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MR. ALEXANDER

7/11/54
Iranian Oil Prices

The Secretary of State for Energy has copied to the Prime Minister his letter of 14th May to the Foreign and Commonwealth Secretary on this subject. He explains the difficulties that Shell would face if they did not pay \$35 per barrel for the two ship loads lifted in April and he outlines the line he proposes to take in response to possible criticism by the American Energy Secretary next week.


2. You will recall that the question of Shell's oil liftings in Iran were discussed by OD on 24th April. On that occasion the Committee got a rather different picture of the situation than the one which emerges from the Secretary of State for Energy's latest letter. This makes me uneasy that we still do not have the whole story.

3. Although the United States administration is likely to be sensitive to what they might choose to construe as further European and Japanese backsliding, the contractual obligations on the oil companies, their refusal to make subsequent liftings, and the absence so far of any obvious sign that the Americans could make good the short-fall in supplies give us a reasonable defence. Shell have said they will delay their payments until the last possible moment (1st June and 2nd June) by which time the Japanese should have made theirs. The Japanese should then be deprived of any ground for claiming that their initial acceptance of the \$35 price was the result of our breaching the dyke.

4. I understand that the Secretary of State for Energy's proposals are likely to be acceptable to the Foreign and Commonwealth Secretary, subject to further consideration in two possible circumstances:

- (i) that the United States make a major issue of our proposed line;
- (ii) that the Japanese companies discover some way of meeting their debts without acknowledging the \$35 selling price.

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5. I recommend that the Prime Minister should agree to what Mr. Howell proposes, subject to any caveats the Foreign and Commonwealth Secretary may make of the kind just described. Although the situation is not altogether satisfactory, a refusal to allow Shell to meet their obligations would almost certainly make matters worse. The latest increase in Saudi Arabian oil prices (backdated to 1st April) which has just been announced will help to confuse the situation by the time Shell pay for these liftings at the beginning of June.



(Robert Armstrong)

16th May, 1980



UNIVERSITY OF CALIFORNIA

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