CP(73) 126 COPY NO 67

14 November 1973

CABINET

OIL ALLOCATION

Memorandum by the Lord President of the Council

1. The Ministerial Committee on Economic Strategy were this afternoon told that, on the latest information available, the major oil companies expect a reduction in landings from Arab producers of 7 per cent in November and 14 per cent in December. The minor companies, who rely on imports of crude oil and products largely from Rotterdam and Italy, will be more severely affected, and the overall shortfall for December might be as much as 20 per cent. A 10 per cent cut in supplies is equivalent to the consumption of three days' stocks a month. The general level of stocks is about 73 days, though there are disparities between different oil products. A crucial factor is the assurances which certain Arab producers, particularly Saudi Arabia, have given us: if they were prepared to increase their supplies to the level needed to meet winter consumption and increased industrial activity, the position would be much easier, and there might be no need for action to impose economies in consumption. But if these promises do not materialise, there is a strong case for some form of allocation.

2. In the light of this assessment the Committee concluded that it would be desirable to introduce arrangements for the reduction of consumption of both industrial fuel oil and motor spirit by 10 per cent. The imposition of the cuts would be accompanied by a publicity campaign to encourage economy in the use of all forms of fuel.

3. Since some consumers of industrial fuels must be awarded priority, cuts imposed on others must be higher (around 13 per cent). This should interfere very little with industrial production. It is, however, for consideration whether, taking account of the possible effects of the miners' overtime ban on coal stocks, across-the-board cuts of 10 per cent should be applied to fuel oil for electricity generation, bearing in mind that, if they are not, the cuts to other consumers would need to be doubled. The reductions would be carried out by the oil companies and based on their estimate of consumption during the coming winter; they would be achieved by directions to the suppliers under the Emergency Regulations. The

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issue of the directions will enable the oil companies to institute arrangements to alleviate local shortages and to help out those companies whose supplies have been more severely cut.

4. As far as motor spirit is concerned, the cut would be achieved by a restriction of supplies to dealers. It would be advisable to introduce immediately an order under the Emergency Regulations to prevent hoarding. It would be left to dealers to share out the limited supplies as fairly as possible, taking account of the needs of essential users such as doctors. Unless, however, consumption by motorists can be reduced, cuts in supplies to dealers could not be sustained for more than about three weeks before shortages became acute. Some voluntary economies can no doubt be secured by a sustained publicity campaign, but this is unlikely to be enough. We must, therefore, consider other measures to reduce consumption, such as a compulsory lowering of the speed limit and banning motoring on Sundays. But even steps such as these are unlikely to balance a 10 per cent cut in supplies to dealers, so that local shortages would still be possible, and public criticism would follow.

5. The Committee concluded that, if these measures were implemented, it would not at this stage be necessary to take steps to introduce petrol rationing. They noted that, although the powers can be renewed, it might well be embarrassing to us to have to do this if the purpose were only for oil allocation or petrol rationing. It would therefore be prudent to secure the passage of the Fuel and Electricity (Control) Bill before 12 December.

6. An announcement of these measures would be made in the debate on the emergency powers tomorrow afternoon.

7. I invite the Cabinet:-

   i. To endorse these measures to conserve oil supplies.

   ii. To decide whether oil supplies for power stations should be included in the cuts.

J P

Privy Council Office

14 November 1973