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10 DOWNING STREET

From the Private Secretary

27 April 1980

Oil

As you know, the Prime Minister entertained at lunch yesterday your Secretary of State, Sir Jack Rampton, Sir David Steel and Mr. Patrick Gillam of BP, Mr. Peter Baxendell of Shell and Mr. Utiger and Mr. Morton of BNOOC.

There was a general discussion of the world supply and demand situation, the prospects for prices, and our position vis-a-vis our European partners. But the conversation centred mainly on the line which BP and Shell should take in their current negotiations with the National Iranian Oil Corporation.

Both Sir David Steel and Mr. Baxendell made it clear that neither of their companies would go firm on the terms offered by NIOC for April liftings without clearance first from HMG. They explained how the effective price on offer was not "sharply different" from the price of their March liftings, and therefore that completion of the deals would not be inconsistent with the line which had been agreed between EEC Foreign Ministers. However, the NIOC negotiator was insisting that the deals be recorded at their face value; and while the markets would understand what the true price was, this would make it more difficult to explain to the Americans and it would enable the Revolutionary Council in Iran to claim that it had "won". Both companies were keen to complete the deals because of the lack of alternative sources of supply and so as to maintain relations with the NIOC; and doing so would help to moderate the current upward pressure on world prices. But they would not go ahead if the Government were opposed. Both companies, at the request of your Secretary of State, had persuaded the NIOC to hold off for another day; but it was uncertain how long they would be able to go on doing this.

The Prime Minister said she accepted the commercial arguments in favour of going ahead. But the overriding consideration for the moment had to be whether or not it would cause difficulty for the Americans. Britain's position would only be defensible if the Japanese were also to purchase on similar terms. But it was not clear yet whether they were prepared to do so. For the time being, the two companies should continue to stall.

/ Sir David Steel

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Sir David Steel and Mr. Baxendell said they would act accordingly and later in the evening it was reported that NIOC had agreed to postpone a decision on the liftings until at least the following week.

After the lunch, there was some discussion as to whether it would be desirable for your Secretary of State to have a meeting early next week with his American and Japanese opposite numbers with a view to reaching an agreed position. The Prime Minister and the Foreign and Commonwealth Secretary spoke about this on the telephone later in the evening and they decided that it would not be worthwhile. Although it might be desirable for a senior Energy official to discuss the matter with the Americans early in the week, discussion at a political level should await Lord Carrington's visit to Washington next weekend. The Prime Minister and Lord Carrington also agreed that Shell and BP should be asked to hold off completing any deal with the NIOC until then for it now seemed unlikely that the Japanese would be prepared to buy at the new Iranian Government selling price; and following the failure of their rescue attempt, the Americans would be even more sensitive to any apparent concession to the Iranians by our own oil companies.

I am sending copies of this letter to the Private Secretaries to members of OD Committee and to David Wright (Cabinet Office).

T. P. LANKESTER

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Department of Energy.

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