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OO BELGRADE

OO CARACAS

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TRS 545

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TO IMMEDIATE UKMIS NEW YORK (FOR PS/SOFS)

TELEGRAM NUMBER 773 OF 25 SEPTEMBER

AND TO IMMEDIATE BELGRADE (FOR PS/PM)

INFO IMMEDIATE WASHINGTON, CARACAS, PARIS, BONN, TOKYO,

UKDEL OECD, UKREP BRUSSELS

IRAN/IRAQ: OIL SITUATION

1. ALTHOUGH THE SERIOUS PRESS IS TAKING A BALANCED VIEW, THERE HAVE BEEN MORE ALARMIST REPORTS ELSEWHERE ABOUT OIL SUPPLIES. THE FOLLOWING POINTS MAY HELP TO PUT THE SITUATION IN PERSPECTIVE

I) TWO BRITISH SHIPS ARE STILL BLOCKED IN THE SHATT EL ARAB, THE GULF HERON IN BASRA AND THE ALTAMEN 4 MILES OFF KHORRAMSHAHR. NO EVIDENCE OF HOSTILE ACTION AGAINST TRAFFIC IN THE STRAITS OF HORMUZ ALTHOUGH THE IRANIANS ARE STOPPING VESSELS PASSING NEAR THE ISLANDS TO CHECK THEIR BUSINESS. THE IRANIAN INSTRUCTIONS ON THE ROUTE TO BE FOLLOWED WEST OF THE ISLANDS COULD IN SOME AREAS LEAVE VERY LARGE CRUDE CARRIERS (VLCC'S) WITH INSUFFICIENT CLEARANCE AND SOME TANKERS ARE REPORTED TO BE RESTRICTING THEIR LOADS. THERE ARE, HOWEVER, DIFFERENT VERSIONS OF THE IRANIAN INSTRUCTIONS. GENERAL COUNCIL OF BRITISH SHIPPING (GCBS) ARE TRYING TO CLARIFY POSITION THROUGH BP. LLOYDS' ACTION IN INCREASING THE WAR RISKS PREMIUM THROUGHOUT THE GULF IS ALSO REPORTED TO BE DETERRING SOME FOREIGN VESSELS INCLUDING TANKERS FROM ENTERING THE STRAITS. BRITISH VESSELS HAVE FEWER PROBLEMS AS THE P AND I CLUBS WAR RISKS SCHEME WHICH APPLIES ONLY TO UK REGISTERED SHIPS, CONTINUES TO PROVIDE COVER EXCEPT IN BOX ZONE EXTENDING 50 MILES SOUTH OF THE SHATT EL ARAB ESTUARY. UK SHIPPING TO KUWAIT AND OTHER PORTS ON THE SOUTHERN COAST OF THE GULF IS THEREFORE NOT AFFECTED.

II) THE IEA ARE KEEPING THE SITUATION UNDER CLOSE REVIEW BUT DO NOT INTEND TO HOLD AN EMERGENCY MEETING AT THIS STAGE. THE SECRETARIAT HAS ASKED MEMBER STATES TO URGE RESTRAINT ON COMPANIES TO AVOID A SURGE IN PRICES.

III) THE COMPANIES THEMSELVES HAVE SO FAR TAKEN A RELAXED VIEW. NEITHER BP NOR SHELL NOW HAVE VESSELS IN THE DANGER AREA, AND HAVE NO FURTHER SCHEDULED LIFTINGS FOR AT LEAST A WEEK.

IV) AT PRESENT NO WESTERN COMPANIES ARE LIFTING IRANIAN OR IRAQI OIL FROM THE GULF. THIS REPRESENTS A LOSS OF SUPPLY OF ABOUT 2 MILLION BARRELS PER DAY (MBPD).

V) SOME HARDENING IN PRODUCT PRICES ON THE SPOT MARKET BUT LEVEL OF ACTIVITY HAS REMAINED LOW.

VI) IT WOULD TAKE ABOUT A MONTH FOR SUPPLY SITUATION TO BE AFFECTED BECAUSE OF STEAMING TIME.

VII) STOCKS ARE VERY HIGH, ABOUT 100 DAYS IN MOST CONSUMING COUNTRIES.

VIII) UK'S DIRECT DEPENDENCE ON SUPPLIES FROM KUWAIT, IRAN AND IRAQ IS SMALL, MAXIMUM LOSS OF 300,000 BPD.

2. NOTHING, THEREFORE, HAS HAPPENED SO FAR WHICH CAUSES SERIOUS TROUBLE FOR OIL SUPPLIES. IF UPPER GULF SUPPLIES WERE CUT OUT FOR ONE OR TWO MONTHS, WITH THE ACCUMULATION OF STOCKS AND SURPLUS PRODUCTION, THERE SHOULD BE NO REAL DIFFICULTIES. BUT THE LONGER THE SITUATION PERSISTED THE WIDER THE MEASURES OF DEMAND RESTRAINT WOULD HAVE TO BE. IF OTHER GULF SUPPLIES WERE AFFECTED, PARTICULARLY THOSE OF SAUDI ARABIA, (15-16 MBPD NORMALLY PASS FROM THE STRAITS OF HORMUZ) THERE WOULD BE NO IMMEDIATE EFFECT ON SUPPLIES BUT THE SITUATION WOULD BE VERY SERIOUS IN THE MEDIUM TERM. HOWEVER, POLITICAL AND PSYCHOLOGICAL FACTORS COULD LEAD TO A DAMAGING DECLINE IN CONFIDENCE, LEADING TO A RAPID AND SHARP RISE IN PRICES, EVEN THOUGH THE ACTUAL SITUATION DID NOT SEEM TO WARRANT THIS.

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