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To: 1. Barry Gardiner
2. Paul Murphy

From: Jim King DETI
Tourism, Agency Liaison and Equality Division

14 June 2004

cc: see below

Cabinet Office Ministerial Meeting – Fuel Protests

Objective: To provide you with up-to-date information on the oil supply/fuel protest situation within Northern Ireland.

Issue: There is considerable unrest, both in GB and in the Republic of Ireland regarding increased oil prices, and there have been a number of threats of protest in GB.

Presentation: Issues of Government insensitivity to steep price rises may occur and may be directed locally rather than at HMT. Manufacturing, farming and transport and domestic supplies will all be affected.

Recommendation: You are invited to note the present position which DETI is continuing to monitor.

Background

1. Two issues are driving the price of oil products steeply upwards at present. Firstly, the prices of refined oil products rose after the initial action in Iraq and have remained flat but at a relatively high level since that date. Since January 2004, increase in demand on a global basis, coupled with a short-fall in production created by the OPEC countries and revisions of reserves in the African nations, have driven the price of crude oil to a 30-year high. Secondly, the threat of terrorist action against major oil infrastructure targets is creating instability in the oil markets.
2. While the futures market expects oil prices to gradually soften over the course of the year, it is anticipated that prices will not return to their previous level.

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3. The Chancellor has already called on all producers to take action to ensure world oil prices return to levels that are consistent with lasting economic prosperity and stability.
4. A rise in fuel duty is planned by HMT as part of the budget proposals. Protest groups in GB are lobbying to have this abolished or postponed. A lorry convoys took place in Cardiff on 5 June and further action is possible in Edinburgh on 15 June. ROI is also affected and a small number of hauliers staged a protest in Dublin.
5. Those industries that use oil as part of their processes will be affected, as will the agriculture and transport sectors. The general public will notice immediately the increases in road fuel prices and will also notice the continued increase in the price of home heating oil.
6. The Government, industry and police remain alert to any possible resumption of the fuel protests which started in 2000 and any attempts to disrupt fuel supplies. Contingency plans have been updated and are in place to deal with any threat of disruption.
7. Within Northern Ireland we are observing the national position through DTI and Omand Group.
8. Locally, key terminals have been alerted to the possibility of protest and officials are in regular contact with them. Oil supply to NI is reported as normal and storage levels are high.
9. Latest information from PSNI shows threat/no threat of organised protest action within NI.

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OIL & PETROL PRICES / FUEL PROTESTS

Issue

Rises in oil prices are feeding through to significant pump price increases and giving rise to media speculation about fuel protests reoccurring this summer.

Line to take

- Oil is traded on international markets and it's not for the Government to intervene directly.
- The Chancellor has announced his intention to review in August the inflation-only fuel duty rise due on September 1. The full text of the chancellor's statement is attached at the end of the briefing.
- We welcome OPEC's decision to increase its production ceiling. Alongside earlier commitments by some producers to increase production this should help to ensure that additional volumes of oil reach the market.
- Although there are a number of factors supporting high oil prices, increased physical oil supplies to meet rising demand will help ease market tightness.
- International oil prices are being supported by a number of factors, most notably: strong global oil demand, particularly from the US, China and other parts of South East Asia; low oil inventory levels in the US; geopolitical uncertainty in key producing countries (e.g. Saudi Arabia, Iraq, Venezuela); tight capacities upstream and downstream.
- Would note that in real terms (2003 prices), current oil prices are around half the levels (up to \$90-100/bbl) reached in the early 1980s.
- Moreover, several major UK fuel retailers have recently announced reductions in petrol prices.

Interview bids?

Decline.

[If pressed]

- We as press officers have made the DTI's position clear. We are not going to get drawn on speculation.

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O&A

Protests/Contingency plans

How concerned are you re the likelihood of new protests?

- The Government, industry and police remain alert to any possible resumption of the fuel protests and attempts to disrupt fuel supplies. Contingency plans have been updated and are in place to deal with any threat of disruption. Security at key terminals and refineries has been reviewed and improved.

What about protest in Nottingham on 9 June?

- Understand it was a protest against the G8 summit and in support of higher duties. A local demonstration and an operational matter for the police, which was successfully resolved.

What contingency plans does the DTI have in place?

- DTI and the industry have contingency plans in place in the event of any international or domestic oil or fuel supply disruptions, but does not discuss the details.

What about Daily Express report claiming to have a copy of the Government's emergency plans?

- DTI and the industry do have contingency plans but does not discuss the contents of them or media speculation.

What about Daily Express claims that Government plans include a three to four day week and cancelling Wimbledon?

- This is simply speculation.

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Is it true as reported recently that the Government will deploy military to move fuel, invoke emergency powers etc if there are renewed protests?

- We are not going to get drawn on speculation. The Government has contingency plans in place in the event of any fuel supply disruptions but does not discuss the details.

Did the DTI undertake/ participate in an additional exercise on the 11/ 12/13 June?

- No comment.
- If necessary refer all enquiries to the Grampian Police.

Response to Michael Howard's sympathy with protestors?

- We are aware of the road hauliers' concerns about the price of fuel, but the price is driven by the market and not by the Government. That is why the Chancellor has been urging OPEC to take the action needed to help reduce oil prices down to a lower sustainable level.

What contact have we (DTI) had with hauliers? When have these contacts taken place and with whom?

- We have ongoing discussions with all interested parties - as you would expect from the department. We don't discuss when, where and with whom we meet. We don't get into a running commentary on this kind of issue.

What talks are we holding with the Treasury to address concerns?

- We don't discuss contact between departments.

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Is the UK Government stockpiling oil?

- No - UK is not stockpiling. The UK through company compulsory stocking obligations continues to maintain reserve stocks to meet its obligations under the EU stocking directives.

How much stock does the UK hold?

- Under the Directive the UK is required to hold 90 days stock but as the UK is self sufficient (net exporter) in oil supplies it benefits from a 25 per cent derogation and holds stocks in relation to 75 per cent of its annual national consumption – equivalent to 67.5 days of full annual consumption.

What Emergency Powers could the Government bring in if necessary?

- If there is an imminent, an actual or threatened emergency in the UK affecting fuel, the Government can use the emergency powers available under the Emergency Powers Act 1920 and the Energy Act 1976.
 1. The Emergency Powers Act 1920 provides wide-ranging powers to make regulations, which could be used to control goods or instruct members of the public or companies. The powers are triggered where the Queen considers that the community's essentials of life or transport systems are, or are about to be, threatened because of disruption to the supply and distribution of goods including fuel and food.
 - Regulations under the Act may impose powers and duties, but they must be aimed at securing the essentials of life to the community.
 2. It is more likely that emergency action would be taken under the Energy Act 1976. This allows the regulation or prohibition of the production, supply, acquisition or use of fuel where there is or is

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imminent an actual or threatened emergency in the UK affecting fuel or electricity supplies or to meet international obligations. It provides ministers with options to introduce a number of tools to alleviate an emergency; it would for example permit the imposition of speed limits on roads or the imposition of Priority Uses or Designated Filling Station tools. The Act also allows action outside emergencies to regulate the use of energy for conservation purposes, and the price of fuel products (but not crude oil). The Act provides wide-ranging powers to make Orders of general application (subject to negative Parliamentary procedure) and specific Directions to particular persons (including companies). These Orders lapse after 28 sitting (Parliament) days and Directions are no longer of any effect when an Order has ceased to be in force.

Was there an 'emergency ministerial summit' May 14?

- The media story was incorrect. There was no such meeting. The DTI told the Mail before they ran the story. Ministers do, however, have regular meetings with the industry, as you would expect.
- Meetings happen regularly - we are not going to give a running commentary.
- It was long-planned routine exercise to ensure contingencies are in place should there be any downstream oil disruptions due to any reason. This is a routine part of the Government's ongoing contingency planning process and is to be expected.
- We are working very closely with members of the oil and petrol industry and they took part (both suppliers and producers were represented), together with other key stakeholders including the police. Government bodies represented include the Cabinet Office's Civil Contingencies Secretariat, Scottish Executive, National Assembly of Wales and DEFRA. The exercise was a scenario-based table-top exercise designed to test

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contingencies. Ministers were aware of the exercise but were not directly involved.

[If asked - such exercises happen two to three times a year. This is not the first one to involve oil.]

Oil / fuel wider context (incl Saudi Arabia and OPEC)

Why are current crude oil prices so high?

- International oil prices are being supported by a number of factors, most notably: strong global oil demand, particularly from the US, China and other parts of South East Asia; low oil inventory levels in the US; geopolitical uncertainty in key producing countries (e.g. Saudi Arabia, Iraq, Venezuela); tight capacities upstream and downstream.
- Would note that in real terms (2003 prices), current oil prices are around half the levels (\$90-100/bbl) reached in the early 1980s.

Why have UK petrol and diesel prices increased?

- Despite rising crude oil prices, UK petrol and diesel prices were relatively flat during the second half of 2003. Since January, average UK retail prices have risen by 6 pence per litre reflecting rising wholesale prices but in the past few days several retailers have announced reductions in prices.

Petrol and diesel price cuts?

- Price setting is a commercial matter for individual companies. Free and open competition between fuel suppliers should lead to consumers being able to buy petrol at the lowest available price
- The Chairman of the Office of Fair Trading continues to monitor the UK petrol market to ensure that anti-competitive behaviour does not occur

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What is the outlook for oil prices?

- Outlook is uncertain. Market expects oil prices to gradually soften over the course of the year, but to remain relatively high.

What difference will OPEC's decision make?

- Recognise that there are a number of complicated factors supporting oil prices but consider that increased supplies from OPEC will help ease market tightness. But cannot speculate what the exact impact on prices will be.

What about the situation in Saudi Arabia – won't this lead to sharp increases in oil prices?

- Physical supplies have been unaffected by the recent attacks.

Is the world too dependent on Saudi oil?

- Saudi Arabia accounts for around 12% of global oil production. This compares to nearly 20% in the late 1970s and early 80s.

How much do we in the UK rely on Saudi oil?

- The UK remains a net exporter of oil. Of the oil we import, more than half is sourced from Norway. In 2002, supplies from Saudi Arabia accounted for around 1% of total crude oil imports into the UK. [NB. Generally the UK produces higher quality and hence more valuable oil than most other regions. The UK's modern refineries are able to run on lower quality oil so the majority of UK production is exported and lower quality (cheaper) oil imported.]

Are there spare oil supplies into which OPEC could tap?

- Key OPEC producers have already committed to increasing supplies and OPEC production rose by 500k bpd (2%) in May. The International Energy Agency also estimates that around 1.2m bpd of additional OPEC

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production capacity could be brought on stream within 30 days. A further 1m bpd of Saudi capacity is available within short notice.

[If raised] *European Commission (Loyola de Palacio) blames speculators rather than scarcity?*

- Ms de Palacio not speaking for all member states. Accept that speculation is playing a role but consider high prices are underpinned by tight fundamentals: strong demand and low inventories in the US. Speculators respond to opportunities rather than create them. At the International Energy Forum in Amsterdam (22-24 May) the general view was that high prices could be explained by a complex interaction of unanticipated strong demand, tight capacities upstream and downstream, and geopolitical uncertainties.

Views on the latest IEA Oil Market Report that shows stronger global oil demand growth?

- Would note that much of the revisions to demand relate to historic or current (quarter one and quarter two) rather than forecast demand. But agree with IEA's assessment that this highlights the need for supply levels to be sufficient to meet demand.

Fuel duty

Is the duty increase planned for September going ahead?

[Press officers]

- Matter for HMT.

[Minister only]

- As far as Britain is concerned, it is in no one's interests to have petrol prices higher than expected. And I understand the worries of motorists, hauliers and business generally. That is why it has been important and will continue to be important in the run up to the next meeting of OPEC on July 21st to

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maintain the focus on the source of the rise in world oil prices, and in particular on production targets.

- The Chancellor has already postponed the inflation-only increase until September 1st and for September 1st he has announced our plan to give a special incentive for the introduction and use of sulphur-free fuel to reduce the environmental effects of the use of fuel.
- The reason why we proposed putting in place an inflation-only rise is to maintain our position of strengthening the public finances, maintaining resources for schools and hospitals and public transport, and to meet our environmental objectives, while at the same time taking account of the world price of oil on stability.
- It is important for the British economy that we have the strength to get the balance right between a fair deal for the motorist and haulier and the needs of the public services and of stability, as well as our environmental responsibilities.
- Rather than opportunistic, short-term, day-to-day reactions to fast changing events - which do nothing for stability - the Chancellor will review progress in August.

But the new sulphur-free fuel will not be available by September.

- The Budget has put in place a clear incentive for motorists to use the sulphur-free fuel. It is now up to the industry to respond to that incentive to supply the fuel their customers demand.
- We have delayed the implementation of the usual inflation increase for 6 months to allow the industry to get the fuel to the pumps. We would therefore hope that the new fuel will be widely available by September - and it is far too early to speculate on any problems.

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With oil prices having peaked at \$39.95/bbl on 1 June following the attacks in Iraq, a combination of factors has led to a fall back to \$33.50/bbl. Strong demand from the US, China and other parts of South East Asia, low US oil, and satisfactory gasoline inventory levels, relatively low OPEC spare capacity, concerns about tighter US petrol import controls, and a general sense of uncertainty in Iraq, Saudi Arabia, Nigeria and Venezuela are all contributing factors. A general strike in Nigeria that began on June 9 could significantly reduce the country's current production of around 2.5 mtpa of crude. However, the strike has shown little reaction to the news and talks are underway to bring it to an end. In the other oil-producing states that have lasted a few days of strikes, the situation is similar to 3 June. OPEC producers reaffirmed their commitment to market stability and agreed an increase in the OPEC crude production ceiling (excluding Iraq) from 23.5 mtpa to 25 mtpa with effect from 1 July, and to 26 mtpa with effect from 1 August. OPEC producers agreed to meet again on the 11 July when they will review market developments.

With OPEC already producing above the 25 mtpa ceiling it is unclear what impact the ceiling increase will have on oil prices. However, a major announcement by Saudi Arabia will be the key to the market which expects a decision should be made in mid-July on whether to increase the level of oil being produced in June (at the top of the 25 mtpa ceiling) and to increase it further in mid-July to meet demand in US inventories. The US has been seen to have a large deficit in its oil inventories in June and it is expected that the deficit will be a factor.

With so much volatility (though producers are not producing as much as in "short-term" volatility) in the market the volatility in the oil price is expected to be high. Movements in US inventory levels and OPEC supply and price level developments. However, with demand rising steadily in the summer and petrol expected to remain strong, most analysts expect oil prices to remain relatively high by the end of the year and to remain relatively high. Moreover, with OPEC spare capacity relatively low, the threat of market-wide shortages of petrol will continue to be exacerbated. Recent developments suggesting that the situation in Saudi Arabia deteriorates the oil price outlook for 2004. If oil prices do rise, it will lead through to pump prices rising, which will lead to the US, the effect of the proposed duty increase and will have further consequences to the effect of renewed fuel protests.

Petrol prices

Despite rising crude oil prices, UK retail petrol and diesel prices were relatively flat for most of the second half of 2003 - supported by the fall in the value of the US dollar (which reduced the cost of oil). However, over the last three months prices have risen by around 5 pence per litre, average UK petrol prices are £2.02 p/l with diesel at £1.92 p/l. Retail prices are at a similar level to that at the start

Background

Oil prices

1 Over recent weeks, oil prices have risen to their highest levels since October 1990. One month Brent reached \$39/bbl on 1 June following the attacks in Saudi Arabia but has since fallen back to c\$35/bbl. Strong demand from the US, China and other part of South East Asia; low US oil, and particularly gasoline inventory levels; relatively low OPEC spare capacity; concerns about tighter US petrol environmental specifications; geopolitical uncertainty in Iraq, Saudi Arabia, Nigeria and Venezuela are all supporting prices. A general strike in Nigeria that began on June 9 could significantly damage the countries current production of around 2.5mbpd of crude. However, the market has shown little reaction to the news and talks are underway to bring an end to the strike (previous strikes have lasted a few days at most). At their meeting in Beirut on 3 June, OPEC producers reaffirmed their commitment to market stability and agreed an increase in the OPEC crude production ceiling (excluding Iraq) from 23.5mbpd to 25.5m bpd with effect from 1 July, and to 26m bpd with effect from 1 August. OPEC producers agreed to meet again on the 21 July when they will review market developments.

2 With OPEC already producing above the 1 July ceiling it is unclear what impact the ceiling increase will have on actual supplies. However, earlier commitments by Saudi Arabia and the UAE to increase actual supplies means that the decision should result in additional volumes of around 0.5- 1m bpd of oil being produced in June (on top of the 500k bpd increase that occurred in May). Added to recent builds in US inventories this has helped push prices down to c\$35/bbl – the lowest level in a month.

3 With so much volatility (though Treasury are contending in public it is “short-term” volatility) in the market the outlook is uncertain. Much will depend on movements in US inventory levels and OPEC supplies and geopolitical developments. However, with demand rising seasonally in the summer and growth expected to remain strong, most analysts, and the market, expect prices to only soften slightly by the end of the year and to remain relatively high. Moreover, with US inventories and OPEC spare capacity relatively low, the impact of market uncertainty on prices will continue to be exacerbated. Some analysts are forecasting that if the situation in Saudi deteriorates the oil price could hit \$50 a barrel. If oil prices rise this will feed through to pump prices (with some forecasting 90 p/l) in the UK in the advent of the proposed duty increase and will build further momentum behind the threat of renewed fuel protests.

Petrol prices

4 Despite rising crude oil prices, UK retail petrol and diesel prices were relatively flat for most of the second half of 2003 - shielded by the fall in the value of the US dollar (which reduced pounds sterling price of oil). However, over the last three months prices have risen by nearly 6 pence per litre: average UK petrol prices are c82 p/l with diesel at c83 p/l. Retail prices are at a similar level to that at the start

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of the fuel protests in September 2000. Over the last two weeks, softening crude prices have helped wholesale petrol prices to fall by more than 2 p/l. This has improved retail margins and Asda responded (9 June) by announcing a 1-1.5 p/l reduction in retail prices. BP has subsequently announced that it will cut prices by 2 p/l with Tesco and Sainsbury indicating they will follow suit.

5 US gasoline prices have been at record levels; the average retail price breached \$2 for the first time during May, although prices have dipped below their highs in the last two weeks.

6 In his budget, the Chancellor announced a 1.92 p/l (3%) increase to fuel duty on petrol and diesel effective from 1 September 2004, taking the tax to 49.02 p/l. This returns duty to around the same level as in 2000, but lower in real terms. However lower rate increases of 1.42 p/l for sulphur-free petrol and diesel are being introduced, which will see the duty on both sulphur-free fuels set at 48.52 p/l. Treasury expects these fuels to fully replace ULSD/ULSP at retail outlets by the end of the year.

Possible fuel protests and response capability

7 Since the fuel protests in September 2000, DTI (in tandem with the oil industry and other key stakeholders including the local authorities and police) has overhauled the downstream oil emergency plans based on an exhaustive assessment of possible supply disruption scenarios. The key vulnerability remains the possible disruption of tankers leaving terminals to deliver fuel to end-use. Potential dislocation of tanker traffic could occur if the key terminals were blockaded by protestors as in September 2000 or drivers refused to work on the grounds of health and safety concerns or because of legitimate industrial action.

8 DTI is in close liaison with the police and monitor intelligence on the possible resumption of fuel protests.

[Not for public disclosure]

9 We are much better prepared to anticipate and respond to any threatened protest. We have better intelligence and security procedures and physical site security has been markedly improved since the fuel protests of September 2000. This has been acknowledged by "veterans" of the September 2000 protest who in the lead up to the October 2003 duty increase acknowledged as much and intimated that any renewed protest would probably take a different form – such as motorway go slows or blockades around major cities. The risk, of course, is that if there is a demonstration at a terminal it will be picked up by the media and could stimulate a rapid snowball of copycat action at other terminals and refineries. Accentuated by panic buying, the situation could rapidly deteriorate. We are very mindful of this threat and remain on the highest alert.

10 There is continued media speculation about the threat of renewed fuel protests. The most recent was a front-page story in the 03 June Daily Express predicting a resumption of fuel protests and claims to have seen a copy of the

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Downstream Oil Emergency Response Plan and claims the Government might introduce a three to four day week and ban sporting events.

11 The downstream oil supply chain continues to operate as normal. At a senior level, police forces and Police National Information Communications Centre continue to maintain high alert to respond fully and swiftly to potential protests and at the local level are in contact with key terminals and refineries at a senior management level. ACPO and ACPO Scotland are reporting daily to DTI, and exceptional reporting. Police forces continue to monitor and PNICC are now issuing exceptional intelligence reports to DTI and CCS.

Outlook for protests

14 Given the protest groups statements the likelihood of the planned protests in the next few weeks have receded. The industry, police and DTI remain on full alert on a contingency basis in the unlikely event of an impulse protest by farmers/hauliers.

15 The protest sponsored by the Road Haulage Association organised in Edinburgh on 15 June passed off peacefully with only some 40 trucks participating.

16 The rally in Cardiff on 5 June passed off with only minimal disruption. The Fuel Lobby's protests planned for 9 June in major cities were postponed following the Chancellor's statement. A small anti-G8 / globalisation protest in support of high fuel prices near the Total/Texaco terminal in Nottingham on 9 June passed off without fuel disruption.

17 Key terminals and refineries remain on the highest alert. Local police forces for Stanlow (Cheshire) and Grangemouth are being particularly vigilant. They have no substantive intelligence of any planned protest but they are wary, as the refineries are potential flashpoints for protest. We are not expecting any terminals to be blockaded or any disruption to fuel supplies but all key sites remain on high alert, as are the police and DTI. Therefore, it appears that the general thrust that any protests at this time are primarily politically targeted rather than attempts to disrupt fuel supplies. This is consistent with quotes from "veterans" of the September 2000 protest who in the lead up to the October 2003 duty increase acknowledged that security at key refineries and terminals has improved and intimated that any renewed protest would probably take a different form - such as motorway go slows or blockades around major cities.]

The Chancellor of the Exchequer's statement following the meeting of OPEC in Beirut:

The OPEC decision to raise production targets in July and August - and the Saudi and United Arab Emirates announcements that they will move production up immediately - are both welcome and essential for the much needed stability in the oil market that we have been seeking.

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And I and other Finance Ministers will continue to be in contact with OPEC ministers and to press OPEC both on meeting these production targets and on the case for raising the targets higher.

Because it is the world oil price that has been rising not least because of a shortage of oil supply to meet demand, it is in the British national interest that the focus is on OPEC and its responsibilities.

And the short-term instability in the Middle East has meant no country can buck the global price.

As far as Britain is concerned, it is in no one's interests to have petrol prices higher than expected. And I understand the worries of motorists, hauliers and business generally.

That is why it has been important and will continue to be important in the run up to the next meeting of OPEC on July 21st to maintain the focus on the source of the rise in world oil prices, and in particular on production targets.

I have already postponed the inflation-only increase until September 1st and for September 1st I have announced our plan to give a special incentive for the introduction and use of sulphur-free fuel to reduce the environmental effects of the use of fuel.

The reason why we proposed putting in place an inflation-only rise is to maintain our position of strengthening the public finances, maintaining resources for schools and hospitals and public transport, and to meet our environmental objectives, while at the same time taking account of the world price of oil on stability.

It is important for the British economy that we have the strength to get the balance right between a fair deal for the motorist and haulier and the needs of the public services and of stability, as well as our environmental responsibilities.

Rather than opportunistic, short-term, day-to-day reactions to fast changing events - which do nothing for stability - I will review progress in August.

In that time the focus should be on OPEC and oil producers and their responsibilities to meet their own targets for sustainable oil prices.

And I will not do anything that will put at risk the stability of the economy and of the public finances that, over the last seven years, we have sought to achieve.

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