

010
Ref: B06907

PRIME MINISTER

c Sir Robert Armstrong

Oil Supplies from the Gulf
(OD(83) 17)

→ A.J.C.
Prime Minister.
Subject to colleagues, agree
recommendation in paragraph 2 of
Energy Secretary's paper?

A.J.C. 1/12

BACKGROUND

Over the past weeks officials have considered various aspects of the Iran/Iraq war, and further contingency work is in progress. The paper by the Secretary of State for Energy covers a report by officials on the effects on the United Kingdom's oil supplies and oil prices if oil from the Gulf were cut off or substantially reduced.

2. The paper concentrates on the possibility of a shortfall of about 4 million barrels per day (mbd) compared with the normal flow of oil through the Straits of Hormuz of about 9 mbd and a free world market of 44 mbd. It concludes that provided panic buying could be avoided, there would be a good chance that United Kingdom demand could be met at prices close to current levels. Provided that international agreement could be secured, the United Kingdom's interest would be better served by activating the International Energy Agency emergency allocation scheme than by relying on alternative "sub-crisis" measures; and it recommends that action in response to a temporary interruption of supply should focus on mobilisation of stocks rather than on measures of demand restraint.

3. The Committee is invited to endorse these conclusions and agree that we should initiate preliminary low key discussions with the other main industrial countries affected, ie the United States, Japan and Germany.

4. Foreign and Commonwealth Office officials are advising the Foreign and Commonwealth Secretary to support this recommendation and to suggest that it would be helpful if preliminary discussions were opened with the Americans before the visit to London of the United States Secretary of Energy on 8th December.

HANDLING

5. The situation in the Gulf clearly has to be closely watched from day to day. Despite the recent Iraqi Exocet attack on a Greek ship, the Straits of Hormuz remain open and oil is still flowing. The oil markets remain reasonably calm. It is important not to talk the market into a crisis, which premature moves might risk doing. At the same time it would seem a sensible precaution to ensure that the other principal oil consuming countries share our assessment of the supply prospects and

CONFIDENTIAL

support our analysis of the action which should be taken as soon as the market began to react to the prospect of a significant shortage of oil supplies from the Gulf.

6. I recommend accordingly that you should agree with the recommendations of the Secretary of State for Energy, subject to the agreement of the other members of OD. There would seem to be no need for the paper to be discussed by the Committee: and it would in fact be difficult to arrange a meeting in the near future because of pressure on Ministers' diaries and the absences of the Foreign and Commonwealth Secretary from London.

David Goodall

30th November 1983

A D S GOODALL