

PREM19

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ENERGY

(Offshore Supplies

Interest Relief

Grants Scheme)

Confidential Filing

Offshore Supplies Interest Relief Grants Scheme

ENERGY

May 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
29.5.79.							
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PREM 19/46

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Energy

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

01 211 6402

NRPA
Punt

The Rt Hon Lord Carrington PC, KCMG, MC
Foreign and Commonwealth Office
Downing Street
LONDON SW1A 2AL

20 September 1979

Dear Peter

You will have seen the letter from the Prime Minister's Private Secretary to yours of 18 September which records inter alia that the Prime Minister has decided, with considerable reluctance, that the Government must immediately terminate the Offshore Supplies Interest Relief Grants Scheme, and that she hopes the announcement of this decision can be managed so as to attract as little attention as possible.

On the presentation point, I do not think we could get away without making a public announcement of some kind. Although we could tell the oil companies in confidence, the Commission would not be satisfied with a private assurance because it might fear that another Member State or any other aggrieved party might then challenge before the European Court the apparent failure of the Commission to require our specific compliance with its 2 May Decision. Also, our decision is bound to get out.

Any announcement we make is bound to attract some attention, if only because of the recent spate of press articles about past errors in the Scheme's administration sparked off by Joel Barnett as Chairman of the PAC.

I propose we should therefore issue a short but also quite blunt statement and I enclose a draft of the announcement I have in mind on which I should be grateful for your and other colleagues' views.

I am sending copies to the Prime Minister, the Attorney-General, Members of OD(E), Sir Donald Maitland and Sir John Hunt.

D A R Howell

Yours
David

CONFIDENTIAL

OSIRG SCHEME - DRAFT ANNOUNCEMENT ON IMMEDIATE ABOLITION

The Government announced on 2 July 1979 that it had decided to end the Interest Relief Grants Scheme for offshore supplies, but to accept qualifying contracts placed up to 31 March 1980.

This decision reflected both the Government's view that the scheme no longer represented value for money overall and the EEC Commission's Decision of 2 May 1979 that the scheme was incompatible with the Rome Treaty and should be withdrawn.

The Commission has objected to the length of the period in which the Government planned to unwind the scheme and has considered taking the matter to the European Court.

No applications to register contracts placed since 2 July 1979 for grant have in fact been accepted since that date, and the Government has now concluded, in the light of the legal uncertainty created by the Commission's attitude, that the scheme will have to be terminated forthwith. No grants will therefore be made, or will have been made, in respect of any contracts placed since 2 July 1979.

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Energy



10 DOWNING STREET

From the Private Secretary

18 September 1979

Dear Paul,

North Sea Interest Relief Grant Scheme

The Prime Minister has seen your letter to me of 13 September on this subject. She has also reconsidered the Foreign and Commonwealth Secretary's minute to her of 7 September. She has decided, with considerable reluctance, that in the light of the Attorney General's views HMG have no alternative but to terminate the scheme forthwith. She accepts the Foreign and Commonwealth Secretary's advice that it would be pointless for her to approach the President of the Commission direct.

The Prime Minister notes the statement in the Foreign and Commonwealth Secretary's minute that since no claims for grants under the scheme have been admitted since 2 July the Government's decision will come as no surprise to the oil companies. She would like nonetheless to know how the Government's decision is to be announced. She hopes that the announcement can be managed so as to attract as little attention as possible.

The Prime Minister remains unhappy with the way discussion of the termination of the scheme has been handled this summer. She feels that the advice of the Attorney General should have been asked for at an earlier stage. The Prime Minister is, in general, concerned about the interaction of Community law and British law and will want this aspect brought out clearly in future cases coming before Cabinet where it is relevant.

I am sending copies of this letter to the Private Secretaries to the members of OD(E), to Bill Burroughs (Department of Energy) and Martin Vile (Cabinet Office).

Yours ever

Michael Alexander

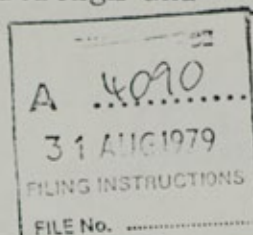
Paul Lever, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

llh

3244 31 August 1979

The Rt Hon The Lord Carrington KCMG MC
 Secretary of State for Foreign and
 Commonwealth Affairs
 Downing Street
 LONDON S W 1



See Peter.

OFF-SHORE SUPPLIES INTEREST RELIEF GRANT SCHEME

In his Memorandum OD(E)(79)28 the Secretary of State for Energy informed the Committee that he had asked for my opinion on the questions mentioned in paragraph 6.

My advice on these matters is as follows:-

- (i) the time for the UK to bring proceedings against the Commission questioning the validity of the Decision in the European Court of Justice has now expired and it is not therefore open to us to make such a challenge;
- (ii) it is very probable that the Decision has direct effect in UK law, so that under the terms of the European Communities' Act 1972 we are prevented from exercising the powers conferred by Section 8 of the Industries Act 1972 except in a manner consistent with the Decision. Payments under the Act, therefore, which are inconsistent with the Decision would very probably be illegal in UK law;
- (iii) it would in any case be improper to make such payments where they are in breach of obligations under the EEC Treaty arising from the Decision.

I understand that the Lord Advocate is in general agreement with this advice.

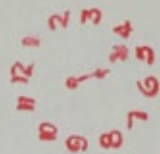
I shall of course be advising the Committee on other aspects of the memorandum when it is considered by them.

I am sending a copy of this letter to the other members of the OD(E), the Secretary of State for Energy, the Lord Advocate and Sir John Hunt.

*Yours fav.
 Michael.*

CONFIDENTIAL

SEP 7 1979



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01-405 7641 Ext. 3229

Communications on this subject should
be addressed to

THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

Our Ref: 400/77/170"B"

14 September, 1979

Dear Alexander,

OFFSHORE SUPPLIES INTEREST RELIEF GRANT SCHEME

The Attorney-General has seen your letter to Walden of 10 September, and has directed me to reply on the points raised which involve him. The Attorney-General was not asked to advise on any of the specific questions referred to in his letter of 31 August until the middle of August.

The background to the first sub-paragraph of the Attorney-General's advice is that the EEC Treaty provides for the European Court of Justice to review the legality of acts of the Commission in actions brought by a Member State; proceedings have to be brought within two months of notification of the measure. The Decision was notified by a Commission letter of May 2nd.

The Attorney-General's advice was not directed to the question of the prospects of success if the United Kingdom had brought such proceedings; his Opinion on that question is that we would have been almost certain to lose.

I am sending copies of this letter to those who received your letter.

Yours sincerely,

Michael de Winton

M G de Winton

M O'D B Alexander Esq
No.10 Dowing Street
London, SW1.

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Ref. A0240

MR. ALEXANDER

Prime Minister

Agree x ?

Print - 14/9

North Sea Interest Relief Grant Scheme

A — Mr. Lever replied on 13th September on behalf of the Foreign and
B — Commonwealth Secretary to the letter you sent Mr. Walden on 10th September seeking information on three points raised by the Prime Minister concerning the Interest Relief Grant Scheme.

This was a try-on with the Commission which did not come off. It is very unfortunate that the Government will have to announce a change of course, although the present public interest in the PAC report on the Scheme will no doubt help. But I agree with the Foreign and Commonwealth Secretary that it is probably not worth while for ^{the Prime Minister} you to expend credit in trying to shift Mr. Roy Jenkins. The Commission are going to take us to the European Court if we do not comply with their ruling. The only question is whether we should concede now or let them take a formal decision in that sense. The view of OD(E) was that the latter would only sour our relations with the Commission. If this decision is to stand we shall need to notify the Commission at the beginning of next week i.e. before the meeting of the Commission on 19th September of the Government's intention to announce the immediate ending of the Scheme.

X | The Prime Minister might therefore reluctantly accept that the Scheme should come to an end and ask to see the terms of an announcement by the Secretary of State for Energy.

As we are in breach of British Law see to the P.C. - scheme must be terminated

~~D.V.S. - let the Commission take the lead~~
JOHN HUNT

14th September, 1979

- But in future where matters of law are concerned we must have advice on the proposed course of action from the P.C. before we submit decision
D.T.



Foreign and Commonwealth Office

London SW1A 2AH

13 September 1979

Dear Michael,

Your letter of 10 September to George Walden concerning the Offshore Supplies Interest Relief Grant Scheme raised three points on which the Prime Minister wanted further information.

The memorandum considered by the Ministerial Committee on Economic Strategy on 1 June conceded that the Scheme was very probably contrary to the EEC Treaties and that if we contested the Decision of the Commission and the case went to the European Court we would probably lose (paragraph 9 of E(79)6). All legal advice throughout the three and a half years during which the Scheme had been under Commission scrutiny had been unanimous on this point. The Committee thought that the proposal in the memorandum that the Scheme should be widened to include EEC components was unacceptable. They felt, however, that in order to avoid appearing to be forced by the Commission, we should not immediately comply with the requirement to abolish by 2 July, but instead we should phase out the Scheme over a longer period. The expectation was that since we were announcing our firm intention to end the Scheme, the Commission would overlook the extension in time which E Committee decided upon. In the event that judgement was too optimistic. The Commission took a strict view of their Decision on 2 May and it was at that point that it was necessary to seek the advice of the Law Officers.

On the Prime Minister's second question, the legal advice has consistently been that our basic case on the merits was so weak that challenging the validity of the Commission Decision in the courts was not a realistic option. In theory we could, under Article 173 of the EEC Treaty, have challenged the legality of the Decision within two months of its notification to us, but that only allows a challenge on grounds which offered us no scope to advance, with any prospect of success, arguments against the Decision (eg that a two-month time limit was unreasonable). No realistic opportunity to challenge the legality of the Decision was thus lost.

As regards putting pressure on the Commission to be flexible and meet our concern, the Energy Secretary has seen separately both Commissioners Vouel and Davignon. However they have been adamant that the Decision, coming as it did at the end of the three and a half years successful procrastination on the Scheme, should be strictly complied with. The Commission's concern, reinforced in a letter from the President of the Commission to the Foreign and Commonwealth Secretary, has been that not to insist on strict compliance would undermine their Treaty enforcement role on other important issues. The discussion in OD(E) on 4 September came therefore only after a major effort had already been made to shift the Commission's position.

/The Sub-Committee

M O'D B Alexander Esq
10 Downing Street



The Sub-Committee concluded that no further political capital should now be invested in the Scheme given the forlorn chances of success, but that Sir D Maitland should be instructed to approach the President of the Commission, deploying the political arguments, to see whether the Commission in return for abolition of the three months grace period, would agree to modify the Decision or state that it was compatible with a nine months phasing out period. The advice of the Attorney-General was that it would not be sufficient for the Commission simply to acquiesce in our interpretation of their Decision. The reaction from Commissioner Vouel, to whom the President of the Commission has communicated our offer, was that it was inadequate, and unless the discriminatory element in the Scheme could be removed, he would be bound to recommend to his colleagues in the Commission that Court proceedings be instituted against us. The President of the Commission is convinced that Vouel's reaction would be shared by other members of the Commission. He himself would not oppose Vouel.

It would still be possible for the Prime Minister to approach the President of the Commission direct before the Commission meeting on 19 September which will decide whether to initiate proceedings against us. The chances of her succeeding are, however, meagre given the Commission's emphasis on the general implications for the enforcement of Community law and the weakness of our legal position. Although it would be for the Prime Minister to decide, the chances of a rebuff are so high that the Foreign and Commonwealth Secretary would not recommend that she should engage her credit in the attempt.

I am sending copies of this letter to the Private Secretaries of the members of OD(E), Secretary of State for Energy and Sir John Hunt.

Yours GBx

Paul

(P Lever)

14 SEP 1979



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Fraser

10 DOWNING STREET

From the Private Secretary

~~B/F 14/9/79~~

10 September 1979

OFFSHORE SUPPLIES INTEREST RELIEF GRANT SCHEME

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute of 7 September on this subject.

The Prime Minister has asked why the Attorney General's advice was not available before the meeting of the Ministerial Committee on Economic Strategy on 1 June. She has also asked for more background to the first sub-paragraph of the Attorney-General's advice: does it mean that HMG could have challenged the decision at some point? Finally, the Prime Minister has asked for advice as to the course we should follow in order to bring very great pressure to bear on the Commission in order to get them to vary the terms of their earlier decision or to interpret it in a more helpful way.

I am sending copies of this letter to the Private Secretaries to the members of OD(E), Bill Burroughs (Department of Energy) and to Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

G. G. H. Walden Esq
Foreign and Commonwealth Office.

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PM/79/77

PRIME MINISTER

Offshore Supplies Interest Relief Grant Scheme

Why received decision? Was this advice not before we made the decision? Further I do not understand the justification of the A.C. advice. Could we have challenged the decision? What would we have done to keep very fresh position to have a 3-42 Committee?

1. You will recall that at the Ministerial Committee on Economic Strategy on 1 June (E(79)2nd Meeting, Item 6) we decided in response to the Commission's Decision on 2 May requiring us to abolish the Offshore Supplies Interest Relief Grants Scheme within two months to phase out the Scheme over a reasonable period, which was subsequently decided would be nine months expiring on 31 March 1980, with a three-months grace period thereafter for the registration of contracts after they have been placed. This was announced on 2 July and communicated to the Commission on the same day.

2. The Commission have, however, not been willing to accept that the phasing out of the Scheme over nine months is compatible with the terms of their 2 May Decision. The Attorney-General now advises (a copy of his letter of 31 August is enclosed) that the Commission's Decision probably has direct effect in UK law so that any payments we made after 2 July could be held to be illegal. Litigation could be initiated in the UK Courts by any aggrieved party. There could also be difficulties with the Public Accounts Committee. The Commission is due to meet again later this month and will almost certainly decide to take us to the European Court. They might not do so if we were willing to change the Scheme to pay grant on components from other EEC countries, but this is unacceptable on cost/benefit grounds. It is the considered legal view we have no prospect of winning our case if the matter goes to the Court.

3. The Sub-Committee on European Questions of the Defence and Overseas Policy Committee met on 4 September to consider how we should react to this situation. We decided, despite the weakness of our legal position, to make one further attempt to persuade the Commission to be accommodating. Sir Donald Maitland is being instructed to explore with Roy Jenkins whether if we offered to abandon the three-month grace period the Commission might be

/ willing



willing to vary the terms of their earlier Decision or at least to interpret their earlier Decision as compatible with the nine-month phasing out period. If the advice is that this would not be acceptable to the Commission and that they would intend to take us to Court, we see no alternative but to bring the Scheme to an end forthwith. This would not be well received by the industry and would obviously conflict with our earlier wish not to let it appear that the Government's hand was being forced by the Commission. But the legal position leaves us no choice and there would be no virtue, especially when we want the Commission's help on the budget issue, in unnecessarily antagonising them by flouting what they apparently feel is their duty under the Treaty. In view of the legal uncertainty the Secretary of State for Energy has already warned the oil companies and no claims for grant have been admitted since 2 July, so it will not come as a surprise to them.

4. I am sending copies of this minute to the members of OD(E), the Secretary of State for Energy and to Sir John Hunt.

(CARRINGTON)

Foreign and Commonwealth Office
7 September 1979



Energy

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

*Mr Carter
RBM
3/77*

The Rt Hon Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

23 July 1979

Dear Peter

OFFSHORE SUPPLIES IRG SCHEME AND THE COMMISSION

As you know, Sir Donald Maitland kindly arranged for me to have an informal discussion over dinner at his residence with Commissioner Vouel on 16 July, to explain our decision to end the Offshore Supplies Interest Relief Grants Scheme on 31 March next rather than accept the Commission Decision requiring it to have been abolished on 2 July.

I could not persuade M. Vouel to let the matter rest on the basis that we had done our best in difficult circumstances and that we had met the substance of the Commission's concern by agreeing to end the Scheme. He maintained throughout a purely legalistic line, and insisted that unless we could offer some new "modalities" such as might satisfy the Commission that the Scheme would not be operated in a discriminatory way during its remaining life, he would have "no alternative" but to recommend to his Commission colleagues that the matter should be referred to the European Court.

What M. Vouel presumably has in mind - he refused to be drawn on specifics - is what the Commission have always wanted: inclusion within the Scheme of EEC components without limit and restriction of the operation of the Scheme to cases where third country tenders are in the lead for contracts. The first would cost proportionately more for less benefit and would be outwith the criteria for selective financial assistance under the 1972 Industry Act. The second would severely restrict the operation of the Scheme and to introduce it now would breach the undertaking to give nine months' notice to industry of changes to the Scheme which we said in the 2 July announcement our decision honoured. Any such changes would also cause administrative complications. Moreover, you may recall that E Committee showed no inclination to placate the Commission.



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Subject to my colleagues' views, therefore, I now propose to write to M. Vouel in the terms of the enclosed draft which is on general lines agreed at a Cabinet Office meeting with Sir Donald Maitland on 20 July. This is in conciliatory terms. It says quite straightforwardly that we cannot suggest any new factors, brings out the Scheme's poor value for money and hence its minimal "distorting" effect, but ends with a clear warning about the difficulties for our future relationships if the Commission do not exercise political as well as legal judgement. I am not hopeful that this will dissuade M. Vouel from recommending legal action, but it might cause some of his colleagues to have doubts. I do not think we can say more.

As to timing, M. Vouel said this matter would be on the Commission's agenda for its meeting on 25 July - the last before the summer break. I therefore propose that my letter should be handed to M. Vouel by Sir Donald Maitland next Tuesday, before the Commission meets on the Wednesday, in the hope that it will defer any final decision by them until September. This will also give time for Sir Donald to seek the aid of Mr Jenkins and Mr Tugendaht in preventing an unfavourable Commission decision. I would also be grateful for anything you can do with Mr Jenkins when you see him on Tuesday.

I should be glad to know if you and our other colleagues concerned have any comments. If my office do not hear by 6 p.m. today (Monday) I will take it you are content.

I am copying this letter to the Prime Minister, Members of OD(E) Committee, George Younger, Sir Donald Maitland and Sir John Hunt.

Howell
David

D A R HOWELL

20 July 1979



DRAFT LETTER TO COMMISSIONER VOUEL

I was grateful for the opportunity on 16 July to meet you and to have an informal talk about the Government's decision on the Offshore Supplies Interest Relief Grants Scheme. At the end of our talk I promised to consider whether there were any new factors which I could put to you which might help you to overcome your difficulties.

I have carefully considered this with my colleagues, but I have to tell you that we are unable to offer to make any substantive changes to our 2 July decision. This is because of either domestic legal constraints and budgetary difficulties, or the problem in relation to our inherited 9 months' undertaking to give nine months' notice to industry of any changes to or termination of the Scheme. I was however grateful for your suggestion, and I am deeply sorry that we cannot follow it through.

I should like if I may to repeat a point I made during our talk. As soon as I had been able to examine the papers, I consulted my colleagues and we decided that the Scheme no longer represents value for money. We are convinced that it is not a major factor in oil companies' decisions on contract awards. Although we do not expect a great deal of new aid to be committed over the remaining few months of the Scheme, we were in no doubt of the political necessity for us to have full regard to the 9 months' undertaking. We accordingly terminated the Scheme at the earliest practicable time.

I do urge you most strongly to have regard to our political difficulties and to accept that in the

cont'd.....



20 July 1979

Draft letter to Commissioner Vouel

limited life now left to the Scheme and in view of its ineffectiveness it cannot "adversely affect trading conditions to an extent contrary to the common interest" Article 92.3(c) EEC)..

Not only do we believe that there is a strong case for you to exercise your discretion under Article 93.2 EEC but we also hope you will see good political reason for letting the matter rest. Were there to be further legal action this would have damaging repercussions on political and public opinion here and would not help the Government in working - as it has committed itself to do - for realistic and genuinely co-operative relationships with the rest of the Community and its institutions.



Energy

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

01-211 6402

CONFIDENTIAL

2 July 1979.

The Rt Hon John Biffen MP,
Chief Secretary to The Treasury,
Treasury Chambers,
Parliament Street,
London SW1P 3AG.

See John

R
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OFFSHORE SUPPLIES INTEREST RELIEF GRANTS SCHEME

Thank you for your letter of 29 June.

I am not sure that I am altogether happy about your request for "an alternative realistic option cut" to replace the contribution which possible modifications to the OSIRG Scheme made to my Department's option cuts for the forthcoming PESC discussions. As I shall be arguing very forcibly when Cabinet considers these options, I would regard future proposals for cutting into the Department of Energy's fairly modest programmes as needing to be treated with extreme caution, and probably unrealistic, and I am sure that, given the present world energy situation, colleagues will share that view. Moreover I think that, since many of the programme cuts which we shall be examining would present great difficulties, I would not necessarily rule out the possibility of making two statements on the OSIRG Scheme, the first to announce its phasing out and the second to modify its terms for the remainder of its life. However, having said that, I recognise that you need to be satisfied that, if my programmes actually had to suffer cuts of the order indicated, it would be possible to achieve them. I am, therefore, prepared to agree that, in that eventuality, I would (if cuts in the OSIRG Scheme proved impossible to introduce) find suitable alternatives elsewhere. I would prefer, however, not to specify now what they might be.

As to the terms of my announcement, I take your points on referring to the previous Conservative Government and omitting the reference to the EEC Commission. But I think it is important to retain the point that other Member States have given up subsidising their industries, and I do not think we should refer to the Scheme in the context of the growth of our market share since this could be used to argue that the Scheme should be retained rather than scrapped.

I accordingly suggest the following revision of the third sentence of the second paragraph of the draft answer enclosed with my earlier letter:-

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"This conclusion also has regard to the fact that, since the previous Conservative Government introduced the Scheme in 1973, the situation has changed in that all our Community partners gave assurances in 1977 that they did not or would no longer provide preferential export credits for intra-community trade, including continental shelf trade."

I am copying this letter to the recipients of yours.

D.A.R. HOWELL

*Yours
D.A.R.*



2 JUL 1979



Foreign and Commonwealth Office
London SW1A 2AH

29 June 1979

R
27

Dear Secretary of State

INTEREST RELIEF GRANT SCHEME FOR OFFSHORE SUPPLIES

I agree with the proposal in paragraph 2 of your letter of 27 June to John Biffen that we should now announce that grants will not be available for new contracts placed, or additions made to existing contracts, after 31 March 1980.

In view of the Commission's deadline of 2 July and the desirability of pre-empting any further action by them, I very much hope it will be possible to resolve any problems on the public expenditure aspects in time for the announcement to be made by arranged Parliamentary Question either today, 29 June, or at the latest on Monday, 2 July.

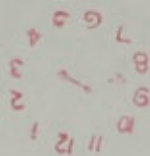
I also agree that Sir D Maitland should be asked to send a copy of the announcement to Commissioner Vouel under a short covering letter which would not go into the substance of the matter. There must remain some risk that the Commission will decide to pursue this further, but I see no advantage in attempting to negotiate with them over our arrangements for phasing out the scheme.

I am copying this letter to all members of E Committee, the Secretary of State for Scotland, Chief Whip, Sir John Hunt and Sir Donald Maitland.

The Rt Hon D Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

*Yours sincerely
Michael Stewart*

*approved by Sir I. Gilman
& signed in his absence*



- 2 JUL 1979



1. JL (OR) to see
2. PA
MS

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

29 June 1979

Dear David,

OFFSHORE INTEREST RELIEF GRANT SCHEME

Thank you for your letter of 27 June about the announcement of the phasing out of this scheme over the period until 30 June 1980.

Your suggestion for phasing out the scheme over this period causes me a real difficulty. As you know, your Department had suggested as one of the option cuts for our forthcoming public expenditure discussions an earlier phasing out, which would have produced, as part of the contribution to your Department's option cuts totals, the following:

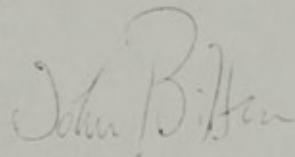
				<u>£ million</u>
1980 - 81	1981 - 82	1982 - 83	1983 - 84	
2.9	1.0	2.0	3.0	

The approach in your letter effectively rules out this option and I can only agree to your proposal on the condition that you can let the Treasury have an alternative realistic option which would replace the one you originally suggested for the OSIRG Scheme. Could I therefore suggest that your officials should get in touch with mine urgently so that they can agree the new option cut before the PQ is answered.

I agree with you that it is better to make the announcement by means of an arranged PQ rather than a statement. But I do think that the draft attached to your letter is much too defensive. Surely it would be presentationally better to begin by reminding the House that the Scheme was established by a Conservative Government, that during its currency the share of the market held by UK firms has increased very substantially

and that we have come to the decision that it no longer represents value for money. I am also doubtful whether it is presentationally wise to refer in the answer to the EEC Commission.

I am sending a copy of this letter to the Prime Minister, Members of E Committee, the Secretary of State for Scotland, the Chief Whip, Sir John Hunt and Sir Donald Maitland.

A handwritten signature in cursive script, reading "John Biffen". The signature is written in dark ink and is positioned centrally on the page, below a large, faint, handwritten flourish that appears to be a stylized "J" or "7".

JOHN BIFFEN.

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29 JUN 1979



Energy

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01-211 6402

CONFIDENTIAL

27 June 1979.

MBM

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276

The Rt Hon John Biffen MP,
Chief Secretary to the Treasury,
HM Treasury,
Parliament Street,
SW1P 3AG.

Dear John

INTEREST RELIEF GRANTS SCHEME FOR OFFSHORE SUPPLIES

At E Committee on 1 June (E(79)2nd Meeting), I was invited to decide with colleagues in Department of Industry, Scottish Office and the Treasury on a suitable period for phasing out this Scheme. I am writing to you and copying to Keith Joseph and George Younger because it is clear that constraints on public expenditure will be the governing factor.

I propose that we should now give notice that grants will not be available under the Scheme for new contracts placed or additions made to existing contracts after 31 March 1980. As the Scheme allows a three month period for registering contracts for grant after they have been placed, it would therefore remain open for acceptance of new commitments for the minimum period of 12 months suggested by the Committee, ie. until 30 June 1980. Although it is extremely difficult to forecast expenditure under this demand-related Scheme my officials have advised me that, taking into account substantial existing commitments, my proposal could be contained within the assumed 1979 PES baseline (totalling about £110 million to 1983-84), which was drawn up on the basis that the EEC Commission would have accepted the previous government's proposals for modifying (ie. restricting) the Scheme to meet the Commission's concerns, and that the modifications would have been put into effect earlier this year.

Having regard to the public expenditure constraints, I think a straight nine months' run for the present Scheme is preferable to the only other alternative which could be accommodated, of six months' notice followed by six months of a modified scheme. This would be less cost-effective and would further complicate the administration of an already complex scheme. I cannot therefore recommend it.

On presentation, my inclination is towards an arranged PQ rather than a statement (which would have to be made later this week) having regard to the fact that the two months' notice to abolish the Scheme decreed by the Commission expires on 2 July. There

Contd/...

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are some arguments in favour of a statement. So far as I am aware, this will be the first substantive change in industrial support measures to be announced and there will be wide constituency interests on both sides of the House. The decision will also follow quickly upon Hamish Gray's answer to an arranged PQ on 19 June in which he announced our decision not to intervene in Shell/Esso's preference to have a £40 million multi-function support vessel built in Finland rather than at Scott Lithgow. However, I would prefer to rely on the arranged PQ and answer, and if the Opposition subsequently decide to attack us on this and related matters we can consider how best to riposte. I should particularly welcome the views of Michael Jopling on the presentational aspect; I enclose a draft of the Parliamentary answer I would propose to give.

I understand Sir Donald Maitland advises that he should send a copy of my announcement to Commissioner Vouel on the day it is made under cover of a very short letter which would not argue or explain how our decision relates to the Commission's. I agree with this.

I also propose to inform the United Kingdom Offshore Operators' Association and the suppliers' trade associations on the same day.

I am sending copies of this letter and the enclosed draft to the Prime Minister, members of E Committee, the Secretary of State for Scotland, the Chief Whip, Sir John Hunt and Sir Donald Maitland.

D.A.R. Howell.

Encl.

In en
David

DRAFT PQ AND ANSWER

To ask the Secretary of State for Energy if he will make a statement on the future of the Offshore Supplies Interest Relief Grant Scheme:

DRAFT REPLY

The Government has decided that Interest Relief Grants under this Scheme will not be available for new contracts placed after 31 March 1980, nor for additions made after that date to existing contracts. However, the offshore operators and the suppliers continue to be entitled to apply for registration of such contracts and additions for grant with the Offshore Supplies Office of my Department within the three months for any particular case which the Scheme provides, that is up to 30 June 1980. Payment of grants in respect of contracts and additions accepted for registration under these arrangements will of course continue beyond 30 June 1980, in accordance with the established rules of the Scheme.

In reaching this decision, the Government considered most carefully the future of the Scheme in relation both to its value as a means of compensating for preferential export credit rates available for overseas supplies and the need to reduce public expenditure. We have decided that it no longer represents value for money overall. This conclusion also has regard to the fact that the EEC Commission sought and received assurances from all our Community partners in 1977 that they did not or would no longer provide preferential export credits for intra-community trade, including continental shelf trade. The decision which I have announced honours the undertaking given to the UK Offshore Operators Association by the previous administration of 9 months' notice of any substantial changes to the Scheme.

Whilst the IRG Scheme will need to end, the Government continues to attach very great importance to the efforts of British industry in maintaining the position it has won in our offshore market. British industry will need to continue to demonstrate its competence and reliability but the Government will ensure that it obtains a

Full and fair opportunity to win business for our continental
shelf on a competitive basis.



1977

ENERGY

Ref: A09675

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PRIME MINISTER

Off shore Supplies Interest Relief Grants Scheme
(E(79) 6)

BACKGROUND

The provision of supplies for the offshore development of North Sea oil and gas represents a market now worth about £1,500 million a year. Because the United Kingdom Continental Shelf (UKCS) is regarded in law as part of the United Kingdom, United Kingdom export credit facilities are not available to British firms competing in this market whereas other countries can quite properly count it as an export market to which their export aids apply. United Kingdom suppliers were therefore seen, at an early stage, as potentially disadvantaged in this market and the previous Conservative Government introduced the interest relief grants scheme in 1973 to redress the balance - in a situation where, at least initially, the main competition came from the United States, Norway and Japan. Over the 6 years since the scheme was introduced (though not necessarily because of the scheme we have other advantages including proximity) the share of the market going to United Kingdom companies has increased from about a quarter to about two-thirds.

2. Although the EEC Commission raised no problems about the scheme in its early days they have become progressively more insistent that it distorts competition with other European suppliers and on 2nd May they issued a Decision which requires us to cease aiding new contracts after 2nd July on the grounds that such aid is contrary to the Treaty of Rome (intra-Community trade should not be aided as this distorts competition).

3. Arguments with the Commission about the validity of the scheme have continued now for some years. At an early stage of the argument the United Kingdom challenged the Commission's view that European suppliers were disadvantaged, on the grounds that many other EEC member countries in fact gave assistance to their own firms supplying goods to the UKCS despite

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despite the Treaty. We privately produced to them evidence to this effect but were told in mid-1977 that other member States either claimed not to provide preferential credits for UKCS trade, or, in the case of France, that they would no longer do so. We have never been able to get the Commission to accept that subsidised competition from third countries outside the EEC represents a problem for European manufacturers as a whole which ought to be tackled on a Community basis.

4. The last Government sought various ways of arriving at a compromise with the Commission - including being prepared to provide a United Kingdom subsidy for EEC components and sub-contracts where they represented up to half the value of a UKCS contract, but the Commission would not accept this (M. Vouel, the Commissioner concerned, is a particularly immovable and unimaginative Luxembourger).

5. There are thus three inter-related questions:-

- (a) Whether the scheme represents value for money irrespective of other factors.
- (b) Whether there is any way of deflecting or avoiding the Community's condemnation of the scheme.
- (c) If the scheme is ended how to present the decision in the most defensible way (given that its ending will lead to attack both on the grounds that the Government are placing the 100,000 jobs in the offshore supply industry at risk and that it is bowing to unreasonable pressure from the Commission).

6. Unfortunately Mr. Howell's paper does not give a clear lead on any of these questions. This is particularly unfortunate in the case of the first - value for money - on which the others depend. You will wish nevertheless to try and bring the Committee to a clear conclusion on each. Points are:-

- (a) Value for money. To aid a growing industry is one thing: to continue the aid when the industry is established is quite another. Mr. Howell's paper lists in Annex B contracts where he believes the existence of the IRG has influenced the placing of the contract

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in the United Kingdom. You might ask him whether they are a representative selection or the best case that could be made? With the exception of the first four they appear relatively minor put against the size of the market. You might also care to probe the remark in paragraph 5 of the paper attached to Mr. Howell's note that the United Kingdom offshore supply industry "has been and continues to be relatively uncompetitive on price". If true this shifts the argument from matching others' export aids to covering the deficiencies of our own industries. If aid were removed, would they pull their socks up?

- (b) The Commission. You have already said (Mr. Lankester's letter of 29th May to the Department of Energy) that you see objection to compromises which involve the United Kingdom taxpayer in subsidising our European competitors. Mr. Lankester also reports you as suggesting phasing out the grants over 18 months and leaving it to the Commission to decide whether, in these circumstances, they would pursue us in the Courts. This is an attractive course. It might even be possible to negotiate such a deal with the Commission though for a shorter period. But you might also care to ask, in parallel, for action to be taken to ensure that our European competitors also stick to the rules and to explore once again the possibility of a Community aid system to match third country competition (if one could be devised we might gain rather than lose money). Both steps would put us in an attacking, rather than a defensive, posture in an area where the Commission has been remarkably unimaginative.
- (c) Presentation. The most defensible situation would be one in which you could say that you had examined the scheme, come to the conclusion that it did not represent value for money and were accordingly bringing it to an end. But this might not accord well with a decision to continue it for a further 18 months. You might ask Mr. Howell, in consultation with the Paymaster General, to prepare the most advantageous public line in the light of the decisions taken.

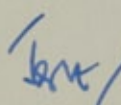
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HANDLING

7. You might first ask Mr. Howell to introduce his paper and then take the Committee through the questions listed above. The Foreign and Commonwealth Secretary, the Secretary of State for Scotland and the Secretary of State for Industry may all wish to contribute.

CONCLUSIONS

8. Subject to discussion the conclusions of the meeting might be:-
- (i) Either to bring the scheme to an end now or to phase it out.
 - (ii) Depending on (i) to invite the Secretary of State for Energy, in consultation with the Secretary of State for Foreign and Commonwealth Affairs, to negotiate a phasing out period with the Commission.
 - (iii) To invite the Secretary of State for Energy, in consultation with the Paymaster General, to consider the public handling and justification of the decision in the United Kingdom


John Hunt

31st May 1979



cc P. Lewis
Energy FCO JS
cc CO
HMT

10 DOWNING STREET

From the Private Secretary

29 May 1979

OFFSHORE SUPPLIES INTEREST RELIEF GRANTS SCHEME

The Prime Minister has read your Secretary of State's paper on the above subject, which is to be taken by E Committee on Friday. She has some comments on the paper which your Secretary of State will wish to be aware of in advance of that meeting.

The Prime Minister does not find the proposal that the scheme should be widened to include EEC components up to a maximum of 50 per cent of total content as at all attractive. She regards the subsidisation of European manufacturers, which this would involve, as unacceptable. She has also questioned whether the proposition would not be contrary to Section 8 of the Industry Act 1972.

Instead of widening the scheme as proposed in the paper, or alternatively putting an immediate halt to it, the Prime Minister has suggested that we should phase it out over eighteen months. She appreciates that this might result in the UK being taken to the European Court, but she wonders whether - with the scheme being definitely phased out over a period - we would need to be too worried about an unfavourable Court decision.

I am sending a copy of this letter to Martin Vile in the Cabinet Office.

T. P. LANKESTER

W. Burroughs, Esq.,
Department of Energy.

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Prin Mintu

For E Committee next Friday.

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24 May 1979.

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

OFFSHORE SUPPLIES INTEREST RELIEF GRANTS SCHEME
MEMORANDUM BY THE SECRETARY OF STATE FOR ENERGY

Am very much against this solution - I would like to see the EEC Commission - would be contrary to S.F.P. 72

The attached note discusses the value of this scheme to the UK Offshore Supplies industry in some detail. It also touches on the EEC Commission Decision of 2 May which requires the Government to abolish the Scheme two months from that date as being contrary to the Treaty of Rome and it is with this aspect that I should like to deal here in a little more detail.

to phase it out over 2 years

So much attention has been given by the media to the Commission's interest in this matter and its employment implication that straight acceptance of the Commission Decision would be politically difficult.

hard to

Without interpreting the figures in the paper too literally, it seems probable that the scheme has had some beneficial effects in promoting British industry.

EEC could decision

No

Offering to regard EEC components as eligible provided they do not exceed 50% of the total content would seem an attractive compromise. Going above 50% can be ruled out: it would require legislation; could add more to public expenditure and would be criticised as using tax payers' money primarily to promote foreign competition. However, making some European components eligible would make it slightly more difficult for the Europeans to complain of discrimination.

complaint because of their attitude to keep in mind our own interests.

Although this compromise has already been once rejected by the Commission, and they seem unlikely to change their attitude, it

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- 2 -

seems reasonable for a new administration to be seen to be seeking to reopen this particular avenue, and also, if necessary, to look for a longer period for negotiation.

D.A.R.H.

Secretary of State for Energy,

24 May 1979.

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END

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