

Pratt-Huntley

Agree - presumably we
indicated to the Japs
that the companies
must not be told
out

Agree that Mr. Hume
should consult the
Americans and Japanese
on the basis that Shell
should be asked to hold
this off finalising any deal?

PRIME MINISTER
IRAN AND SHELL

At the request of the National Iranian Oil Company/Shell representa-
tives went to Tehran over the weekend. The Iranians made them an
offer to supply two cargoes of crude in June equivalent to 90 000
barrels per day and continue supply from 1 July at a rate of
120 000 barrels per day. The price for the light crude would be
£33.50 a barrel plus a premium of £3 on half the supply making an
average price of £35 a barrel. Heavy crude, which would constitute
half the supply, would be priced at £1 a barrel less. There would
be no hidden extras. The Iranians would retain the right to increase
the Government selling price at any time but might agree to accept
some type of hardship clause under which the premium element would
be reduced if the basic price went above a certain amount. Shell
have been asked if they are interested to resume negotiations on
Wednesday.

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The Iranians have emphasised to Shell that this offer is strictly
confidential and must not be discussed with BP or the Japanese
companies. Shell made it clear that they would have to tell the
British Government.

On commercial grounds Shell would like to accept because:-

- a) In the short term the price offered is no more and
probably less than they would have to pay to obtain
comparable crude from other sources.

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- b) Acceptance would enable them to resume a continuing relationship with the Iranians.
- c) Conclusion of the deal would probably bring extra crude into the international market with a beneficial effect on prices generally.

In view of the undertakings which have been given we shall have to consult the American and Japanese Governments before any deal is concluded. We are committed to the Americans to discourage our oil companies from buying Iranian oil "at prices sharply above those asked by other OPEC countries". There is little doubt that the Americans will argue strongly that the price now being asked by the Iranians is still sharply different from those asked by other OPEC countries and that it is particularly undesirable for Shell to conclude a deal on this basis in the week before the OPEC Ministerial meeting at Algiers which may set a new general level of prices.

The attached table compares Iranian prices with those being asked by other OPEC countries after adjustment for quality differences. The Iranian prices are certainly different. Whether they are "sharply different" is a matter of opinion. But we are unlikely to convince the Americans.

If Shell settle this week the Iranians will be able to say at Algiers that they have accepted \$35 a barrel as an appropriate commercial price for Iranian light crude. I doubt if this argument would make much difference to the outcome: but it could lead to us getting some of the blame for a further increase in oil prices generally.

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This suggests that we should urge Shell to postpone their next round of discussions with the Iranians until after the OPEC meeting and to indicate the minimum interest in the Iranian offer needed to keep it open. There is a risk that the Iranian offer will be withdrawn if Shell do not conclude this week. But we could only acquiesce in their going ahead if as a Government we are prepared to risk a major dispute with the Americans. I imagine we will not be: and if you agree I would propose to consult the American and Japanese Governments on the basis that we ask Shell to hold off until after the OPEC meeting. How we proceed thereafter would then depend on American and Japanese reactions and the outcome of the OPEC meeting.

I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and Sir Robert Armstrong.

DG.
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SECRETARY OF STATE FOR ENERGY

2 JUNE 1980



OVERPRICING OF IRANIAN CRUDE OIL

Crude	MAY			FEBRUARY
	Current Price	Parity Value \neq Compared to Iranian Light	Effective Iranian Overpricing	Effective Iranian Overpricing
Saudi Arabia	28.00	34.50	6.50	5.83
United Arab Emirates	31.56	36.30	4.74	4.54
Iraq	30.18	34.90	4.72	4.09
Kuwait	29.50	33.90	4.40	2.91
Nigeria	36.69	39.63	2.94	2.83
UK	36.25	37.70	1.45	1.88
Libya	36.50	37.50	1.00	1.05
Algeria*	38.21	39.03	0.82	0.01

\neq This takes quality and location into account and is the value of the crude compared with the price - \$35 - Shell have been asked to pay.

* Including \$3 exploration surcharge.



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