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Treasury Chambers, Parliament Street, SW1P 3AG
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6 December 1983

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank

N. S. J. R.

A. J. C. 7/12

OIL SUPPLIES FROM THE GULF

I have read your paper OD(83)17, and Geoffrey Howe's minute of 1 December.

The paper by officials which you attached deals with a crisis lasting perhaps 3 months. It is at least arguable that, given such a temporary oil shortage, the UK's interest as a net oil exporter lies in maximising the resource and financial advantage offered by higher oil prices.

I am, however, inclined instead to agree with the paper's conclusions, and your own views. For a rapid price rise would be likely to be followed by a longer period of price instability, which could have an adverse impact on industrial and financial markets.

In discussions with other countries, and with the EC and IEA, we must however make quite plain that our support for the IEA Emergency Scheme is dependent on all the parties - including the United States - participating fully, and on the scheme working in practice as was envisaged when it was originally drawn up, after the crisis of 1973-74. We must emphasise that, if either of these conditions were not met, or seemed unlikely to be met, our support for, and participation in, the Scheme would lapse.

I do not object to Geoffrey Howe's proposal to authorise some low-key diplomatic activity to promote support for the Scheme, but I am sure that we must beware of becoming too closely

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identified with it, and so reducing our ability to act independently if it were to prove less than wholly effective.

Copies of this letter go to the Prime Minister, members of OD, and Sir Robert Armstrong.

*Yours
Nigel*

NIGEL LAWSON

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