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Prime Minister 22nd A
Sir Oliver Wright is being instructed to discuss with

ESCALATION OF THE WAR IN THE GULF

Mr. Eagleburger the desirability of US/Soviet contacts in the Gulf.

RECORD of a Meeting held in Conference Room A, Cabinet Office at 10.30 am on FRIDAY 17 FEBRUARY 1984

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We must discuss this again very early next week. We must have more concrete plans with the Americans or necessary diplomatic authority.

PRESENT

The Rt Hon Sir Geoffrey Howe QC MP	Secretary of State for Foreign and Commonwealth Affairs (in the Chair)
The Rt Hon Peter Walker MP	Secretary of State for Energy
The Rt Hon Michael Heseltine MP	Secretary of State for Defence
Mr Ian Stewart MP	Economic Secretary, Treasury
Mr S L Egerton	Foreign and Commonwealth Office
Mr I P Wilson	Treasury
Mr S Robson	Treasury
Mr J Wiggins	Department of Energy
Air Marshal D P Hall	Ministry of Defence
Mr J M Legge	Ministry of Defence
Mr R J O'Neill	Cabinet Office
Mr D E J Jago	Cabinet Office
Mr D Brennan	Cabinet Office

The meeting considered the escalation of the war in the Gulf. They had before them an immediate assessment (JIC(84)(IA)5) describing developments in the war.

MR O'NEILL said that the situation in the war between Iran and Iraq had not changed greatly from that described in the immediate assessment. The fighting was continuing, and was confined to Iranian territory. It was doubtful that the Iranian armed forces had the capability to advance far. The Iranians had sustained damage from Iraqi missile attacks, to which they could not respond in kind. The Iranians' immediate objectives were not clear, but they might be aiming to cut the road between Baghdad and Basra. In the longer term, they wished to wear down Iraq's willingness to resist, and to topple the regime of Saddam Hussein. If the Iranians achieved a substantial breakthrough, Iraq might become desperate and escalate its attacks upon Iran.

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THE SECRETARY OF STATE FOR ENDRGY said that a number of oil companies expected an increase in hostilities in the Gulf in the next few weeks. Some nine million barrels per day (mbd) of oil were exported from the Gulf area. If the Straits of Hormuz were blocked, only one and a half mbd would be exported making a shortfall of seven and a half mbd. If other oil producing nations increased their output, the shortfall might be reduced to four mbd, which was 9% of the world's supplies. If there were no increase in output, because other oil producing countries preferred to see the price of oil rise, the shortfall would be 16% of the world's supplies. In the circumstances of a shortfall, it would be important to implement the International Energy Agency's (IEA) emergency allocation scheme, and to persuade the United States to release as much as possible of their strategic reserve of oil. Action within the European Community should be avoided, since the United Kingdom would be looked to for assistance in providing oil to other members. The United States administration had earlier said that they would co-operate in IEA action in the event of disruption to oil supplies, but it was possible that they might instead decide to allow market forces to effect the necessary redistribution of supplies. This could lead to a sharp rise in the price of oil, which would be damaging to the prospects for world economic recovery.

In discussion the following points were made -

- (a) The Iranians had stated publicly that they would close the Straits of Hormuz if they were themselves struck in such a way as to halt their oil exports. It was unlikely, however, that they would be able to sustain a closure for long. They were unlikely to mine the Straits, but might mount attacks on neutral shipping, which would make shipping reluctant to pass through the Straits.
- (b) The reaction of the United States to an interruption in oil supplies would be crucial. Every attempt should be made to steer them away from taking precipitate military action, which would greatly increase tension in the area, and could provoke a response by the Soviet Union. It would be desirable for the American element of any Western response to the closure of the Straits to be as unobtrusive as possible in order that the Iranians should not be provoked into taking wholesale action against Western interests. The United States might be asked to

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exercise a restraining influence upon Iraq, with whom her relations were improving.

- (c) Diplomatic action to try to bring an end to hostilities in the Gulf was continuing, but the prospects for success were not good.
- (d) The present escalation of hostilities might result in an increase in the price of oil. If the situation worsened, and oil supplies were interrupted, larger increases in oil prices could be expected, particularly if the United States did not release their reserves. Short-term fluctuations in oil prices would probably be manageable, and prices in the range of \$35 to \$40 a barrel were tolerable.
- (e) The Director of Military Assistance Overseas, Major General Dennis, had recently concluded a tour of the Gulf States. As previously agreed by Ministers, he had concentrated on offering those States British assistance in developing their indigenous defensive capabilities against the possibility that they might come under attack from Iran. Defence Ministers of the Gulf Co-ordination Council were meeting on 25 February, and were expected then to reach conclusions as to the sorts of assistance they might require. The Omanis had declined the offer to bring to a greater state of readiness the mine counter-measures force which might be deployed to the Gulf, since this would have involved them in paying for a ship to be taken up from trade. More generally, the intention should be that the Gulf States would meet the cost of any assistance provided to them.
- (f) Although the Iraqis had in theory the military capability to respond to Iranian attacks by sharply escalating hostilities, it was unlikely that they would be competent to organise concerted and effective military action on a greater scale than they had so far achieved.

THE FOREIGN AND COMMONWEALTH SECRETARY, summing up the discussion, said that it seemed clear that the war between Iran and Iraq would continue. The meeting were agreed that no measures of military preparedness by the United Kingdom to respond to a further escalation in hostilities were required at this stage. Every effort should be made to monitor the United States' thinking on the situation in the war and to dissuade

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them from taking precipitate military action in the event that Iran attempted to enforce a blockade of the Straits of Hormuz. In the light of the United States' recent actions in the Lebanon, however, it seemed unlikely that any coherent policy towards the war in the Gulf had yet been orchestrated in Washington. The United States should also be left in no doubt that if a blockade were to be enforced, they would be expected to make available their stockpile of oil for the IEA emergency allocation scheme. Ministers should continue to meet from time to time to take stock of the situation in the war between Iran and Iraq.

The meeting -

Took note, with approval, of the Foreign and Commonwealth Secretary's summing up of their discussion.

Cabinet Office

17 February 1984

Circulated to: Members of the Cabinet
Those present
Sir Robert Armstrong
Mr Gregson
Mr Goodall
Mr Williamson

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