



Prime Minister

18.4.80.

Energy

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

Tel: 211 6402

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M Alexander Esq
Private Secretary to the Prime Minister
No 10 Downing Street

18 April 1980

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see Iran Situation Pt 6

Dear Michael,

IRAN - OIL SUPPLIES AND PRICES

that As requested by OD Committee, my Secretary of State spoke today to the Chairmen of BP and Shell. This was against the background that BP in their negotiations with Iran last weekend had made no progress. The Japanese reported yesterday similar results, and that Iran had given them an ultimatum /if they did not accept the new prices, oil would cease to be loaded from April 21. Shell are now to see the National Iranian Oil Company in London on April 21. On present form we must expect the same result and the effective application of an embargo on supplies to BP, Shell and Japanese companies at any time from April 21.

Both the Chairmen agreed that at the moment on purely commercial grounds there could be no case for accepting the new Iranian proposals. They accepted the need to stand firm and to keep in close touch with HMG. My Secretary of State said that on the political front there was a possibility that we might find it desirable to take part in a concerted move to refuse import licences for Iranian oil. The Chairmen accepted that this was a possible and logical development. They did, however, go out of their way to say that events in Iran now looked likely to affect the oil situation more generally. There was a prospect that spot market prices would harden further and that other OPEC producers such as Nigeria might increase prices by a further \$2.00 a barrel or so. If such circumstances developed, then it would be more difficult to say that the proposed Iranian prices were unacceptable on commercial grounds.

If Iranian exports cease the Japanese may well ask for a "selective trigger" under the IEA emergency arrangements. This would require them to reduce consumption by either 7% or 10% below its average level in the last period of 12 months for which statistics are available and would entitle them to help from other member states. Firm forecasts of what the UK would have to divert to Japan are not possible in advance of the event, but diversion might be at an annual rate of about 1½ million tonnes (compared with UK consumption of 90 million tonnes).

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This is a fast moving situation and I shall keep closely in touch with both companies. The line agreed at OD is holding for the time being.

I am sending copies of this letter to Paul Lever (FCO), Martin Hall (Chancellor of the Exchequer) and to David Wright (Sir Robert Armstrong's Office).

Yours ever,
Bill

W J BURROUGHS
Private Secretary



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