinions publiques. Mais il est d'une extrême importance que ces conclusions se traduisent rapidement dans les faits. Leur mise en oeuvre doit être méthodique et résolue.

Les Chefs d'Etat et de Gouvernement ont prévu qu'au sein de l'Organisation de Coopération et de Développement Economique, un groupe à haut niveau de représentants de nos pays et de la commission de la C.E.E. examinerait périodiquement les résultats obtenus en matière d'importations de

.../...

pétrole brut. Cette réunion ne doit bien entendu pas avoir comme seul rôle de constater ces résultats, mais doit contribuer à une meilleure concertation de nos efforts et à une adaptation des politiques mises en oeuvre en fonction de la situation internationale.

L'importance politique de cet examen et la nécessité de prendre sans délai les orientations nécessaires pour la mise en oeuvre des conclusions de TOKYO justifient aux yeux du gouvernement français que cette réunion puisse se tenir, en tant que de besoin, au niveau des ministres responsables de l'énergie. Les tensions accrues constatées ces jours derniers sur le marché pétrolier me paraissent imposer qu'une première réunion se tienne à ce niveau avant la fin du mois de juillet. Elle aurait pour objet d'établir un calendrier précis des mesures à prendre par chacun des participants et d'amorcer la réflexion sur certains sujets importants tels que la certification des prix des transactions sur le pétrole brut.

Je serais heureux de connaître les observations que vous suggèrent les considérations développées dans le présent message, dont je saisis, dans les mêmes termes,

.../...

nos collègues des autres pays ayant participé au sommet de TOKYO, ainsi que le Ministre des Affaires Etrangères de la République d'Irlande, en sa qualité de Président en exercice du Conseil des Communautés Européennes.

Je vous prie d'agréer, Mon cher Collègue,
l'assurance de ma haute considération."

Signé : Jean FRANCOIS-PONCET

Registry
No.

DRAFT translation

Type 1 +

SECURITY CLASSIFICATION

Top Secret.
Secret.
Confidential.
Restricted.
Unclassified.

To: -

From

Telephone No. Ext.

Department

PRIVACY MARKING

..... In Confidence

MESSAGE FROM THE FRENCH FOREIGN MINISTER TO THE SECRETARY
OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

"My dear colleague,

The Tokyo Summit Conference ^{enabled} ~~allowed~~ us to define the main elements of a global strategy intended to respond in a concerted manner to the global problem of energy supply for the world economy. The decisions taken showed our will to contribute to a better balance of the world ^{oil} ~~market~~ by setting ceilings to our imports and by monitoring transactions.

The echo of the Tokyo Summit Conference conclusions has been considerable both in the producer countries and also with our own public opinions. But it is extremely important that these conclusions should be rapidly translated into facts. Their implementation must be methodical and resolute.

The Heads of State and Government foresaw that a high level group of representatives of our countries and of the EEC Commission, meeting within the OECD, should periodically examine the results obtained so far as imports of crude oil were concerned. Obviously this meeting must not simply have the role of noting the results achieved but must also contribute to a better concertation of our efforts and to an adaptation of the policies to be undertaken in the light of the international situation.

/The

The political importance of this examination and the need to lay down without delay guidelines necessary to implement the conclusions of the Tokyo meeting justify, in the eyes of the French Government, the holding of this meeting, as need requires, at the level of Ministers responsible for energy. The increased tightness noted in the last few days in the oil market seem to me to require a first meeting to be held at this level before the end of July. It would have as its object the establishment of a precise timetable ^{of the action} to be taken by each of the participants and to begin the reflection on certain important subjects such as the certification of prices of transactions in crude oil.

I would be happy to have any observations which might suggest themselves to you about the views developed in the present message which I have sent in similar terms to our colleagues in other countries which participated in the Tokyo Summit Conference, as well as to the Minister of Foreign Affairs of the Irish Republic in his quality as President of the Council of the European Communities."

Subject filed as
USA July 79: Pres.
Carter Energy Policy

CAB/WTE 001/16

IMMEDIATE

161850Z JULY 79

FM CABINET OFFICE
TO WHITE HOUSE

BT

UNCLAS

FOLLOWING IS MESSAGE FOR PRESIDENT CARTER, WHITE HOUSE FROM
PRIME MINISTER THATCHER. UNCLASSIFIED. 16 JULY 1979.
BEGINS:-

DEAR MR PRESIDENT,

THANK YOU VERY MUCH FOR YOUR LETTER OF 15 JULY GIVING ME
ADVANCE NOTICE OF YOUR STATEMENT ON US ENERGY POLICY.

IF I MAY SAY SO, I FIND THE SCALE OF THE PROGRAMME, WITH ITS
IMMEDIATE COMMITMENT TO REDUCING US OIL IMPORTS FOR 1979 AND 1980
TO BELOW THE TOKYO LEVELS AND ITS LONGER TERM OBJECTIVE OF REDUCING
US IMPORTS BY 4.5 MILLION BARRELS PER DAY BY 1990, IMPRESSIVE,
AND COURAGEOUS. THIS IS PARTICULARLY SO WHEN ACCOUNT IS TAKEN OF
YOUR EARLIER DECISION ANNOUNCED IN APRIL TO MOVE TOWARDS DECONTROL
OF DOMESTIC OIL PRICES BY SEPTEMBER 1984. I SHALL CERTAINLY BE
TAKING AN EARLY OPPORTUNITY TO EXPRESS PUBLICLY MY ADMIRATION
FOR YOUR EFFORTS, WHICH SHOULD HAVE A MAJOR IMPACT ON THE OIL
SUPPLY PROBLEMS WHICH WE FACE, BOTH NOW AND IN THE YEARS TO COME.

ON THE QUESTION OF THE FOLLOW-UP TO TOKYO, I AGREE WITH YOU
THAT A MEETING OF ENERGY MINISTERS TO REVIEW THE ACHIEVEMENT OF
THE GOALS WE SET OURSELVES COULD USEFULLY BE ARRANGED. I ALSO
AGREE THAT THE ENERGY MINISTERS SHOULD DISCUSS THE TIMING AND
ROLE OF THE MEETING IN RELATION TO WHAT IS GOING ON IN THE EEC
AND THE IEA.

YOURS SINCERELY

MARGARET THATCHER

BT

NNNN

SENT AT 16/1919Z DAB

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T45B 79T

Subject filed on USA: July 79
Pres. Carter Energy Policy

July 15, 1979

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T45/79T

Dear Margaret:

I am writing to inform you in confidence of what I will say to the American people on Sunday evening about steps to fulfill the commitments I joined you in making at Tokyo.

I will set goals substantially more ambitious than the commitments made at the economic summit. The major theme of my speech will be that the US is now at a point at which it requires an unparalleled peacetime investment of money, natural resources, and hard work to achieve two goals:

First, the US must never again import more oil than it did in 1977. (This is the same constraint as the 1979 US import ceiling adopted at Tokyo.) Whatever energy requirements the US has above this level must come from US conservation and resources, not from OPEC or other foreign oil producers.

Second, by 1990, the US must cut the amount of oil it now imports in half. Our goal is to import no more than 4 million barrels per day by 1990.

To meet these twin goals, the US must take a number of major actions:

The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister
10 Downing Street
London, SW1

I will set oil import quotas both for 1979 and 1980. These quotas will restrain net US imports of crude oil and oil products to levels below those I pledged at the Tokyo Economic Summit. While that is all I will say on this point in the speech, you may wish to know that the US will be 300,000 barrels per day below the Tokyo pledge in 1979. I will aim to repeat this performance in 1980, but cannot make a firm commitment as to how far we will be below the Tokyo pledge in that year until we come closer to 1980 and can appraise our economic situation with greater accuracy and confidence. While I have not yet decided on the means of allocating these quotas, my advisers favor the auction route.

I will propose to the American people that the US launch a new program to invest over \$100 billion in the development of substitutes for imported oil. The programs I am proposing are designed to reduce overall imports by 4.5 million barrels per day by 1990. As part of this program, I will call for the establishment of an independent energy security corporation mandated to produce by 1980 the equivalent of up to 2.5 million barrels per day of synthetic fuels from coal and biomass, oil shale, and unconventional gas by 1990. I will call upon the US Congress to provide this corporation with broad authority, similar to that given the synthetic rubber corporation during World War II.

-- I am administratively implementing new incentives for the production of US heavy oil reserves, with a goal of producing 500,000 barrels per day by 1990.

-- I will ask Congress for authority to order American electrical utilities to cut their current use of oil by 50 percent by 1990, asking them to turn to coal, nuclear power, and solar energy as it becomes available.

-- I will ask the US Congress to cooperate with me in creating an Energy Mobilization Board, equipped with authority to cut through bureaucratic red tape and other administrative barriers so that energy actions needed to reduce imports can be taken expeditiously.

-- I will call upon the American people to make every effort to decrease their reliance upon the automobile as a mode of transportation. To this end, I will ask Congress to appropriate an additional \$16 billion over the next decade to improve the American public transportation system and automobile efficiency.

-- I will announce a major mandatory energy conservation program for both owner-occupied housing and apartment buildings, financed in part by US utilities and in part by the Government. We expect 500,000 barrels per day savings from this program.

This broad-scale import reduction program will be financed by revenues from the windfall profits tax which I proposed to Congress and which has now passed the House of Representatives.

These policies are intended to reduce US dependence on imported crude oil. It is my hope that they will serve to stabilize the international oil market and currency markets, on which all our economies depend.

If these policies commend themselves to you, I hope that you will find an early occasion to say so publicly. The initial international reaction will be important in achieving the intended impact on the public around the world and on the calculations of energy producers and consumers.

I know that you are as determined as I am to ensure effective follow-up on our Tokyo agreements. This will not be achieved unless specific new measures are undertaken by each of the Summit countries to this end. I welcome the French suggestion for a meeting of Energy Ministers to review the contributions that each of us will be making; our Ministers can concert about the timing of this meeting. Only an effort involving all our countries can accomplish the desired result.

Sincerely,

Jimmy Carter

Greggy Policy
CONFIDENTIAL

*Subject copy : United Nations
Visit of Sec-General*

Extract from the

NOTE OF THE PRIME MINISTER'S DISCUSSION WITH THE UNITED NATIONS
SECRETARY GENERAL, DR. KURT WALDHEIM, AT 10 DOWNING STREET, ON
THURSDAY 12 JULY 1979 AT 1700 HOURS

Present:

The Prime Minister

The Foreign and Commonwealth
Secretary

Sir Anthony Parsons

Mr. B.G. Cartledge

Dr. Kurt Waldheim

Mr. Brian Urquhart (Under-Secretary
General for Special Political
Affairs)

Mr. W.B. Buffum (Under-Secretary
General for Political and General
Assembly Affairs)

Mr. A. Rohan (Deputy Executive
Assistant to the Secretary General)

* * * * *

Tokyo Economic Summit

Dr. Waldheim asked the Prime Minister if she had derived any encouragement from the Economic Summit Meeting in Tokyo. The Prime Minister said that the meeting had simply re-affirmed the basic truth that if demand and supply were out of balance the price mechanism had to be adjusted so that balance could be restored. The European participants had already agreed that the demand for oil had to be depressed, but that this could not be done by Europe alone. It was agreed at Tokyo that if it could be demonstrated to Saudi Arabia that, by depressing demand, the shortfall in the supply of oil to the West was only, say, 5 per cent, Saudi Arabia might agree to increase her output sufficiently to fill that gap. As Sheikh Khalifa had told her in Bahrain on her way back to London, the Arabs had no desire to hurt the West since this hurt their own interests as well.

Lord Carrington commented that all the Tokyo participants had chosen the base line for their restriction of demand which happened to suit them best.

The Prime Minister went on to say that most economic problems had their origin in political problems. The Middle East was a prime example of this: the first great oil shortage had sprung from the conflict between Israel and Egypt and the new shortage had resulted from the internal political problems of Iran. A major success in Tokyo had been agreement on the importance of developing new sources of energy supply, especially nuclear power. There had also been agreement on the need to improve communication with the OPEC countries and to make them feel that they were being included in the political dialogue. In the last resort, however, the problem of oil could only be solved through a solution to the political problems of the Middle East. The West was at present witnessing the creation by the Soviet Union of a belt of instability across Africa and Asia. A settlement which could restore stability to the Middle East would be a great prize.

Middle East

/ Lord Carrington



10 DOWNING STREET

THE PRIME MINISTER

12 July 1979

Dear Peter,

Thank you for your letter of 4 July about oil prices.

I entirely agree with you about the desirability of avoiding sudden swings in the oil market. I am sure that orderly development of the oil market is in the long term interests of both producers and consumers. As you say, I think many of the oil producers recognise this. Gradual changes would clearly have been preferable to the sharp price rises we have seen this year.

I am more doubtful however about your ideas for trying to reach agreement with oil producers about linking oil prices to an index of the prices of manufactured goods. I believe that OPEC countries have considered ideas of this kind in the past, but decided against it. I doubt whether it is a development we would want to encourage. It could lead to undesirable pressures to index other commodity prices and to a vicious circle of inflation between oil producing and consuming countries. It would give rise to tensions in the oil market as the index-linked price diverged from the market price; and in practice I would not expect any such arrangement to hold in the face of major developments affecting the oil market. I very much doubt whether it could have prevented the sharp upward movement in the oil price this year in the wake of the Iranian revolution - and I

don't see any other way.

/I do,

Original
in G/R.

DN

Press Office

Energy

I do, however, certainly agree that constructive discussions between oil producers and consumers on oil problems could be helpful; and that we should do all we can to improve the producers' understanding of the damage that sudden and sharp changes in the oil price do to the economies of developed and developing countries alike. The Tokyo Summit Communique declared our willingness to examine with oil exporting countries how to define supply and demand prospects on the world oil market.

Y. L. L.

Raymond
—

Peter Tapsell, Esq., M.P.

to



Foreign and Commonwealth Office

London SW1A 2AH

10 July 1979

*and Prime Minister**for information.**Jean David*Tokyo Summit Follow-Up: Energy*Shi
1971**[initials]*

Thank you for your letter of 6 July. I agree that we should resist French attempts to bounce us into early convening, perhaps at ministerial level, of the OECD group to monitor oil import ceilings.

We should pursue the work of convening such a group at a deliberate pace and in a low key if we are to avoid upsetting those of our EEC and IEA partners who were not present at Tokyo, and undermining the work of these two organisations.

I have sent the attached telegram to our posts in summit countries reflecting our views on this subject.

I am copying this to recipients of yours.

(CARRINGTON)

The Rt Hon David Howell MP



10 JUL 19

CONFIDENTIAL

CONFIDENTIAL

FM F.C.O. 091043Z JULY 79

TO IMMEDIATE UKDEL OECD

TELEGRAM NUMBER 28 OF 9 JULY

AND TO IMMEDIATE PARIS, BONN, ROME, TOKYO, WASHINGTON, OTTAWA,
UKREP BRUSSELS,INFO PRIORITY OTHER EEC POSTS AND CANBERRA, VIENNA, MADRID,
STOCKHOLM, BERNE, ANKARA, OSLO, WELLINGTON AND ATHENS.

YOUR TELNO 72: TOKYO SUMMIT FOLLOW-UP: ENERGY

1. WE ARE NOT CONVINCED OF THE DESIRABILITY EITHER OF AN
EARLY MEETING OF THE OECD GROUP CALLED FOR BY THE TOKYO SUMMIT
TO MONITOR PROGRESS ON IMPORT CEILINGS FOR OIL OR OF SUCH A GROUP
MEETING AT MINISTERIAL LEVEL, AS WE BELIEVE THE FRENCH ARE ALSO
LIKELY TO PROPOSE.
2. AS FOR TIMING IT SEEMS TO US TO MAKE NO SENSE TO CONVENE A
MEETING WHEN THE IMPORT CEILINGS TO BE MONITORED HAVE NOT YET
STARTED TO OPERATE AND WHEN THE MAJORITY OF COMMUNITY COUNTRIES
HAVE NOT YET EVEN SET THEM. THE TARGETS SET FOR 1979, RESPECTIVELY
BY THE IEA AND THE EEC, ARE ALREADY BEING MONITORED BY THOSE
ORGANISATIONS AND IT WOULD BE WRONG TO TRY TO TRANSFER THAT
MONITORING TO THE NEW GROUP OR TO DUPLICATE IT.
3. AS TO LEVEL WE DO NOT TOTALLY EXCLUDE THE IDEA OF A MINISTERIAL
MEETING AT SOME STAGE TO REVIEW PERFORMANCE TOWARDS IMPLEMENTING
THE TOKYO SUMMIT COMMITMENTS BUT WE CERTAINLY DO NOT THINK
THERE IS A CASE FOR ONE NOW. WE ALSO WISH TO AVOID MOVES THAT
COULD FURTHER INSTITUTIONALISE THE SUMMIT FRAMEWORK AND WHICH
WOULD BE LIKELY TO UNDERMINE THE EFFECTIVENESS OF EXISTING
ORGANISATIONS (THE EEC AND THE IEA) WHICH ARE ALREADY HANDLING
THESE PROBLEMS.

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/ 4. WE

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4. WE THEREFORE HAVE A STRONG PREFERENCE FOR HANDLING THE TOKYO REMIT TO SET UP AN OECD MONITORING GROUP AT A DELIBERATE PACE AND IN A LOW KEY. WE WOULD LIKE CAREFUL CONSIDERATION TO BE GIVEN WITHIN THE OECD FRAMEWORK TO MEMBERSHIP OF THE GROUP, WHERE OUR INITIAL PREFERENCE WOULD BE FOR OPEN-ENDED MEMBERSHIP AVAILABLE TO ANY OECD MEMBER PREPARED TO SET IMPORT CEILINGS FOR OIL UP TO 1985 ON AN ANALOGOUS BASIS TO THE SUMMIT COUNTRIES. AS TO THE SECRETARIAT TO SERVICE THE GROUP, WE WOULD WISH TO SEE THE IEA PROVIDING THIS, THOUGH SOME OECD LABELLING MAY BE NEEDED TO ACCOMMODATE THE FRENCH.

5. POSTS TO WHOM THIS TELEGRAM IS ADDRESSED SHOULD TAKE AN EARLY OPPORTUNITY TO DISCUSS THIS AND REPORT THE REACTIONS OF THEIR GOVERNMENTS. POSTS TO WHOM THE TELEGRAM IS COPIED FOR INFORMATION MAY DRAW ON IT IF THE SUBJECT IS RAISED WITH THEM.

CARRINGTON

FILES:

ESSD
FRD
TRED
ECON D
EID
WED
NEWS D
PS
PS/MR RIDLEY
PS/PUS
SIR A. DUFF
MR BUTLER
MISS BROWN

COPIES TO:

MR D. LE B JONES)
MR BRETHERTON) D/ENERGY



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01-211 6402

CONFIDENTIAL

6 July 1979.

The Rt Hon Lord Carrington, KCMG, MC,
Secretary of State for Foreign and
Commonwealth Affairs,
Foreign and Commonwealth Office,
London SW1.

Dea Peter

Noting you.
SM
9/7

FOLLOW UP TO THE TOKYO SUMMIT ON ENERGY

Count Lambsdorff telephoned me on 3 July. He expressed his appreciation for UK support at Tokyo for the free market economy approach to managing oil supplies. He added that President Giscard d'Estaing had telephoned Chancellor Schmidt to seek support for his suggestion that there should be review meetings in the late summer and the autumn by the Energy Ministers of the seven Tokyo Summit countries of the progress towards meeting the targets that had been set by the Summit. Schmidt's response had basically been to accept this proposal providing that it did not create a special club outside the OECD and EEC. He thought it was important not to institutionalise the Tokyo Summit, but he had no objection to reviewing its results on a regular basis. I agreed generally with this line but said I would want to discuss the matter with colleagues.

I think that like the Germans we should approach this French proposal with caution. A meeting of the high level group set up at Tokyo to monitor progress on import targets in the early autumn would be premature. There will be no progress to review - the Community will not even have broken down their target by countries. Moreover - although we need not decide this now - it may suit us better for the monitoring to be undertaken by senior officials rather than Ministers. The French may intend a wider role for the group. That would raise public expectation in a way which could not be fulfilled. It would tend to institutionalise the Summit - particularly undesirable in this case as it will now be in our interest to get the non-Summit Community and IEA countries to accept individual import targets and that may involve adding them to the monitoring group. And a new group at Ministerial level would cut across the EEC and OECD and undermine the IEA.

Contd/...

CONFIDENTIAL

-2-

I would propose if you agree to use the above points as appropriate in further international discussion and in general to try and play this very slowly.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe and Sir John Hunt.

D.A.R. Howell.

Howell



- 6 JUL 1979

1.

PRIME MINISTER

Monsieur Wahl of President Giscard's office rang me yesterday to say that the President's eye had been caught by a weekend newspaper report that the Chairman of BNOC had announced that the Corporation were raising the price of North Sea oil to \$23 a barrel. M. Wahl said that, in view of what the Tokyo Summit had said about the OPEC decisions on oil prices in its recent Communiqué, the President was surprised at both the substance and timing of Lord Kearton's statement.

We have found on checking that Lord Kearton did say that BNOC would probably sell at around \$23 a barrel. BNOC take the line that their policy has always been to follow the market. Their crude is high quality which, like Nigerian and Algerian crude, attracts a significant premium. BNOC need to charge the market price since it has very high capital expenditure, and it has to buy back imported crude for refining in the UK.

The French are clearly trying to score a point. The fact is that although, as you said in your opening statement at the Summit, our interests are closely identified with those of the consumer countries, we are also a producer and this means that our interests will not always be absolutely the same as those of a country like France. On the other hand, the fact that we are a producer is going to give our partners in the Community a measure of headroom in reaching the Tokyo targets for oil imports which they would not otherwise have. It seems to me that the French should not be allowed to have it both ways.

We need to decide what to do about M. Wahl's call. I could take it no further and simply not call him back: from what he said when I told him that I would make

/ enquiries

enquiries about the newspaper report, I do not think that he would be surprised if he does not hear from me. Or I could telephone him to explain, on the lines of paragraph 2 above, why BNOC have done what they have done. This would show that we had at least taken the President's enquiry seriously, and it would be the courteous thing to do. I am inclined to suggest the latter course. I think we should explain our position firmly to the French, taking the line that this is the kind of exchange to be encouraged because it is a quick and convenient way of clearing up misunderstandings which might otherwise cause problems later.

Do you agree?

Yes.

We also said that oil prices must rise to world parity or order to that effect, - please check. If we don't do that the oil will be purchased at the reduced price & others will then match and.

4 July 1979

Spoke to Wahl as above.

Yes.

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Tap copy - USA, May 1979
(UK / USA Relation) 1.

P. 2
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TRANSCRIPT OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER
AND THE PRESIDENT OF THE UNITED STATES OF AMERICA ON TUESDAY 4 JULY 1979

Prime Minister: Hello, how are you?

President Carter: Just great. I hope you got home safely.

Prime Minister: Yes, very safely, to a lot to do.

President Carter: And did you have a good trip?

PRIME MINISTER'S

PERSONAL MESSAGE

Prime Minister: Very good, no trouble.

SERIAL No. T 38 / 79 T

President Carter: That's good. Were you pleased with the outcome of the Summit?

Prime Minister: Yes, I was, but I was a bit appalled at the way in which we got through it. You know I was a bit disillusioned with summitry.....

President Carter personally be involved a little more in the preparation next time the last few days, because we really wasted half a day or maybe a day. There are three things I would like to discuss with you just to kind of summarise what we discussed privately. We're on an open line so I'll be

Prime Minister:..... you'll be circumspect.

President Carter: I hope that you can expedite getting me your advice after the visit to Rhodesia because Muzorewa's coming over here shortly and I need to have your

Prime Minister: Yes, indeed, I will see to that immediately.

President Carter: OK. Secondly, at the four-party breakfast we discussed the OPEC situation and I need to have some mechanism by which you and I can exchange ideas in a highly confidential way on it, just so you can let me have them - just the mechanism; you might give me your thoughts in a despatch then I'll respond.

/Prime Minister

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Prime Minister: Right, yes. That shall be done. I think we thought we would only talk to one other person about it. Mine will be Peter Carrington.

President Carter: Can you repeat that please?

Prime Minister: We thought that we'd each of us only talk to one other person in our own. Mine will be Peter Carrington.....

President Carter: I will discuss it with and I presume Lord Carrington with you?

Prime Minister: Yes, that's right.

President Carter: Well, then suppose I let Vance contact Carrington, Lord Carrington.

Prime Minister: Yes. Peter's not yet back because he went to Hong Kong, Delhi and Iraq and he will be returning tomorrow.

President Carter: Well Vance is still in Bali so he'll be a few days. We'll use that mechanism.

Prime Minister: Yes, we will.

President Carter: Thirdly, are you going to send someone out here to exchange letters on the security thing?

Prime Minister: The letter was signed; the person should have exchanged them. If not, I will send someone over. We'll attend to that immediately.

President Carter: OK, well I'll get the letter signed and get it worked out with you through our Foreign Ministers.

Prime Minister: Yes, all right.

President Carter: One other point that I'd like to talk to you briefly about. I've been asked by Senator Kennedy and Chip O'Neill to talk to you briefly about the Northern Ireland question, so that we don't

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/have

have another

Prime Minister:..... problem, yes.

President Carter:...altercation as we did with Speaker O'Neill and Vance. Do you have, I know in the campaign both you and Jim avoided that issue.

Prime Minister: We wouldn't have it as a Party issue at all. We'd have been wrong to have had it as a Party issue.

President Carter: Do you have any analysis that's been done within your own Party or Government that you might send to me that I could read over just to describe both the present situation and any prospects for the future.

Prime Minister: I will get one prepared and have it sent over. As a matter of fact my next appointment is with Humphrey Atkins, our Secretary of State for Northern Ireland, so that can be done.

President Carter: I don't have any background knowledge about it and just hearing directly from you about the present situation and prospects for the future would help to guide me..... any restraints on it otherwise I would like to share it confidentially with Senator Kennedy and O'Neill.

Prime Minister: Yes, I'll remember than when drafting it. Anything that's confidential to you I will put separately.

President Carter: Good. Well, right, thank you very much. I hope you have time to get some rest.

Prime Minister: It's not allowed to politicians. But it was very interesting I thought. Well, thank you very much for 'phoning. Best wishes. Goodbye.

President Carter: Goodbye *SM.*

PRIME MINISTER

STATEMENTS IN THE HOUSE: MONDAY 2 JULY

amb

This afternoon Mr. Howell answered a Private Notice Question about petrol prices and distribution and Sir Keith Joseph made a Statement about the postal situation.

Dr. Owen attacked Mr. Howell for allowing petrol prices to rise, despite the 2-5 weeks it takes for oil to reach us from exporting countries. He said that Mr. Howell should take powers under the Energy Act to hold all petrol prices down or use his powers under the Price Commission Act to take an overall look at pricing policy of all petroleum products. He said that Mr. du Cann had written to Mr. Howell asking for a State of Emergency, and had been refused.

Mr. Howell said that oil prices had been rising very rapidly in recent months. The OPEC meeting in Geneva had merely consolidated and confirmed rises that had already happened. He said that he had never disguised that there would be more cost increases and that if we went back to price controls we would simply recreate the shortages the Government had found when they took office.

He said that examples of individual profiteering, if they existed, could be referred to the Secretary of State for Trade. In his view, the best answer to local shortages was to get more supplies into the difficult areas, which was already being done successfully by the oil industry in consultation with his Department.

The main point he stressed was that our market prices had to reach world levels if we were to ensure an equilibrium between supply and demand.

Mr. Enoch Powell said that the Tokyo Agreement to limit imports would, by the same argument, simply increase scarcity and therefore prices. Mr. Howell said that the House should await your report on Tokyo, but the Agreement would provide a smoother transition to a new equilibrium between supply and demand.

/ Mr. Benn

Mr. Benn asked whether the Secretary of State insisted that the oil companies consulted him before putting their prices up. He asked how anyone could shop around when there was no petrol at all in an area.

Mr. Howell said that his Department was working with the Petroleum Industry Association to see that more supplies went to the worst affected areas. He claimed that this process had worked on a selective and effective basis, and was greatly preferable to a system of general priorities or rationing.

In answer to other questions, Mr. Howell said that no emergency services were being allowed to be at risk; that all oil users had to find economies as we move into a permanent era of high cost energy; that the price and supply arrangements the Government had inherited had been totally unsatisfactory and that - in a phrase which may be quoted back at you - as the Government had allowed the price to go back to world levels the oil companies had been able to rejig their contracts to suit British consumers better; and that he rejected accusations of complacency which were being made simply because he had not adopted some of the wilder and more hysterical suggestions from the Opposition.

On supplies to South Africa, Mr. Howell said that oil had been going to South Africa under the aegis of BP under the Labour Government. The BP/Conoco deal was not a significant change. He appealed to Labour Members not to exaggerate what was going on, for fear that it would affect our trading interests across Africa as a whole.

On the whole, Mr. Howell carried the day rather more successfully than he has done in the past. The Opposition were not convinced, but he was more relaxed and more in command of the House than sometimes he has been. I am in no doubt that this theme will be raised again tomorrow.

(NJS)

2/7

/ Postal Service

Dr Owen M.P. To ask the Secretary of State for Energy if he will make a statement on the increase in the price of petroleum products and their distribution.

Further increases in the price of petroleum products must inevitably flow from the decision of the OPEC producers last week to increase crude oil prices; and I understand one major company operating in the UK market has increased its product prices from today, partly in response to the upward movement of crude oil prices over the preceding weeks and partly in response to the latest OPEC decision. I regret the increases that were, and are, bound to come, but the UK consumer cannot be shielded from their effects without endangering supply.

As for distribution, action taken by the Government should contribute to improved supply in the third quarter of the year, though I know that particular difficulties remain in some areas especially, though not exclusively, for farmers and rural communities.

The UK Petroleum Industry Association has undertaken to handle the requirements of customers with problems in times of crisis as flexibly and swiftly as supply constraints allow, particularly where the harvest and the weather impose sharp seasonal increases in agricultural fuel needs.

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Original Recd a
Bahrain June 79
UK/Bahraini relations



10 DOWNING STREET

From the Private Secretary

2 July 1979

cc Marker set
cc Middle East Situation
cc Energy Policy Pt 2

Dear Paul,

Prime Minister's Meeting with the Prime Minister of Bahrain
Sheikh Khalifa, at Bahrain Airport
on 2 July 1979

The Prime Minister's aircraft made a refuelling stop at Bahrain Airport at 0930 (local time) this morning and the Prime Minister of Bahrain, Sheikh Khalifa, came to the airport to meet her (interrupting, in order to do so, a meeting with Colonel Qaddafi of Libya). The following is a summary of the main points which arose during half an hour's discussion in the airport lounge, at which H.M. Ambassador was also present. Audibility was poor and Mr. Walker may wish to supplement this account if he finds significant gaps in it.

Arab/Israel

Sheikh Khalifa said that the recent declaration on the Middle East by the E.E.C. had been helpful. It was essential to safeguard the rights of the Palestinians and to give them a homeland. Nothing would be achieved in the negotiations on the future of the West Bank unless the Palestinians, who were becoming desperate, were allowed to take part in them. Commenting on the Camp David agreements, Sheikh Khalifa said that they had so far failed to produce any concrete results. Although they had been intended to mark the first steps towards peace, the only outcome so far had been the isolation of Egypt from her close friends. The Arab world could not afford to wait two or three years for more substantial results.

The Prime Minister gave Sheikh Khalifa a short account of Mr. Begin's last visit to London, when she had found him immovable on the issue of Israeli settlements. The Prime Minister said, however, that it was Mr. Begin's usual tactic to go to the brink before making any concessions. Later in the discussion, Sheikh Khalifa repeated that the West could not go on making excuses for the absence of a solution to the problem of the Palestinians; a homeland had to be found for them.

Iran

Sheikh Khalifa repeatedly expressed his deep concern over recent developments in Iran and the present situation there. The Shah had been a constant and staunch friend of the West, and

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especially of the United States; but now the Americans would not even allow him into their country. The Prime Minister explained that the U.S., like the U.K., were constrained by the threat to their own people in Iran which would be created if the Shah were to be given permanent refuge in either capital. Sheikh Khalifa expressed understanding of this. He said that the present course of events in Iran, and especially the wave of executions which had taken place, was not representative of Islam. He expected a further power struggle to develop in Iran; Iranian refugees were arriving in Bahrain at the rate of about 30 a week.

Iraq

The Prime Minister mentioned to Sheikh Khalifa the Foreign and Commonwealth Secretary's current visit to Baghdad, and asked for his advice on how the U.K. should respond to indications that the Iraqis wished to improve their relations with us. Sheikh Khalifa recommended that the British Government should respond positively.

Libya

Sheikh Khalifa told the Prime Minister that Colonel Qadaffi had arrived in Bahrain on the previous day and, when he heard that Sheikh Khalifa was to meet the British Prime Minister during her stop-over, had asked him to convey a message to her. This was to the effect that he wished to open a new book in Libya's relations with the U.K.. Colonel Qadaffi wished the Prime Minister to know that for the past three years there had been no contact between the Libyan regime and the I.R.A., nor any supply of weapons to them.. Colonel Qadaffi also admitted that he had been mistaken in his handling of the abortive defence deals between Libya and the U.K.. Sheikh Khalifa told the Prime Minister that Colonel Qadaffi evidently wished to improve relations with Britain: if he really meant it, this could be of benefit to the British Government. Libya evidently needed friends and a helping hand; but, the Sheikh added, there was an Arab proverb to the effect that if one had been bitten by a snake, one was suspicious of a piece of rope. The Sheikh suggested that Colonel Qadaffi's approaches could be pursued through diplomatic channels.

Relations between the West and OPEC

After a short discussion of the new instability in the Middle East and in Africa, following events in Iran and the activities of the Soviet Union's Cuban and East German proxies in Africa, Sheikh Khalifa spoke of the need to restore stability and said that the Communique issued at the end of the Tokyo Summit, like the E.E.C. Declaration on the Middle East, had produced a good effect in the OPEC countries. The fact remained, however, that unless the West's ideals concerning human rights were fulfilled so far as the Palestinians were concerned, OPEC would continue to use the

/ energy

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energy weapon against Western consumers. He admitted frankly that the oil-producing countries had been robbing the West: Iran, for example, had cancelled all her long-term contracts and was now selling her oil to the highest bidder. The Iranians were producing less oil but gaining more revenue. Sheikh Khalifa said that he fully recognised, however, that if the West suffered, the Arab world would suffer as well. He agreed with the Prime Minister's comment that the less-developed countries would suffer most of all. The Prime Minister asked Sheikh Khalifa whether it was his view that if some advance could be achieved towards a solution of the Palestinian problem, oil prices would be stabilised: Sheikh Khalifa confirmed this. He strongly urged the Prime Minister to promote more frequent and more direct contact between the Western nations and the Arab world. The West should make a greater effort to hear Arab views at first hand. When the Prime Minister mentioned Prince Salman's visit to London in May, Sheikh Khalifa commented that Saudi Arabia was deeply committed to maintaining stability in the region. The Prime Minister told Sheikh Khalifa that the West and the Arab world should stand together to prevent the spread of Communism. Sheikh Khalifa agreed and commented that it was easier to let the Communists in than to get them out.

Bilateral Relations

Sheikh Khalifa spoke very warmly of U.K./Bahraini relations. Bahrain found it easier to get along with the U.K. than with any other country. The Sheikh went on to stress the importance which he attached to security matters and told the Prime Minister that he would greatly value British co-operation in this field. The Prime Minister invited him to let us know of his requirements. Sheikh Khalifa said that Bahraini resources were limited but it was not simply a matter of purchasing equipment: training and techniques were at least as important and Bahrain would value assistance of this kind.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

*Yours ever,
Zygar Lawrence*

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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FM FCO 281445Z JUNE 79

TO FLASH TO TOKYO

TELEGRAM NUMBER 328 OF 28 JUNE 1979

REPEATED INFO IMMEDIATE TO WASHINGTON, ROME, PARIS, BONN,

OTTAWA, UKDEL OECD, UKREP BRUSSELS, UKMIS GENEVA, JEDDA.

FOLLOWING FOR PRIVATE SECRETARY TO SECRETARY OF STATE

OPEC MEETING IN GENEVA: FCO TEL 328

1. THE COMMUNIQUE IS BEING SENT TO YOU FROM GENEVA BY FLASH TELEGRAM.

2. WORLD EFFECTS OF PRICE RISE:

ON BASIS OF PRICE INCREASES REPORTED IN OUR TUR WHICH ARE BROADLY CONFIRMED BY COMMUNIQUE NOW ISSUED, PRELIMINARY CALCULATIONS INDICATE THAT THEY WILL

(A) ADD ABOUT 20 BILLION DOLLARS TO OECD OIL IMPORT BILL: AND OVER 5 BILLION DOLLARS TO NON-OECD OIL IMPORT BILL.

(B) INCREASE INFLATION IN OECD COUNTRIES BY 0.75 PER CENT AFTER ONE YEAR.

(C) REDUCE GROWTH IN INDUSTRIAL WORLD BY 0.5-0.75 PER CENT AFTER ONE YEAR.

(D) INCREASE OECD CURRENT ACCOUNT DEFICIT BY OVER 10 BILLION OVER A FULL YEAR (OF WHICH 5 BILLION DOLLARS MIGHT FALL TO US).

(E) ADD OVER 20 BILLION DOLLARS TO OPEC REVENUES.

3. THESE FIGURES TAKE ACCOUNT OF:

(i) INCREASED OECD EXPORTS TO OPEC COUNTRIES

(ii) SOME POLICY REACTION BY WESTERN GOVERNMENTS

(iii) SOME 'CONFIDENCE EFFECT' ON WESTERN SAVINGS AND INVESTMENTS.

4. THE ABOVE ARE THE ESTIMATED EFFECTS OF THE PRICE RISES TAKEN IN ISOLATION. WE HAD HOWEVER, ALREADY ALLOWED IN OUR ECONOMIC AND BUDGET FORECASTS FOR SOME INCREASE IN OIL PRICES.

THUS, ASSUMING THE OPEC PRICES IN OUR TUR AND ASSUMING PRICES REMAIN STABLE DURING THE REST OF 1979 AND INTO 1980 (PERHAPS AN OPTIMISTIC ASSUMPTION) THE PRICE OUTTURN IS LIKELY TO BE SOME 10% HIGHER THAN EARLIER WHITEHALL FORECASTS (WHICH ASSUMED PRICES RISING TO AN OPEC AVERAGE 18 DOLLARS A BARREL BY Q1 1980). WORLD ECONOMIC ACTIVITY BY THE MIDDLE OF 1980 THEREFORE MIGHT BE EXPECTED TO BE ABOUT 0.5 PER CENT LOWER THAN WE THOUGHT LIKELY AND OPEC SURPLUSES (PREVIOUSLY ESTIMATED AT 20 BILLION DOLLARS IN 1979 AND 25 BILLION IN 1980) SOME 10-15 BILLION DOLLARS HIGHER IN BOTH 1979 AND 1980.

5. EFFECT ON UK.

EFFECT OF INCREASES ON UK ECONOMY WILL BE COMPLICATED BY FACT THAT POUND HAS BEEN AND MAY WELL CONTINUE APPRECIATING BECAUSE THE UK WILL BE THOUGHT TO BE RELATIVELY WELL PLACED COMPARED WITH OTHER INDUSTRIALISED COUNTRIES. BUT COMBINED EFFECT OF CUT IN WORLD GROWTH, LOSS OF EXPORT COMPETITIVENESS DUE TO STRONGER POUND WILL BE TO REDUCE UK GROWTH (GNP) - WE THINK BY AT LEAST AS MUCH AS WORLD AVERAGE (PARA 2(C) ABOVE). ON OTHER HAND EFFECT ON CONSUMER PRICES IN UK OF HIGHER OIL PRICES WILL TO SOME EXTENT BE OFFSET BY APPRECIATION OF POUND. DIRECT EFFECT ON UK BALANCE OF PAYMENTS WILL BE CUSHIONED BY NORTH SEA OIL PRODUCTION (AT PRESENT 85 PER CENT OF UK CONSUMPTION) BUT WILL BE INDIRECTLY AFFECTED THROUGH EFFECTS ON STERLING, WORLD ECONOMY AND WORLD TRADE. ALTHOUGH DIRECT EFFECT ASSUMING THE OPEC INCREASE IS SPREAD EVENLY ACROSS THE BOARD WOULD ADD ABOUT 8P TO A GALLON OF PETROL, THE ACTUAL INCREASE MIGHT BE SOMEWHAT LESS IF THE POUND APPRECIATES.

CARRINGTON

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FM UKMIS GENEVA 281250Z JUN 79
TO FLASH TOKYO (FOR PRIME MINISTER'S PARTY)
TELEGRAM NUMBER 03 OF 28 JUNE 1979
INFO FLASH FCO

OUR TELNO 234 TO FCO OF 28 JUNE

OPEC MEETING : GENEVA

FOLLOWING IS THE FULL TEXT OF THE COMMUNIQUE ISSUED AT 1230Z TODAY.

THE 54TH MEETING OF THE CONFERENCE OF THE ORGANISATION OF THE PETROLEUM EXPORTING COUNTRIES WAS HELD IN GENEVA, SWITZERLAND FROM 26TH TO 28 TH JUNE 1979. THE CONFERENCE UNANIMOUSLY RE-ELECTED AS ITS PRESIDENT HE DR. MANA SAEED AL-OTAIBA, MINISTER OF PETROLEUM AND MINERAL RESOURCES OF THE UNITED ARAB EMIRATES AND HEAD OF ITS DELEGATION. HE PROF. DR. SUBROTO, MINISTER OF MINES AND ENERGY OF INDONESIA AND HEAD OF ITS DELEGATION, WAS RE-ELECTED ALTERNATE PRESIDENT.

THE CONFERENCE EXPRESSED CONCERN FOR THE PROBLEMS BEING FACED BY DEVELOPING COUNTRIES, ESPECIALLY IN THE LIGHT OF THE CONTINUED LACK OF READINESS ON THE PART OF THE INDUSTRIALISED COUNTRIES TO FACE UP TO THEIR RESPONSIBILITIES TOWARDS THE PROBLEMS OF THE THIRD WORLD. FOR THEIR PART, OPEC MEMBER COUNTRIES HAVE IN THE PAST PROVED THEIR STRONG SOLIDARITY WITH THE THIRD WORLD AND HAVE CONTRIBUTED IN MANY WAYS TO ALLEVIATE THE PROBLEMS OF OTHER DEVELOPING COUNTRIES. THE MEMBER COUNTRIES OF THE ORGANISATION OF THE PETROLEUM EXPORTING COUNTRIES ONCE AGAIN ACTS IN ACCORDANCE WITH THEIR INVARIABLE SOLIDARITY TOWARDS THE OTHER THIRD WORLD COUNTRIES BY AGREEING TO STEP UP THEIR AID TO THEM. IT WAS AGREED TO RECOMMEND TO THE GOVERNMENTS OF MEMBER COUNTRIES THAT THEY APPROVE THE FURTHER REPLENISHMENT OF THE RESOURCES OF THE OPEC SPECIAL FUND BY AN ADDITIONAL AMOUNT OF US DOLLARS 800 MILLION. WITHIN THE SAME CONTEXT THE CONFERENCE ALSO LOOKED INTO ANOTHER PROPOSAL FOR A LONG-TERM FUND TO BE SET UP JOINTLY BY THE INDUSTRIALISED COUNTRIES AND OPEC MEMBER COUNTRIES TO COMPENSATE DEVELOPING COUNTRIES FOR IMPORTED INFLATION, ON THE ONE HAND, AND ANY INCREASES IN CRUDE OIL PRICES ON THE OTHER, AND HAS DECIDED TO REFER THIS SUBJECT FOR FURTHER STUDY BY THE MINISTERIAL COMMITTEE FOR LONG TERM STRATEGIES.

THE CONFERENCE TAKES THIS OPPORTUNITY TO INVITE THE INDUSTRIALISED COUNTRIES TO TAKE A MORE POSITIVE STAND TOWARDS THE PROBLEMS OF THE THIRD WORLD COUNTRIES, WHETHER IN REGARD TO GRANTS, AID, AND OTHER FORMS OF FINANCIAL SUPPORT AS WELL AS THE RESTRUCTURING OF THE INTERNATIONAL ECONOMIC ORDER SO AS TO GIVE DEVELOPING COUNTRIES A BETTER CHANCE OF SOLVING THEIR PROBLEMS.

THE CONFERENCE EXPRESSED ITS CONTINUED WILLINGNESS TO DISCUSS ENERGY MATTERS ALONG WITH OTHER PROBLEMS OF CONCERN FOR DEVELOPING COUNTRIES OF WHICH OPEC IS AN INTEGRAL PART. IT TOOK NOTE OF PROPOSALS FOR A DIALOGUE BETWEEN OPEC AND INDUSTRIALIZED COUNTRIES. SOME OF THESE PROPOSALS, HOWEVER, SEEM TO SUGGEST THAT A MEANINGFUL DIALOGUE CAN BE CARRIED OUT ONLY ON ENERGY MATTERS IN ISOLATION OF OTHER GLOBAL, ECONOMICAL, AND STRUCTURAL PROBLEMS. THE CONFERENCE WANTS TO TAKE THIS OPPORTUNITY TO RESTATE ITS CATEGORICAL REJECTION OF ANY DIALOGUE WHICH DOES NOT LOOK INTO THE VARIOUS PROBLEMS FACED BY THE WORLD COMMUNITY AND ESPECIALLY THE DEVELOPING COUNTRIES, TAKING INTO ACCOUNT THE PROBLEMS OF DEVELOPMENT, THE ACQUISITION OF ADVANCED TECHNOLOGY, THE FINANCIAL AND MONETARY REFORMS, WORLD TRADE AND RAW MATERIALS, ALONG WITH THE VARIOUS ASPECTS OF THE ENERGY PROBLEM.

THE CONFERENCE, CONSCIOUS OF THE EFFORTS UNDERTAKEN INDIVIDUALLY AND COLLECTIVELY BY THE MEMBER COUNTRIES IN COOPERATING WITH OTHER DEVELOPING COUNTRIES AND OF THE NEED TO INFORM OTHER COUNTRIES OF THE WORLD OF THE TRUE SCOPE AND MAGNITUDE OF SUCH EFFORTS, AS WELL AS OF OTHER GENERAL INTEREST REGARDING THE ORGANIZATION AND THE MEMBER COUNTRIES, AND IN ORDER TO COUNTERACT THE MANIPULATION OF INFORMATION BY SOME OF OPEC'S DETRACTORS, HAS GIVEN GENERAL SUPPORT TO THE IDEA OF ESTABLISHING AN INTERNATIONAL NEWS AGENCY-- OPECNEWS.. FOR THIS PURPOSE, IT HAS BEEN DECIDED TO REFER THIS MATTER TO A COMMITTEE OF EXPERTS OF THE MEMBER COUNTRIES TO STUDY THE MOST EFFECTIVE MEANS OF IMPLEMENTING THIS IDEA, AND TO SUBMIT ITS REPORT TO THE CONFERENCE, THROUGH THE BOARD OF GOVERNORS.

THE CONFERENCE EXPRESSED ITS GREAT CONCERN OVER THE CONTINUATION OF ABNORMAL CONDITIONS PREVAILING IN THE INTERNATIONAL OIL MARKET. DEMAND HAS CONTINUED TO BE A SOURCE OF PRESSURE ON THE PRICE STRUCTURE, RESULTING IN SEVERAL PHENOMENA, WHICH GENERATED DIFFICULTIES FOR BOTH PRODUCERS AND CONSUMERS ESPECIALLY THE DEVELOPING COUNTRIES. THE CONFERENCE ONCE AGAIN CALLS UPON THE MAJOR INDUSTRIALIZED CONSUMING COUNTRIES TO CONTROL THEIR TOTAL DEMAND, WHETHER FOR CONSUMPTION OR STOCK BUILD UP, SO THAT THE ADVERSE EFFECTS OF THE PRESENT MARKET SITUATION CAN BE AVOIDED. THE CONFERENCE ALSO TAKES THIS OPPORTUNITY TO WARN THE OIL COMPANIES OF THE IRRESPONSIBLE PRACTICE OF TAKING ADVANTAGE OF THE PRESENT SITUATION TO REAP UNWARRANTED PROFITS AND CALL UPON THEM TO PLAY A MORE CONSTRUCTIVE ROLE IN CONNECTION WITH GUARANTEEING SUPPLIES TO DEVELOPING COUNTRIES AND TO PREVENT PRICE SPECULATION.

IN AN ENDEAVOUR TO BRING SOME STABILITY TO THE MARKET THE CONFERENCE DECIDED ON THE FOLLOWING:

1. ADJUST THE MARKER CRUDE PRICE FROM THE PRESENT LEVEL TO US DOLLARS 18/BBL.

2. ALLOW MEMBER COUNTRIES TO ADD TO THE PRICES OF THEIR CRUDE A MAXIMUM MARKET PREMIUM OF US DOLLARS 2/BBL OVER AND ABOVE THEIR NORMAL DIFFERENTIAL, IF AND WHEN SUCH A MARKET PREMIUM WAS NECESSITATED BY MARKET CONDITIONS.

3. THE MAXIMUM PRICES THAT CAN BE CHARGED BY MEMBER COUNTRIES SHALL NOT EXCEED US DOLLARS 23.50 /BBL, WHETHER ON ACCOUNT OF QUALITY AND LOCATION ADVANTAGE OR MARKET PREMIA.

IT WAS ALSO AGREED THAT MEMBER COUNTRIES WOULD TAKE STEPS TO LIMIT TRANSACTIONS IN THE SPOT MARKET IN A COLLECTIVE EFFORT TO STOP THE PRESENT PRICE SPIRAL.

THE CONFERENCE EXPRESSED CONCERN ON THE MOVEMENT OF THE U.S DOLLAR VIS-A-VIS THE INTERNATIONAL MAJOR CURRENCIES WITH A VIEW TO ERODING THE REAL PRICE OF OIL, AND FURTHER REDUCE THE PURCHASING POWER OF THE OPEC BARREL, AND HAS DECIDED THAT SHOULD SUCH MOVEMENT INDICATE A FURTHER EROSION IN THE REAL VALUE OF OPEC REVENUES, AN EXTRAORDINARY MEETING OF THE CONFERENCE SHALL BE CALLED UPON TO DECIDE ON SHIFTING TO A BASKET OF CURRENCIES AS A MEANS OF COMPENSATING OPEC COUNTRIES FROM RESULTING LOSSES AND FURTHER PROTECTING THE PURCHASING POWER OF THOSE REVENUES.

THE CONFERENCE EXPRESSED ITS SINCERE GRATITUDE TO THE FEDERAL GOVERNMENT OF SWITZERLAND AND THE REPUBLIC AND CANTON OF GENEVA FOR THEIR WARM HOSPITALITY AND THE EXCELLENT ARRANGEMENTS MADE FOR THE MEETING.

THE CONFERENCE PASSED RESOLUTIONS WHICH WILL BE PUBLISHED ON 28TH JULY, 1979, AFTER RATIFICATION BY MEMBER COUNTRIES.

THE NEXT ORDINARY MEETING OF THE CONFERENCE WILL BE CONVENED IN CARACAS, VENEZUELA ON MONDAY, 17 DECEMBER, 1979.

FCO PLEASE DISTRIBUTE TO DEPT OF ENERGY AND OTHER DEPTS ACCORDINGLY.

MURRAY

NNNN



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01-211 6402

26 June 1979.

Clive Whitmore Esq.,
Private Secretary to the
Prime Minister,
10 Downing Street,
London SW1.

Dear Clive,

R.
26m

TALKS WITH THE GERMANS ON ENERGY

Thank you for your letter of 15th June.

Sir Jack Rampton has been in touch with Dr. Englemann the senior German official responsible for energy. Unfortunately Dr. Englemann was unable to manage a meeting before the Tokyo Summit, but Sir Jack had close co-operation with Dr. Englemann in Strasbourg which was very valuable in securing our common interests.

I am sending a copy of this letter to Paul Lever in the Foreign and Commonwealth Office.

Yours ever,

Bill

W.J. Burroughs,
Private Secretary.

CONFIDENTIAL

VLB



10 DOWNING STREET

cc SO
D/I
D/M
CST
DOE (Tpt)
CO

From the Private Secretary

25 June 1979

The Prime Minister has considered your Secretary of State's minute of 22 June about the South of Scotland Electricity Board's plans to import 100,000 tons of coal this year. She agrees that the S.S.E.B. should be asked to consult further if they propose to increase the level of imports above this figure.

I am sending copies of this letter to Kenneth MacKenzie (Scottish Office), Andrew Duguid (Department of Industry), Ian Fair (Department of Employment), Alastair Pirie (Chief Secretary's Office), Genie Flanagan (Office of the Minister for Transport) and Martin Vile (Cabinet Office).

T. P. LANKESTER

W. Burroughs, Esq.,
Department of Energy.

CONFIDENTIAL

tw

Prime Minister

1

PRIME MINISTER

FUEL STOCKS AT POWER STATIONS

The note

You agreed that the SSEB be authorised to import coal subject to consultation with the Government over amounts. Are you content with X?

The 22/6

In his minute to you of 11 June, on which I have now seen your comments, the Secretary of State for Scotland proposed that, subject to the views of Department of Energy Ministers, he should inform the South of Scotland Electricity Board that the Government would not stand in the way of imports during the current year provided that we were consulted before the Board entered into any contract extending beyond the current financial year or if imports during the current year seemed likely to exceed 0.5m tonnes.

I understand that the NCB and the SSEB have now reached agreement on supplementing of Scottish coal production with 125,000 tonnes of coal from the North East of England. In the light of this the NCB are raising no objection to the SSEB's present plan to import 100,000 tonnes of coal this year.

This seems to me a sensible and defensible outcome. However, the level of imports of coal continues to be a sensitive one for the coal industry requiring carefully co-ordinated handling if we are to achieve our aims. I suggest therefore that the SSEB should be asked to consult further if they propose to increase the level of imports this year above the 100,000 tonnes for which they are now contracting.

I am copying this minute to the Secretaries of State for Scotland, Industry and Employment, the Chief Secretary, the Minister of Transport and Sir John Hunt.

David Hunt

SECRETARY OF STATE FOR ENERGY

22 JUNE 1979

22 JUN 1979



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UNCLASSIFIED

FM WASHINGTON 211944Z JUNE 1979

TO PRIORITY F C O

TELEGRAM 1626 OF 21 JUNE 1979,

INFO JEDDA, UKDEL O E C D, UKREP BRUSSELS, TOKYO, BONN, PARIS.

SAUDI OIL POLICY

TODAY'S NEW YORK TIMES REPORTS AN INTERVIEW IN RIYADH ON 20 JUNE WITH CROWN PRINCE FAHD, WHO IS SAID TO HAVE RULED OUT ANY EARLY INCREASE IN OIL PRODUCTION. SPECIFICALLY HE IS REPORTED AS SAYING QUOTE THE SAUDI GOVERNMENT HAS NOT DECIDED SO FAR TO INCREASE PRODUCTION BEYOND THE PRESENT 8.5 MILLION BARRELS. I BELIEVE THE CAPACITY OF THE KINGDOM MAY NOT ENABLE IT TO INCREASE PRODUCTION BEYOND THE 8.5 MB. IF PRODUCTION IS TO BE INCREASED AT ALL, THIS NEEDS THOROUGH RESEARCH ON THE METHODS AND INSTRUMENTS CURRENTLY USED UNQUOTE.

2. FAHD IS ALSO REPORTED AS DENYING THAT THE SAUDI GOVERNMENT PLANNED TO INCREASE ITS OIL PRODUCTION CAPACITY OVER THE NEXT FEW YEARS TO 12 M B P D. THERE WAS NO PLAN TO GO THAT FAR.

3. ON THE 26 JUNE O P E C MEETING SAUDI ARABIA'S POSITION WAS QUOTE IF THERE IS TO BE ANY INCREASE THE ALL, THE INCREASE SHOULD BE BOTH REASONABLE AND MODERATE UNQUOTE. INSTRUCTIONS HAD ALSO BEEN GIVEN TO THE SAUDI OIL MINISTER TO DO HIS BEST TO REACH AGREEMENT ON A UNIFIED PRICE. SAUDI ARABIA WAS HOLDING THE LINE AT THE OFFICIAL PRICE AND THIS WAS SUBSTANTIAL EVIDENCE THAT THEY DID NOT WANT TO EXPLOIT THE SITUATION. BUT THEY WERE ONLY ONE OF 22 OIL PRODUCING COUNTRIES. FAHD IS ALSO SAID TO HAVE CRITICISED OIL COMPANY PROFIT LEVELS.

JAY.

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Original in G/R.

WB
CCD/Trans

10 DOWNING STREET

THE PRIME MINISTER

21 June 1979

Dear Mr. Cunningham

Thank you for your letter of 29 May.

I do, of course, understand the important role the bus and coach industry has to play and I am certainly anxious that it should be treated fairly on the question of fuel supplies. However, I am sure you will appreciate that everyone - including the private motorist and public transport - will have to make their contribution to the overall cut-back in consumption of around 5% that the Government has called for.

I realise uncertainties about supplies of fuel, EEC drivers' hours regulations and the level of public support for the bus industry are all matters which worry your Federation, but I am sure you will pursue all these points at the meeting you are soon to have with the Minister of Transport.

Yours sincerely
Margaret Thatcher

Ian Cunningham, Esq.

55

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

telephoned 5
Stromberg

PRIME MINISTER

THE INTERNATIONAL OIL SITUATION

BF
25/6
12
25/6
A

I have seen David Howell's minute to you of 15 June, and also the record of your dinner with representatives of Shell on 16 June.

2. I agree very much with David's conclusion that our interest lies in quick and effective international action, if this can be secured, to ease the present pressures in the international oil market and thereby to reduce the risks of further steep oil price rises later this year. As his minute points out, the indirect effect of such price increases on our economy could be very damaging. Action that does not become effective until next year will be too late. Although the chances of getting such agreement with our EEC and Summit partners cannot be rated highly, I certainly hope that we would be able to go along with any proposals that seem likely both to be effective and to gain acceptance from our Strasbourg and Tokyo partners - so long as these did not involve us in domestic allocation.

3. I am copying this letter to the Foreign and Commonwealth Secretary, the Secretary of State for Energy, other members of E Committee, and to Sir John Hunt.

A handwritten signature, likely of G.H., in dark ink.

(G.H.)
2/June 1979

[illegible]

PRIME MINISTER

(Telephoned from
No. 10 at 1400)
Sh 4/6

The International Oil Situation

I have seen David Howell's minute to you of 15 June,
and also the record of your dinner with representatives of
Shell on 16 June.

I agree very much with David's conclusion that our interest
lies in quick and effective international action, if this can
be secured, to ease the present pressures in the international
oil market and thereby to reduce the risks of further steep oil
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highly, I certainly hope that we would be able to go along with
any proposals that seem likely both to be effective and to gain
acceptance from our Strasbourg and Tokyo partners - so long as
these did not involve us in domestic allocation

21 June 1979

CHANCELLOR OF THE EXCHEQUER



Foreign and Commonwealth Office

London SW1A 2AH

20 June 1979

Dear Clive,

Talks with the Germans on Energy

Re: 1

Your letter of 15 June to Bill Burroughs suggests that Sir J Rampton should arrange bilateral energy talks with the Germans on the lines of those he held with the French on 13 June.

The Foreign and Commonwealth Secretary agrees that there would be advantage in arranging such talks as soon as possible. There may not be time for them before the European Council, but Lord Carrington hopes that they can take place before the Tokyo Summit, subject to other commitments.

Yours etc

Paul

(P Lever)
Private Secretary

C A Whitmore Esq
10 Downing Street
LONDON

The letter has been copied
to Burroughs.

PM
20/6

65 JUN 02



ADVANCE COPIES: OIL

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IMMEDIATE

2

PS

PS/SIR I GILMOUR 2

PS/MR HURD

PS/PUS

SIR A PARSONS

MR BUTLER

MISS BROWN

MR J C MOBERLY

MR THOMAS

M. B. HURD
M. I. GILMOUR
M. F. HURD

HEAD/ES & SD (2)

HEAD/FRD

HEAD/MED

HEAD/RENAD

RESIDENT CLERK

W. W. E.
W. NEWS

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FM PARIS 191318Z JUNE 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 334 OF 19 JUNE 1979

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WASHINGTON OTTAWA

INFO SAVING UKDEL OECD

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PS/MINISTER OF STATE

FOR ENERGY

SIR J RAMPTON

MR D LE B JONES

MR J R BRETHERTON CIP DIVN) THAMES

MR J WHALEY) HOUSE

MR J LIVERMAN) SOUTH

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MR I MEEK RM 303 DOT 1 VICTORIA ST

MR J C EDWARDS) ODA

MR R L BAXTER)

DR N THOMPSON CABINET OFFICE

PS 1010 Downing ST

ADVANCE COPY
F. Colwell

Prime Minister

B. W.
28/6

PRESIDENT GISCARD'S TELEVISION INTERVIEW, 19 JUNE: ENERGY

1. PRESIDENT GISCARD GAVE LAST NIGHT THE SECOND OF HIS NEW SERIES OF TWO-MONTHLY TELEVISION INTERVIEWS (THE FIRST WAS ON 18 APRIL). THE TIMING OF THIS SECOND INTERVIEW WAS IMPORTANT SINCE IT TOOK PLACE SHORTLY BEFORE THE STRASBOURG AND TOKYO SUMMITS. GISCARD DEVOTED THE MAJOR PART OF HIS INTERVIEW TO THE ENERGY CRISIS AND ITS IMPACT ON THE FRENCH ECONOMY. HE ALSO SPOKE ABOUT SALT, REFUGEES AND FRENCH INTERNAL AFFAIRS (SEE MIFTS).

ENERGY

2. GISCARD SAID THAT IT WAS OF FUNDAMENTAL IMPORTANCE THAT EUROPE SHOULD PRESENT A UNITED FRONT. HE HAD HIGH HOPES THAT IT WOULD

SHOULD PRESENT A UNITED FRONT. HE HAD HIGH HOPES THAT IT WOULD SUCCEED IN DOING SO. IT WAS IN NO-ONE'S INTEREST THAT THE OIL MARKET SHOULD BE BASED ON PRICE COMPETITION. THE FRENCH PLAN WOULD AVOID EXCESSES. GISCARD WAS CONVINCED THAT THE FRG WOULD RALLY TO THIS POSITION. FRANCE WAS ALSO PROPOSING A PROGRAMME OF IMPORT LIMITATION TO BE APPLIED NATIONALLY, IN EUROPE AND WORLDWIDE.

3. IN FRANCE THE GOVERNMENT'S OBJECTIVE WAS TO PRESERVE THE PURCHASING POWER OF THE PEOPLE. BUT ECONOMIC GROWTH WOULD BE QUOTE SOBER UNQUOTE GROWTH WHICH DID NOT INCREASE CONSUMPTION OF IMPORTED OIL. ALTERNATIVE SOURCES OF ENERGY WOULD HAVE TO BE DEVELOPED -- NUCLEAR ENERGY WAS THE MAIN ALTERNATIVE SOURCE FOR THE NEXT 10-15 YEARS. ECONOMIC ACTIVITY WOULD NEED TO BE ADJUSTED TO CONCENTRATE ON NEW TECHNOLOGIES SUCH AS ELECTRONICS, COMPUTERS AND SPACE WHICH WERE NOT OIL-BASED.

4. THE FRENCH COUNCIL OF MINISTERS ON 20 JUNE WOULD TAKE DECISIONS INTENDED TO REDUCE DOMESTIC OIL CONSUMPTION. THERE WOULD BE NO NEW RESTRICTIONS ON MOTORISTS BECAUSE PRIVATE CARS TOOK A RELATIVELY LIMITED PERCENTAGE SHARE OF ENERGY CONSUMPTION AND BECAUSE, FOR THE FRENCH PEOPLE, THE USE OF CARS WAS A QUOTE SOCIAL VICTORY UNQUOTE. BUT SPEED LIMITS WOULD HAVE TO BE STRICTLY OBSERVED AND THE GOVERNMENT WOULD SEEK TO ENSURE THAT THEY WERE. THERE WOULD ALSO BE RESTRICTIONS ON HEATING (''WASTED ENERGY'') WHICH REPRESENTED ALMOST A THIRD OF FRENCH OIL CONSUMPTION. QUANTITATIVE CEILINGS WOULD BE IMPOSED ON LARGE USERS OF IMPORTED OIL AND PARTICULARLY ON ELECTRICITY GENERATION.

5. COMMENT

THE OIL BURN OF ELECTRICITE DE FRANCE HAS IN FACT BEEN SUBJECT TO LIMITATION SINCE 1975. THE MOST IMPORTANT NEW MEASURE TO BE DECIDED BY TODAY'S COUNCIL OF MINISTERS IS EXPECTED TO BE A RATIONING/ALLOCATION SCHEME FOR DOMESTIC HEATING OIL. THE FRENCH ADMINISTRATION HAVE INSTRUCTED THE OIL COMPANIES HERE TO GIVE PRIORITY TO THE PRODUCTION OF MOTOR SPIRIT (17% OF FRENCH CONSUMPTION IN 1976). THIS HAS BEEN ACHIEVED AT THE COST OF REDUCING OUTPUT OF HEATING OIL, STOCKS WHICH ARE NOW LOW. HEATING OIL, HOWEVER, IS CONSIDERED LESS SENSITIVE THAN MOTOR SPIRIT FROM A POLITICAL POINT OF VIEW, PARTICULARLY IN THE SUMMER. THE ANNOUNCEMENT OF A RATIONING SCHEME FOR THIS PRODUCT SEEMS TO BE A SIGNAL OF SELF-DISCIPLINE WHICH COULD STRENGTHEN PRESIDENT GISCARD+709*8589# HIBBERT



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

A M W Battishill Esq
HM Treasury
Parliament Street
LONDON

21/6

19 June 1979

pt. 1

My Secretary of State has seen the Prime Minister's response to the Chancellor's minute of 8 June about the last Administration's commitment to present an annual progress report to Parliament on the Benefits of North Sea Oil

Mr Younger fully agrees that such a report would not be the right way to inform the public of the national benefits derived from North Sea oil. At the same time, however, since the question of these benefits is very much a live issue - and nowhere more so than in Scotland - Mr Younger points out that, as the Chancellor indicates, the Government will be under pressure to publish material specifically on the effects. He considers, therefore, that ways will certainly have to be found of explaining Government policy from time to time and he would therefore be grateful if the Chancellor's officials who are working on this could keep in touch with his.

Mr Younger sees merit in the suggestion of announcing in low key that the Government do not propose to produce an annual report; it might be that this could most happily be done at the same time as some information is given out in a more suitable format.

I am copying this letter to Tim Lankaster at No 10, George Walden (FCO), Bill Burrough (Department of Energy), David Edmonds (DOE), Ian Fair (Department of Employment), Andrew Duguid (Department of Industry), Tom Harris (Department of Trade), Genie Flanagan (Department of Transport), George Craig (Welsh Office) and to Martin Vile at the Cabinet Office.

K J MACKENZIE
Private Secretary

19 JUN 1979



C.C. POCOCK, C.B.E.

TELEPHONE:
01-934 5866

SHELL CENTRE
LONDON
SE1 7NA

18th June 1979.

Prime Minister

The Prime Minister,
10 Downing Street,
London, S.W.1.

The last section of this paper is
interesting. They think supply/demand
worldwide will be in balance again
by mid-1980. The problem is -
how to get there? They argue
for more production from Saudi Arabia.

Dear Prime Minister,

Thank you for your courtesy in receiving us at Chequers on
Saturday evening. As promised, I attach a paper we have prepared
today on the international oil supply/demand balance and its pricing
implications.

We have not attempted in this paper to describe the United
Kingdom scene which was, I think, pretty fully discussed at dinner.

I am sending a copy of this note to the two Secretaries of
State, and we are of course ready at any time to supplement any of
this information.

Yours sincerely,

Michael Power

Redmi lēl.

-78.

SHELL CENTRE

LONDON

SEI 7NA

Lic. Julius - Meck.

C.C. PROCOCK, CBR

TELEPHONE

01-932 2859

18 JUN 1979

1 2 3 4 5 6 7 8 9 10 11 12

INTERNATIONAL OIL REVIEW

JUNE 1979

Comments -
Coal.
← Nuclear →

This note is intended to provide background data and views on certain aspects of the current international oil supply situation.

1. DEVELOPMENTS 1973-78

The events of 1973-74 brought to an end the era of cheap energy on which so much of the world's post-war economic expansion was based but there was a reluctance to accept it. The fact that it was quite unique for any commodity, not in immediate short supply, to be traded at up to eighty times its technical cost of production resulted in people like American Secretary of the Treasury, Simon, forecasting with a great degree of confidence that oil prices in general - not only the frothy spot market- would come down sharply from their 1974 levels. And there were certain factors that appeared to support this view.

For instance, between 1965-73 the demand for oil in the Non-Communist world had increased at a rate of 7 $\frac{1}{2}$ % per annum and investment in the industry was geared to a continuation of demand increasing although at a slightly lower rate. By the latter half of 1974 demand had begun to fall away as the result of the virtual quadrupling of prices and the general economic downturn. This trend continued into 1975 when the Free World's crude oil and natural gas liquids production at 43.8m barrel/day was some 3.7m barrels/day below the 1974 figure. As a result there was a considerable surplus of capacity in all facets of the oil industry - crude production, transportation, refining and marketing. However, this did not lead to a collapse in crude oil prices since, particularly at that moment in time, there was no economic pressure on some of the main exporting countries to increase production to obtain higher revenue. Indeed, the limited absorptive capacities of some of the economies such as Saudi Arabia, Kuwait and Libya, were and, in some instances, remain, such that pressure tends to be the other way round - to retain oil in the ground rather than produce it. In retrospect it is clear that the views expressed in 1974 about the probability of sharp price reductions assisted in obscuring the fact that although the crisis had subsided it had left a legacy of permanent change.

Saudi Arabian Light crude oil is the largest volume crude oil traded internationally and it has come to be called the "Marker" crude because traditionally all other crude oil prices tend to relate to it in a logical pattern taking into account quality and location. From the Marker price

prices are derived for other crude oils for term sales under government contracts and these are called "government selling prices". Government revenue, in terms of the Marker crude had been just under \$1 per barrel at the end of 1970. As a result of OPEC action it reached just over \$10 by November 1974. Increases thereafter were relatively moderate in comparison. Indeed, taking into account the depreciation of the U.S. dollar and widespread inflation both the real producer government revenue, and the real price, per barrel of crude oil traded internationally showed a downward trend in the period up to the second half of 1978. This produced dissatisfaction in the OPEC countries.

Various schemes to switch the oil pricing unit from the U.S. dollar to a "basket" of currencies were mooted, while some countries such as Iraq were pressing for substantial price increases. However, as late as October 1978 Sheik Yamani was saying that existing price levels were "almost fair but needed a little adjustment" although he warned that "considerable" price increases would be necessary in future years. At that particular moment in time the official f.o.b. price for the Marker crude was \$12.70 per barrel. By the end of October/beginning of November strikes started in the Iranian oilfields which took 4m/4.5m barrels/day out of the international oil system but towards the end of the month supplies were being gradually restored.

2. OIL PRICES IN 1978-1979

In mid-December 1978 the OPEC Ministers decided to increase prices by an average of 10% during 1979, the increases to be phased in such a way that it would be 5% in the first quarter, rising to a cumulative 14.5% at the end of 1979. It was at that stage contemplated that all other OPEC crudes would continue their traditional pricing relationships with the Marker.

A few days after the December OPEC meeting the Iranian political difficulties intensified and production there ceased. The oil supply difficulties that ensued and have continued since the partial restoration of Iranian production in March have led to large and frequent price increases.

The spot prices of oil products in markets such as the so-called Rotterdam market shot upwards after the Iranian production cessation in December and carried with them the spot prices of crudes bought in spot markets mainly at the producer end. The spot price of Arabian Light rose from just over the Marker price of \$12.70 in October to \$14 in November, to \$23 in February,

and reached a high of \$38 in early June before dropping back to around \$35. Over the same period the spot oil product markets have behaved in a roughly similar manner, generally leading up the spot crude markets but recently lagging them as American major oil companies first refrained from and then re-entered the spot crude markets.

In the First Quarter of 1979 OPEC producers responded to the tight supply situation and escalating spot prices by moving a few government selling prices upwards but the main action came at, or as a result of, the March OPEC meeting in Geneva. It was then decided to bring the planned Fourth Quarter Marker price of \$14.55 forward to the beginning of the Second Quarter and to permit all other crudes to be priced by the individual OPEC producers in response to the market and without regard to traditional relationships to the Marker. This amounted to explicit recognition that, with Iranian production reduced and industry inventories depleted, Saudi Arabia no longer had sufficient reserve production potential or, perhaps in view of major international political developments in the Middle East, even the wish to dominate the oil market.

Following the March OPEC meeting and with Iranian production having been resumed the Iranians set their government selling price of Iranian Light crude, which had traditionally been priced 10 cents or so above the Marker, at \$16.57 (i.e. \$2.02 above) and this was raised in May to \$17.17 and in June to \$18.47 (\$3.92 above). Other producers have followed, or have indicated they are about to follow similar patterns. African (i.e. Nigeria, Libya and Algeria) government selling prices, which in December were around \$1.40 or so above the Marker, moved in May to the \$21 region (around \$6.50 above).

As a result of all the foregoing, and of the continuing tight supply situation, there are now many indications that when OPEC meets on June 26 it may set the Marker price for the Third Quarter at about \$20 and there are serious concerns that it might even go higher. If such a move were to take place it might be accompanied by an agreement to adhere to new price relationships of other crudes to the Marker and hopefully some increase in OPEC production designed to take the pressure out of spot markets. Without this even the new prices would be unlikely to stick.

Observe
An increase in OPEC government selling prices from a pattern related to a Marker price of \$12.70 to one related to \$20 would, if the higher prices continued, increase the cost of OPEC oil exports by \$70 billion over a full

- * If OPEC is not able to put together a package along these lines then the most likely alternative appears to be one in which the Saudis insist that the Arabian Light price should not exceed, say, \$17 but the rest of OPEC set prices equivalent to a \$19/20 Marker price. The practical result would be a continuation at the higher level of the situation that has existed for the last few months with the "real" price being the higher \$19/20 one.

year and would present a major threat to the world's economic health. Every additional \$1 on the average selling price would add about \$10 billion to the annual cost of OPEC oil exports.

3. SPOT MARKETS

In view of the interest in and importance of spot prices in recent months it is necessary to keep the size of the spot markets in proper perspective. In 1979 total oil demand in the World Outside Communist Areas ("WOCA") is estimated to be about 52 million barrels/day and OPEC production just over 30 million barrels/day. Internationally traded oil in total runs at about 32 million barrels/day.

In normal times all of the spot product markets, including Rotterdam, are thought to amount to about one million barrels/day. The spot crude markets, which operate quite separately from the products markets, normally involve another half million barrels/day. Thus, normally, the combined spot markets cover around 5% of the total internationally traded oil.

At the present time, as a result of limited oil availability, the spot product markets have probably contracted to a half million barrels/day. On the other hand, because of the commencement of direct spot sales by producing countries, the spot crude markets have importantly expanded and it may well be that 2 to 2.5 million barrels/day now moves at spot crude prices. This brings the total to 8 to 10% of internationally traded oil.

For some time studies have been going on, primarily in the EEC, to enable interested governments to learn more about the nature, size and participation in the Rotterdam market, and it might well be desirable to offer OPEC the opportunity to review the results of these studies. Suggestions have also recently been made that the prices on the Rotterdam market should be controlled. This would almost certainly be ineffective. Such an attempt would simply drive the market underground or to other places or other forms. If in addition to Rotterdam all international product markets were to be controlled it would require massive international political consent and bureaucracy. Finally, any attempt to control spot crude markets, and some product markets, would in addition to the foregoing problems inevitably lead to direct confrontation with the producing countries involved in those markets.

A variation on the direct price control scheme would be one in which consuming countries would refuse to import crudes at prices more than a certain amount above OPEC government selling prices. In order to make the system effective, product imports would similarly be denied entry if excessively priced in relation to allowed crude prices. Since there is no simple, universal, or stable relationship between a schedule of allowable crude prices and a similar schedule of allowable product prices produced from different crude mixes, different refinery complexes and different refinery locations, this would almost certainly be unworkable. Such a plan would also create an inevitable tendency for all imports to move up to the ceiling and then lead to confrontation with producing countries selling at spot prices.

A variation on a price limited import scheme is a volume limited scheme. While a volume limitation avoids many of the objections to price limits, both share one objection which for most governments would be fatal. There are few governments which for either philosophical or political reasons wish to impose direct restraints on demand in the absence of a patent emergency. An import limit is thus tolerable only so long as it does not really restrain demand. The sudden reversal of the recent American effort to cause major American oil companies to refrain from entering the spot crude market is a recent example. The general reluctance to trigger the IEA is another illustration. It seems very unlikely that an acceptable plan could be worked out for dividing up the world's oil imports in the absence of a clear emergency and without the participation of all major importing countries, including those not in the IEA.

As is evident all the suggestions to control or limit the effect of the spot markets suffer from the fundamental flaw that they are an attack on the symptom rather than the cause which is the imbalance of supply and demand. In the end, the only way to bring the spot markets off the boil is to bring supply and demand into balance at a new price level.

4. SUPPLY-DEMAND

As a result of declining rates of growth in economic activity, higher oil prices, supplier allocations and governmental actions, oil demand is already beginning to decline as compared with prior expectations. WOCA oil demand estimates for the year 1979 have been reduced 2% below earlier estimates made last October despite the unusually cold European winter and some consumer

hoarding which has temporarily inflated demand. Although the First Quarter was up about 3% over First Quarter 1978 it is expected that WOCA oil demand for the year 1979 as a whole will be barely above 1978. 1979 U.S. demand is expected to be slightly below 1978 and, despite the recent extreme winter, U.K. demand is expected about to equal 1978. The U.S. performance in demand reduction is critical, particularly from OPEC's standpoint, and if the U.S. is actually attaining its objective, the U.S. should seize every opportunity to proclaim it.

Because of these reductions in expected demand, the estimated shortfall in supply now (after allowing for an essential rebuild in depleted stock levels sufficient to avoid a crisis next winter) is only about 1 to 1.5 million barrels per day (less even than the original "lousy 5%"). Furthermore, the forces already in motion are likely to bring supply and demand into a normal balance by mid-1980 - provided that OPEC producers do not then further deliberately reduce supply, that Iran is able and willing to produce nearly 4 million barrels per day, and that there are no more Iran-type "accidents".

The critical period then is the next six to nine months and the critical problem is the additional damage that further price increases beyond those set by OPEC in June could do. The only realistic solution appears to be to induce the OPEC producers with the potential (e.g. Saudi Arabia, Kuwait and Abu Dhabi) to raise production by 1 to 1.5 million barrels/day for nine months. An increase of that size would turn the tide and the recent slight declines in the spot markets are thought to be based in part on rumours of this possibility.

Of course in their own interest and to induce producers to act, the consuming countries must continue their efforts to reduce oil demand, principally by the price and tax mechanisms, through lowered demand by government agencies which can set an example and through substitution of other energy forms wherever possible. If supply and demand do come into balance next year these consumer efforts must not abate because the objective must be first to establish and then to maintain a cushion or buffer zone between demand and available supply in order to damper spot prices and to deal with new emergencies. It may well become necessary to accept that OPEC prices will be kept at their new levels in "real terms" as part of the equation by which a supply/demand balance is reached and maintained.

18th June, 1979

Crude oil and natural gas liquids – average daily production

(Thousand barrels daily)	1978	1977	1976
Saudi Arabia*	8 250	9 233	8 529
Iran*	5 218	5 697	5 910
Iraq*	2 600	2 250	2 466
Kuwait*	1 896	1 813	1 968
Abu Dhabi*	1 445	1 654	1 597
Qatar*	485	446	509
Neutral Zone*	463	368	470
Dubai*	362	319	313
Oman	314	340	366
Syria	171	174	192
Bahrain	55	58	58
Turkey	54	53	50
Sharjah*	22	28	37
Israel	1	1	1
Total Middle East	21 336	22 434	22 466
USSR	11 370	10 920	10 360
China	2 000	1 820	1 705
Eastern Europe	405	405	395
Total USSR, Eastern Europe and China	13 775	13 145	12 460
United States	10 338	9 797	9 723
Canada	1 601	1 609	1 589
Total North America	11 939	11 406	11 312
Libya*	1 978	2 049	1 914
Nigeria*	1 910	2 095	2 067
Algeria*	1 227	1 140	1 070
Egypt	486	415	331
Gabon*	208	222	222
Angola/Cabinda	140	171	101
Tunisia	103	88	76
Congo (Brazzaville)	46	34	38
Zaire	19	23	25
Cameroons	13	—	—
Total Africa	6 130	6 237	5 844
Venezuela*	2 163	2 239	2 294
Mexico	1 328	1 086	894
Argentina	451	431	397
Trinidad	235	229	212
Ecuador*	201	182	187
Brazil	166	166	172
Peru	154	92	77
Colombia	137	143	152
Bolivia	33	35	41
Chile	18	33	33
Cuba	2	2	2
Total South and Central America	4 888	4 638	4 461

Crude oil and natural gas liquids – average daily production (continued)

(Thousand barrels daily)	1978	1977	1976
Indonesia*	1 643	1 684	1 506
Australia	433	430	417
Brunei	238	227	221
India	235	209	175
Malaysia	219	186	165
Burma	28	24	22
New Zealand	12	15	10
Japan	11	12	12
Pakistan	9	10	8
Taiwan	5	5	4
Total Far East and Australasia	2 833	2 802	2 540
United Kingdom	1 090	776	245
Norway	356	280	280
West Germany	100	107	109
Yugoslavia	82	79	77
France	40	40	38
Austria	34	34	37
Netherlands	30	31	30
Italy	28	20	21
Spain	19	18	32
Denmark	8	10	4
Total Western Europe	1 787	1 395	873
World	62 688	62 057	59 956

*Denotes OPEC member; Neutral zone lies between Saudi Arabia and Kuwait

Crude oil and natural gas liquids – shares of production

(Percentages)	1978	1977	1976
Middle East	34	36	37
USSR, Eastern Europe and China	22	21	21
North America	19	18	19
Africa	10	10	10
South and Central America	8	8	8
Far East and Australasia	4	5	4
Western Europe	3	2	1
	100	100	100

Crude oil and natural gas liquids – trends in production

(Million barrels daily)	1978	1977	1976	1975	1974	1973
OPEC	30.1	31.4	31.1	27.4	31.0	30.9
World excluding USSR, Eastern Europe and China	48.9	48.9	47.5	43.8	47.5	48.0
World	62.7	62.1	60.0	55.7	58.2	57.8

OPEC exports and revenues

	1978	1977	1976	1975	1974	1973
Exports (mb/d)	27.7	29.6	29.3	25.6	29.1	29.5
Revenues (\$ billion)	119.2	128.9	109.3	94.7	91.1	23.1

Exports from OPEC countries – volumes of crude oil and products

(Thousand barrels daily)	1978*	1977	1976
Saudi Arabia	8 100	9 100	8 400
Iran	4 600	5 000	5 300
Iraq	2 400	2 300	2 300
Kuwait	2 100	2 000	2 100
Libya	1 900	2 000	1 900
Nigeria	1 800	2 000	2 000
United Arab Emirates	1 800	2 000	2 000
Venezuela	1 600	1 900	2 100
Indonesia	1 500	1 500	1 300
Algeria	1 100	1 100	1 000
Qatar	500	400	500
Gabon	200	200	200
Ecuador	100	100	200
Total OPEC	27 700	29 600	29 300

*Estimates

Exports from OPEC countries – estimated revenues from oil

(Million dollars)	1978	1977	1976
Saudi Arabia	35 800	42 400	30 700
Iran	20 500	21 300	21 100
Iraq	9 800	9 600	8 500
Kuwait	9 200	8 900	8 500
Libya	8 600	8 900	7 500
Nigeria	8 200	9 600	7 700
United Arab Emirates	8 000	9 000	7 000
Indonesia	5 600	5 700	4 500
Venezuela	5 600	6 100	6 700
Algeria	5 000	4 300	3 700
Qatar	2 000	2 000	2 100
Gabon	500	600	800
Ecuador	400	500	500
Total OPEC	119 200	128 900	109 300

Total oil products demand in selected countries

(Thousand barrels daily)	1978	1977	% change
United States	18 700	18 430	+2
Japan*	5 270	5 220	+1
West Germany	2 930	2 830	+4
France	2 320	2 210	+5
Italy	1 950	1 880	+4
United Kingdom	1 830	1 800	+2
Spain	930	890	+4
Netherlands	800	770	+4
Belgium/Luxembourg	550	540	+1
Sweden	520	550	-5

*Including crude for burning

Total oil products demand in selected countries, 1978

(Percentages by volume)	USA	Japan	West Germany	France	Italy	United Kingdom	Netherlands
Motor gasolines	40	10	18	18	13	23	10
Gas oil/diesel fuel	18	15	44	38	26	23	26
Fuel oil	16	43*	15	27	38	30	32
Others	26	32	23	17	23	24	32
	100	100	100	100	100	100	100

*Including crude for burning

① Tokyo - oil & energy policies of Japan.
U.S.

② Each country's labor law measures.
Differences

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10 DOWNING STREET

From the Private Secretary

18 June 1979

17.6.79
Earlier today I sent you a short summary of the discussion at dinner at Chequers on 16 June. The Prime Minister has asked that the Foreign Secretary and the Secretary of State for Energy should also have, for their personal use only, a copy of the detailed record of that occasion. One is attached: the Prime Minister has asked that it should not be circulated on anything but the most restricted basis.

I am copying this letter and its enclosure to Bill Burroughs in the Department of Energy. I should be grateful if he could proceed in the same way.

N. J. SANDERS

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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cc: D/Energy
Treasury
C.O.

Energy
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10 DOWNING STREET

From the Private Secretary

17 June 1973

The Prime Minister entertained the Foreign Secretary, the Secretary of State for Energy, Sir Frank McFadzean and Mr. Pocock, Mr. Hart and Mr. Baxendell (all from Shell) to dinner at Chequers on Saturday 16 June. The following is a short summary of the main points raised.

On the price of oil, the Shell representatives anticipated early moves by Iraq and Kuwait to \$18.50; and that the OPEC meeting on 26 June would lead to a general price rise to \$20 from 1 July. They ascribed the current high prices on the spot crude market to the funneling of supplies through them from some producers, including Iran, Iraq, Libya and Nigeria.

They gave some of their own estimates of the current level of U.S. oil consumption. In 1978 actual consumption in the USA in the first two quarters had been 19.1 mbd and 17.2 mbd respectively. Corresponding figures for 1979 were 19.4 mbd (actual) and 17 mbd (estimated). So, in Shell's view, American consumption so far this year was overall at much the same level as it had been in 1978 despite a more favourable winter this year.

In discussion of the possibility of suppressing the effects of the spot market, the Shell representatives said that the only producer capable of providing enough oil to do so was Saudi Arabia; and that the Saudis understood the economic arguments which had been put to them for doing so, but were not prepared after Camp David to allow themselves to be seen to be the friends of the United States. In their view progress in improving Saudi-American relations was still slow.

Much of the discussion was devoted to the line which the Government might take in response to the proposals expected to be put by the French at Strasbourg. These were:

- (i) A three-year programme for import ceilings;
- (ii) An agreement to prevent imports above the OPEC price;
- (iii) New developments in cooperative international financing of exploration projects.

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On the first, all of those present regarded the proposals on import ceilings as impracticable. There were too many opportunities for too many individual consumers with too much money at their disposal to evade any such measures.

Mr. Pocock pointed out that the French might argue that they had tried to limit their imports by placing an overall money ceiling on them. In fact their limit had always been unrealistically high, and had never been tested.

Furthermore, a scheme of import ceilings would be impossible to monitor completely and raised the problem of definition of the base line on which the reduction would be calculated.

On maximum import prices, the Shell representatives took the view that the proposal simply would not work. In the first place, the "ceiling" price would rapidly become a floor price; what was more, there was a multiplicity of potential loopholes - such as freight rates, credit terms and detailed buy-back arrangements - by which the controls could be circumvented.

The Shell representatives were more attracted to the third proposal, of international financing arrangements.

Mr. Howell said that the French would respond well if we made encouraging noises about transparency. The Prime Minister distinguished between the spot product and the spot crude markets, and said that since the transparency plan would apply only to the spot product market, it did not seem to her to offer a significant way forward.

The Prime Minister asked, given the general doubts about the French proposals, what positive alternatives she could put forward at Strasbourg and Tokyo. She asked whether it was in fact possible to reduce the import targets any further without inducing a real recession. Mr. Hart said that if the proposed economies were genuinely put into effect, the combination of slow down in economic activity and the reductions in consumption would bring supply and demand into balance during 1980. Any more elaborate mechanism might therefore come into force at exactly the wrong time. The Shell representatives argued that the most effective measure was demand restraint by price, and suggested that this should be raised especially at Tokyo. Sir Frank McFadzean said that if prices were not put up by increases in excise duty, then consumers would have to face price rises from the producers and the resources concerned would be transferred across the international exchanges.

Mr. Hart said, however, that he had no hope of any sizeable increase in excise duty on gasoline in the USA. Such a proposal was political anathema to the Americans. The President's programme was now the key thing.

/ Mr. Pocock

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Mr. Pocock suggested that the Prime Minister should ask President Carter whether he could justify his claim that the American restraint measures were already working. The President might be asked to table detailed figures to back up that assertion.

The discussion turned finally to the outlook for Britain. The Foreign Secretary asked what the attitude of the companies would be if a general reduction of, say, 10% had to be made. Mr. Baxendell said that since 1973 the position had been transformed by North Sea oil. The Government would be in a strong position to lean on the oil companies producing in the North Sea. The weapons at the Government's disposal included flaring consents and their detailed regulatory powers on North Sea production. Sir Frank McFadzean said that the Government would indeed be able to ensure British supplies if they wished to do so, but it would be a difficult political decision.

The Shell representatives said that the reason for the present shortage of oil products in Britain while other Western European nations did not seem to be suffering in the same way was that a number of small suppliers in Britain had been relying on the Rotterdam spot market, and had now been forced out of business completely. Furthermore, certain middle-sized companies were putting less oil into Britain. Shell and Esso were refining all their North Sea crude in the UK. BP were supplying the British market at the same rate as they had in 1978, Esso were at approximately the same level and Shell were higher.

Mr. Howell said that at present BP were enlarging their market share rapidly. He said that BNOC would be making available from 1 July an extra 7½ million tons per year for British refiners. The Shell representatives said that they had spare refining capacity and would be greatly interested.

I am sending copies of this letter to Bill Burroughs (Department of Energy), Martin Hall (HM Treasury) and Martin Vile (Cabinet Office).

NJS

J. S. Wall, Esq.,
Foreign and Commonwealth Office.

PART 2 begins:-

NSS to FCO

17.6.29

PART 1 ends:-

Dinner Mtg Note: PM/McFadyen

16.6.29

END

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