



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ 211 6402

Energy
Mr Lancaster
1 fr.
9/1
Hand - 5/6

Bonnie Muskie

②

Tim Lancaster Esq
10 Downing Street
London SW1

*Shell have now decided to
tell the Iranians that they cannot
lift any oil before the OPEC meeting next
week and to suggest that negotiations
should be resumed after that meeting. Thus
the deal is 'on ice' for the moment.
Further report next week.*

5 June 1980

no

Dear Tim,

Hand - 6/6

IRAN AND SHELL

Thank you for your letter replying to my Secretary of State's minute of 2 June to the Prime Minister, giving details of the proposal made by the National Iranian Oil Company (NIOC) to Shell.

After discussion between Mr Howell and the Chairman of Shell, the Shell board decided on 3 June not to accept the Iranian proposal for a resumption of regular liftings in July because it involved a price of \$35 a barrel. Shell did, however, think it important to keep negotiations with the Iranians open and to secure a final settlement in relation to liftings since 1 April. They therefore proposed to offer to lift one cargo during June at the Iranian GSP of \$33.50 in return for Iranian agreement not to press/contractual claims.

/any

In the light of the Prime Minister's decision the Embassies in Washington and Tokyo were instructed to inform governments in strict confidence and to report their reactions. The Japanese found it "difficult to support" our action on grounds of the price, the concern it would give to the Americans and their preference for assessing matters in the light of the OPEC meeting on 9 June. The American Administration said they would not object provided that the total price did not exceed \$33.50 and subject to four conditions.

Shell's initial reaction on the evening of 4 June was that the American terms were unacceptable. But, after consultation with the Hague, Mr Baxendell told Mr Howell that Shell would negotiate for a single cargo at a price of \$33.50; seek NIOC's agreement to release the company from all obligations under the existing contract; and accept that HMG would consult the US before Shell made any further purchases of Iranian oil. Shell "did not understand" the American request that there be no side deals. On Secretary Muskie's particular condition that they should not in future pay more than \$32.50 a barrel for Iranian oil, Shell's negotiator would be under firm instructions to avoid any commitment to prices for liftings after the one cargo now under negotiation. Baxendell stressed Shell's bitterness at what they saw as an American attempt to squeeze them out of Iran and expressed the hope that the Americans would urgently help Shell find crude oil elsewhere.



-2-

Mr Howell agreed that Shell might go ahead on this basis and their negotiator is proceeding accordingly. Mr Howell has today explained the general position to Secretary Duncan; the Embassies in Washington and Tokyo are informing those governments. I will let you know the outcome of Shell's negotiations.

I am sending copies of this letter to George Walden (FCO), John Wiggins (Treasury) and David Wright (Cabinet Office).

Yours sincerely,

J D West
Private Secretary



JUN 5 1930

COMMUNICATIONS