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Prime Minister

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The Rt Hon The Lord Carrington
 Secretary of State for Foreign and Commonwealth Affairs
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14 May 1980

Dee Peter

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IRANIAN OIL PRICES

Shell lifted two tanker loads of oil from Iran at the beginning of April in disputed circumstances. They maintain that they did not know that the Iranians had increased the Government Selling Price when the first tanker was being loaded; and that they protested about the new price (£35 a barrel) and were offered negotiations. Once it was clear that the Iranians were standing firm on the £35, Shell made no further loadings, and the Company also preferred not to proceed with the third tanker deal which OD discussed at its twelfth meeting.

Now Shell want to settle for the two tanker-loads that were lifted, because they believe themselves contractually bound to do so, and because their commercial standing would suffer if they left debts unsettled. They have told my officials that they will try to arrange matters by a lump sum payment rather than by issuing revised letters of credit specifying the new selling price, and that they will delay payment to the end of the 60-day delay allowed. However, while the Company have kept my Department informed, they have also made it clear that they would not welcome any attempt by HMG to stop them paying their debts.

Certain Japanese companies are similarly placed except that they lifted many loads of Iranian oil before April 20th and that some of their payments are due before Shell's. Although these companies, in response to government pressure, are now resisting the higher price, they wish to pay for the liftings made. However, when the US Administration learnt of this they objected strongly, and told the Japanese that such a settlement would be "symbolically devastating". The Americans also know that Shell made some liftings, and have urged us not to concede the £35. The Americans have additionally asked the Japanese and ourselves not to pay more than £32.50 a barrel (all extras included) for Iranian oil which would represent less than our companies were paying in the first quarter (with HMG's acceptance). The American position sounds as though it is inspired partly by political attitudes towards Iran.

Notwithstanding the Americans, I propose, subject to reactions to this minute, not to seek to stop Shell from settling their debts. If Secretary Duncan refers to the matter when I see him next week, I

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would emphasise that the main point, in our view, is that BP discontinued liftings from Iran in response to HMG's urgings, and that Shell did so when they realised they could not ride the Iranians off the \$35 price. I would also propose to invite Mr Duncan's attention to the significant loss of supply which our companies are suffering in Iran, and the reprisals they may suffer because of sanctions; and to press him for some tangible American help.

I am copying this minute to the Prime Minister, Members of OD, and to Sir Robert Armstrong.

D A R Howell

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