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-----THE OIL SITUATIONMemorandum by the Minister of PowerSupplies

The Khartoum conference of Arab states removed on 1st September the ban on oil supplies destined to the United Kingdom, United States of America and West Germany. This decision will not affect overall supplies to Europe which, as long as the Suez Canal remains closed, are limited by tanker capacity and may be increased only by the opening of the "Tapline" from Saudi Arabia to Syria or the resumption of exports from Nigeria. It will however assist companies in the most economic programming of tankers and supplies, and so far as the United Kingdom is concerned it should enable us to obtain crude oils better suited to the United Kingdom refineries. A further gain to the United Kingdom will arise when exports of natural gas from Algeria are resumed, which we expect shortly.

2. In spite of the closure of the Canal there should be enough tankers to meet Europe's oil needs in the coming winter but at high cost. However the supply prospects will continue to be insecure so long as there is no settlement between Israel and the Arabs, and each Arab state endeavours to obtain maximum financial advantage from the current situation.

United Kingdom stocks

3. My Oil Industry Emergency Committee has just produced its first estimates of stocks and supplies over the coming winter as a whole, based on the main assumptions of closure of the Suez Canal throughout and of no Nigerian supplies. The Committee further assumed that the Arab ban would continue, but it has since indicated that the forecasts will not be changed significantly by the removal of the ban which will principally ease manufacturing problems in the United Kingdom and perhaps give a slight improvement in naphtha supplies.

4. The overall stock figures for the period from the start of the crisis until March, 1968 are attached as Table I. Company-owned stocks began the crisis at 15.3 million tons and dropped by 2.4 million tons (15 per cent) to their lowest point at 7th August. They have since started to rebuild. By 4th September they had reached 13.9 million tons and by

end September they are estimated to total 15.1 million tons, $1\frac{1}{2}$ million tons (10 per cent) below normal for the time of year. With less than the usual seasonal stock rundown forecast for the last quarter of the year, by end December the difference between normal stocks and the forecast level of 14.7 million tons is only 5 per cent. By end March stocks are estimated to be down to 12.4 million tons, just over a million tons below normal but well above the minimum operational levels even if there is a cold winter. These estimates represent a satisfactory prospect in overall terms.

Particular products

5. More detailed stock estimates, product by product, are attached as Table II. Two-thirds of the shortfall on normal stock levels at end September is shared equally between naphtha, where special measures are being taken, and the "other products" group where no problems have arisen or are expected. Stocks of the other main products are estimated at little below or at normal levels and present no difficulties. The shortfall on normal at end December repeats this end September pattern.

6. Owing to the loss in production of naphtha when crude oil supplies in general were cut earlier in the crisis, and so long as unsuitable crudes have to be used, all the special measures being taken to deal with naphtha still seem likely to be necessary. However, there can now be greater confidence that the naphtha demand and supply gap can be closed, and this will be helped further when the supply of Algerian natural gas is resumed. I intend to keep a very close watch on the naphtha situation.

Temporary Surcharge

7. From mid-August onwards the individual oil companies sent to my Department revised cost figures in support of additional surcharges. By 1st September my Department had examined the situation in depth and had prepared a paper for discussion with other Departments. Then the Arab destination ban was removed and companies have been asked to re-examine supply prospects and costs in the light of the changed circumstances. The companies' computer exercises are not complete, and thereafter there will be discussions with my Department which will take several days.

Conclusion

8. The oil supply position for the coming winter is now reasonably secure, except in the case of naphtha, on which special measures are in hand. In view of the improvement in stocks, we can now afford to relax some of the precautionary measures which have been taken in preparation for rationing. There remains a possibility that a further temporary surcharge will be needed to cover the oil companies' increased costs. I shall be consulting my colleagues about this in the light of further discussion with the industry.

R. W. M.

Ministry of Power, S.W.1.

12th September, 1967

TABLE I

	<u>Product stocks</u>	<u>Product yield from crude oil stocks</u> million tons	<u>Total</u>	<u>Number of weeks' supply forward</u>
<u>Actuals</u>				
End May	10.2	5.1	15.3	13.4
9th June	9.8	4.8	14.6	12.8
6th June	8.8	4.6	13.4	11.7
3rd July	8.3	5.1	13.4	11.8
10th July	8.3	5.3	13.6	11.8
7th July	8.1	4.9	13.0	11.2
4th July	8.2	4.8	13.0	10.9
1st July	8.2	4.8	13.0	10.6
29th August	8.2	4.7	12.9	10.5
26th August	8.5	4.5	13.0	10.2
21st August	9.0	4.7	13.7	10.5
18th August	9.0	4.5	13.5	9.9
15th September	9.6	4.3	13.9	10.1
<u>Forecasts</u>				
End September	10.4 (10.4)	4.7 (4.6)	15.1 (15.0)	9.8 (9.8)
End October	10.7 (10.7)	5.1 (4.7)	15.8 (15.4)	9.3 (9.1)
End November	10.6 (10.6)	4.8 (4.7)	15.4 (15.3)	8.8 (8.8)
End December	10.0 (10.2)	4.7 (4.6)	14.7 (14.9)	8.4 (8.6)
End March	7.5	4.9	12.4	8.1

() Latest previous forecast, made two weeks' earlier.

11th September, 1967.

	<u>28th August, 1967</u>		<u>4th September, 1967</u>			<u>30th September 1967</u>			<u>31st October, 1967.</u>			<u>31st December, 1967</u>			<u>31st March 1967</u>			
	<u>Actual Position</u>		<u>Actual Position</u>		<u>Weeks' supply forward</u>		<u>Estimated Position</u>		<u>Notional normal level</u>		<u>Estimated Position</u>		<u>Notional normal level</u>		<u>Estimated Position</u>		<u>Notional normal level</u>	
	<u>Products</u>	<u>Total</u>	<u>Prod-ucts</u>	<u>Total</u>	<u>supply forward</u>	<u>Total</u>	<u>Weeks' supply forward</u>	<u>Total</u>	<u>Weeks' supply forward</u>	<u>Total</u>	<u>Weeks' supply forward</u>	<u>Total</u>	<u>Weeks' supply forward</u>	<u>Total</u>	<u>Weeks' supply forward</u>	<u>Total</u>	<u>Weeks' supply forward</u>	
	<u>m. tons</u>		<u>m. tons</u>		<u>m tons</u>				<u>m. tons</u>		<u>m tons</u>			<u>m. tons</u>		<u>m. tons</u>		
<u>Gasolines</u>																		
Motor spirit	1.2	2.1	1.2	2.0	8.6	2.2 (2.2)	9.7 (9.9)	2.3	2.3 (2.3)	10.1 (10.2)	2.2 (2.3)	10.2 (10.6)	2.2	2.2	8.8	2.4		
Naphtha	0.4	0.6	0.4	0.6	4.0	0.8 (0.8)	4.3 (4.5)	1.3	1.0 (0.9)	4.2 (4.1)	0.8 (0.5)	3.1 (2.2)	1.1	0.3	1.3	0.7		
Other	0.1	0.2	0.1	0.2	20.1	0.2 (0.1)	22.0 (22.6)	0.2	0.2 (0.2)	26.2 (23.6)	0.2 (0.2)	29.2 (22.8)	0.2	0.2	25.4	0.2		
<u>Kerosenes</u>																		
Gas/Diesel oils	1.9	2.9	2.1	3.1	13.0	3.4 (3.5)	13.2 (13.4)	3.7	3.7 (3.5)	13.5 (12.9)	3.5 (3.6)	13.0 (13.2)	3.4	3.3	15.5	2.9		
<u>Fuel Oils</u>																		
Other Products	0.5	0.7	0.5	0.7	6.1	0.7 (0.8)	6.5 (6.7)	1.3	0.8 (0.8)	6.4 (6.4)	0.8 (0.8)	6.4 (6.4)	1.3	0.8	6.5	1.2		
<u>Total Stocks</u>	9.0	13.5	9.6	14.0	10.1	15.1 (15.0)	9.8 (9.8)	16.6	15.8 (15.4)	9.3 (9.1)	14.7 (14.9)	8.4 (8.6)	15.2	12.4	8.1	13.5		

(1) Total stocks are the product stocks plus the product equivalent of the crude oil stocks.

(2) () Latest previous estimate forecast on 23rd August, 1967.

(3) + The assessment of naphtha stocks makes no allowance for the special measures being taken to reduce naphtha usage.

11th September, 1967.

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118

