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Qatar BK

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10 DOWNING STREET

See. Mansour etc.

From the Private Secretary

12 June 1981

As you know, Mr. Baxendell of Shell called on the Prime Minister this morning.

They had a general discussion about the present state of play in the world oil market. In the course of this, Mr. Baxendell commented that Shaikh Yamani was following a very dangerous course in trying to force the other OPEC producers to come into line with Saudi prices. By maintaining production at over 10 million barrels a day, the Saudis were making it impossible for other producers to dispose of their oil - except with large discounts or at spot prices which were now substantially below term prices. The Saudis were clearly determined to impose an orderly pricing structure amongst their fellow producers, and in principle they were right to do so; but it was likely to cause lasting resentment in OPEC, and it was causing considerable short-term difficulties for the oil companies. BNO, for example, were placed in a very difficult position: they would have little option but to reduce their prices further if they were not to be left with substantial amounts of oil on their hands.

The discussion then turned to Shell's pipeline problems in Qatar. The Prime Minister explained what she had been told in Doha - in particular, that the failure had been due to testing with sea water without proper inhibitors and biocides with the result that sulphide-reducing bacteria had corroded the steel. Mr. Baxendell replied on the lines of paragraphs 6 - 10 of your brief (your letter of 9 June). He emphasised that, while the Qatar General Petroleum Corporation had been proved right in their suspicion that the land section of the pipeline was severely damaged, their allegation that this had been caused by SRB had been proved wrong. Shell had always maintained that the pressure-testing with sea water had been properly carried out, and following extensive testing, they had established that SRB were not the cause of the corrosion. They had established, instead, that the failure was due to hydrogen-induced cracking. This was a new

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phenomenon in the Gulf, and nobody had known about it when the pipeline was laid in 1976. Soon after discovering that the pipe was damaged, Shell had signed an agreement (in January 1981) with the Qataris that they would replace the land section at their own expense; and this work would be undertaken in the next few months. The agreement also provided that the underwater pipe would be replaced by Shell if, as a result of testing, it was shown to be not up to accepted international standards. Testing on the underwater section was currently going on.

Mr. Baxendell said he believed that by these measures Shell were doing everything they could possibly be expected to do. Even though it was difficult to see how they had been at fault in laying the pipeline, their reputation had undoubtedly suffered in Qatar as a result of what had happened. (Their problems were made worse by the fact that, again without any proper foundation, Shell were held partly responsible in Qatar for the explosion and fire in the first NGL plant). He hoped that the action they were now taking on the pipeline would help to restore their reputation.

The Prime Minister said she was very glad to hear Shell's side of the story; she was particularly glad to note that they had agreed to replace the pipeline soon after the corrosion was discovered. She expressed the hope that Shell would be able to fully restore its position in the eyes of the Qataris.

I am sending a copy of this letter to Francis Richards (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

I. P. LANKESTER

Dr. David Lumley,  
Department of Energy

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