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Meeting with Mr Garvin, the Chairman of Exxon

PRIME MINISTER

MARCH 1979

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vb

PM

28 August 1980

In the absence of the Prime Minister I am writing to thank you for your letter of 27 August and I will certainly ensure that she is aware of Mr. Garvin's visit in September.

However, I am afraid it will not be possible for a meeting to be arranged as the Prime Minister will be overseas on an official visit at the commencement of Mr. Garvin's stay and her diary for the latter part, because of a 10 day absence, is completely booked up. Will you please tell Mr. Garvin how very sorry the Prime Minister will be not to be able to see him.

C.S.

A.W. Forster, Esq.

A. W. Forster

Esso Petroleum Company Limited
Esso House, Victoria Street, London SW1E 5JW
Telephone: 01.834 6677
Direct Dialling: 01-245 3294/3295

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27th August 1980

The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister,
10 Downing Street,
London, S.W.1.

Dear Prime Minister,

As you may recall, my predecessor, Sir Austin Pearce, contacted you in the early Spring concerning the proposed visit by Mr. C.C. Garvin, Chairman of Exxon, to the U.K. at the end of September. At that time, you replied that you felt it would perhaps be a little early for a further discussion with Mr. Garvin in the light of your other commitments.

However, events have moved on and I can now confirm that Mr. Garvin will be with us in the U.K. from September 26th through September 29th. This will be part of a comprehensive European business trip which will also include France, Holland, Italy and Austria, and I was wondering whether it would be possible for you to reconsider the possibility of a short meeting with him.

I know that he greatly values an opportunity to exchange views with Heads of Governments in the countries where Exxon has major investment intentions and I believe it would be most helpful to our operations in the U.K. if you could possibly spare some time from your very busy schedule.

At the present time, Mr. Garvin's schedule while in the U.K. is flexible and we could therefore arrange any time that is suitable to you.

Yours sincerely,

A W Forster

A.W. FORSTER,
Chairman & Chief Executive

AWF:dh

File

Prime Minister

10 DOWNING STREET

THE PRIME MINISTER

22 February 1980

Dear Mr. Pearce,

Thank you for your letter of 14 February and for letting me know that Mr. Garvin is paying another visit to this country in September. As you know, I found our previous talks most useful.

However, I am afraid it is not going to be possible for me to see him this time. Although my autumn plans have not yet been finalised, I think it is very likely that I shall not be in London at that time. But I feel, too, that as I do not get as much opportunity as I would like to talk to the leading British oil company chairmen, yourself included, it would not be right to see Mr. Garvin so soon after our last meeting.

With all best wishes and I know that you will be the first to understand.

Yours sincerely

Margaret Thatcher

A.W. Pearce, Esq., C.B.E.

1 R 16

A. W. Pearce CBE

Esso Petroleum Company Limited
Esso House, Victoria Street, London SW1E 5JW
Telephone: 01.834 6677

CF pps

Prime Minister.

I gather the last meeting was a success. Wd you like to see Mr. Garvin again — on condition that we confirm nearer the time as you well might not be in London end of September. C.S. 18/2

14th February 1980

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

Dear Prime Minister,

I have just been advised that Mr. C.C. Garvin, the Chairman of our parent company, Exxon, is coming to London on September 25th and 26th.

Although this is a long way off, and I shall no longer be here at Esso, I know he would appreciate the opportunity of meeting you again and discussing some of the important problems of the energy world as he did last year. I am sure you will appreciate that he found his conversation with you last year extremely valuable, and the purpose of this letter is to ask if it would be possible, subject to changes closer to the time and the limitations of your very busy programme, for him to visit you for a short while on either the 25th or 26th September.

Yours sincerely,

Tim Pearce

AWP:dh

Do we have to do this regularly? (don't see David Steel or Benn regularly) MT

Prime Minister

C.C.GARVIN, JR.
Chairman of the Board

R3/7

June 27, 1979

Prime Minister

3/7

The Right Honourable
Margaret Thatcher
Prime Minister
Ten Downing Street
London SW1, England

Dear Mrs. Thatcher,

My personal appreciation to you for giving of so much of your busy schedule to Dr. Pearce and myself. The Esso Group continues to want to be of constructive service to the United Kingdom. Discussions such as ours are very helpful to us.

Thank you very much.

Sincerely,

C C Garvin Jr

1251 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10020

CONFIDENTIAL

Prime Minister DS/JS

Copy for Master + Energy (Policy) May '79

cc TSY ?? CO (BGC)

10 DOWNING STREET

From the Private Secretary

15 June 1979

Dear Bill,

Mr. C.C. Garvin, the Chairman of the Exxon Corporation and Dr. A.W. Pearce, the Chairman of Esso Petroleum, called on the Prime Minister at 1730 hours on Wednesday, 13 June. The following is a summary of the main points which came up during their discussion.

Mr. Garvin first surveyed the world oil scene as he saw it. Twenty years ago the oil companies had been finding oil at a rate of 20 billion barrels per year but over the last ten years the rate of discovery had dropped to 14-15 billion barrels. World consumption was now running at 20 billion barrels per year, with the consequence that world reserves were being gradually depleted. Against a background in which the US appeared to be unwilling to accept that a world shortage existed, a major question was whether the rate of discovery could be increased to match the rate of consumption. Geologists tended to say that the prospects were reasonably good; but they were increasingly looking at deep sea areas where, while drilling was feasible, the oil industry did not yet have the necessary production technology. His own view was that the prospects for increasing the rate of discovery above the current level were not good. This would only change if it were possible to restart exploration work on a major scale in parts of the Middle East, such as Iraq, where there still seemed likely to be vast undiscovered reserves.

Turning to the question of the current shortfall in world supply, Mr. Garvin said that the 5% cut in consumption agreed under the IEA arrangements was not enough. He had told the US Administration that it was essential for the 5% reduction to be implemented, and he had suggested to them that President Carter should perhaps call for a further 5% cut to be agreed at the Tokyo Summit. In the absence of such further measures, the current shortfall would only be eliminated if Saudi Arabia could be persuaded to produce more. They were currently producing at the rate of about 8½ million barrels a day against a potential of 11-12 million barrels. The Saudis were not only producing less than they were able to, but they were also selling a larger proportion to LDCs which, because they did not have refinery capacity, were reselling on the spot market - and thereby causing greater difficulties still for the Western oil companies. The background to this appeared to be the disenchantment of the Saudi Royal Family with the US - both for

/their

CONFIDENTIAL

JS

their failure to cut back oil consumption, and for the part which the Administration had played in bringing about the Israeli/ Egypt Peace Treaty. They were also concerned about their investments overseas and were therefore inclined to hold back the rate at which these were accumulating. Mr. Garvin said that, in his view, Sheikh Yamani was personally sympathetic to the needs of the Western economies; but he did not seem able to carry enough weight with the Royal Family. It would be very helpful if Western Governments could get closer to the Saudis to try to bring home to them the implications of their current policies. The Prime Minister agreed that steps must be taken to get closer to the Saudis, though Mr. Begin's general intransigence made this difficult and President Sadat had not helped with his recent remarks about King Khalid.

The Prime Minister asked whether the current shortage might give way to a surplus in a year or two's time, as it had done after 1974. Mr. Garvin replied that he thought this was unlikely because a repeat of the 1975 recession in the US and Europe was, in his view, improbable; and production in the Middle East was unlikely to pick up. For even if the Saudis could be persuaded to increase production, there was a risk that production in Iran would decline, and the political situation in Iraq made it unlikely that production there would increase.

The Prime Minister then asked Mr. Garvin for his views on alternative energy sources. Mr. Garvin said that 2.6 billion dollars had been invested in the Canadian tar sands project, and this was producing only 100,000 barrels of oil per day. The capital costs of converting coal into oil were likely to be even higher. The US Administration were providing substantial funds for research into solar energy, but it seemed unlikely there would be a real break-through on this front within the next 25 years. In the shortrun, therefore, oil - and by implication the OPEC countries - would continue to play a key role. But it was also essential for Western countries to push ahead with their nuclear programmes. The Harrisburg incident had put the US programme back several years, even though the official enquiry into the incident was likely to say that it was due entirely to operator faults.

The Prime Minister agreed that rapid progress must be made on the nuclear front. She had been very impressed by the French programme, and it was a matter for concern that that UK had fallen behind over the last five years.

I am sending copies of this letter to Martin Hall (HM Treasury), Martin Vile (Cabinet Office) and Paul Lever (FCO).

Yours ever,

Tim Lankester

Bill Burroughs, Esq.,
Department of Energy.

Prime Minister PM

On Ken Berrill's suggestion in para 8, Mr Howell will be putting a paper to OD(E) on Friday in preparation for the EEC Energy Council on Monday. We could possibly return to it at E Committee on Tuesday morning.

TL 12/6

Qa 04150

To: MR LANKESTER

From: SIR KENNETH BERRILL

International Oil Supplies and the Prime Minister's meeting with Mr Garvin of Exxon

1. The Prime Minister's meeting with Mr Garvin provides the opportunity to hear Exxon's views as to the immediate prospects for oil supplies and prices, and what he has to say may be useful background for the Strasbourg and Tokyo Summits.

2. It begins to look possible that some fairly fundamental proposals for getting oil supplies and prices under control will be made at Strasbourg and/or Tokyo.

3. The French, as you know, have put forward ideas for controlling the Rotterdam spot market. The Germans have said they are prepared to consider exhortations on the oil companies not to buy or sell on the spot market. And there are indications that the American administration is now looking seriously at the idea of an international oil allocation system.

4. These are the signs of a gradual recognition that the measures taken internationally in response to the oil shortfall are inadequate, that stock levels are being seriously depleted and that the risk is growing of a spiralling of the OPEC oil price which could lead to a world recession of dire proportions.

5. Broadly, there are four ways in which consumer nations might react:

- by an intensification of the efforts to achieve effective demand restraint;

- exhortation on the oil companies not to deal on the spot market: of doubtful effectiveness, but of little direct disadvantage to the United Kingdom ;
- an internationally agreed system of ceiling prices and import licences
- premature activation of the IEA trigger introducing a strict volume allocation scheme.

6. These latter two possibilities would need an enormous administrative effort. They would limit our ability to control North Sea oil to gain extra supplies for ourselves. And we would have to be immensely careful that others were not satisfying their own greed for oil at our expense. These considerations must, however, be weighed against the cost to the United Kingdom of a failure to check the current upward spiral in prices.

7. BP has been canvassing the idea of introducing the IEA allocation scheme and it would be most useful to know whether Exxon would also support such a proposal.

8. The Prime Minister and her colleagues will need to decide a United Kingdom line for Strasbourg in a very short space of time. Independently of whatever Exxon have to say we suggest that the Secretary of State for Energy should be urgently asked to put a paper to colleagues in which he reviews the recent international moves to bring the situation more under control, and the options open to the United Kingdom.

9. I am sending a copy of this minute to Sir John Hunt.

KB

12 June 1979

THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

12 June 1979

PRIVATE SECRETARY/No 10

PRIME MINISTER'S MEETING WITH
CHAIRMAN OF EXXON - PRT

Department of Energy's brief for the Prime Minister's meeting with Mr Garvin of Exxon on 13 June says that the Inland Revenue would provide a note on changes proposed in the Budget to Petroleum Revenue Tax.

... As a short brief, we can do little better than attach our
... Budget brief. We also attach our Press Release in case the Prime Minister wants more details of the changes.

AWK
Private Secretary

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cc Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State (Lords)
Minister of State (Commons)
Sir Douglas Wass
Sir Lawrence Airey
Mr F Jones
Mr Monck
Mr Wicks
Mr Slater
Mr Corlett
Miss O'Mara
Mr Agrell - Dept/Energy

Sir William Pile
Mr Dalton
Mr Adams
Mr Pollard (origin)
Mr Boyles (2)
Mr Painter
Mr Houghton
Mr Gracey
Mr Rogers
Mr Walton
Mr Whitear

K3 PETROLEUM REVENUE TAX - see also Inland Revenue Press notice

A. Increase in PRT

Factual

(i) PRT rate increased from 45 per cent to 60 per cent for chargeable periods ending after 31 December 1978;

"uplift" for qualifying expenditure reduced from 75 per cent to 35 per cent;

"oil allowance" free-of-tax allowance for each field, re-expressed in metric and effectively halved from 1 million long tons to ½ million metric tonnes a year: cumulative total of 10 million tons per field reduced to 5 million metric tones (1 ton = 1.016 tonnes)

(ii) Additional yield (PRT and Corporation tax) for 1979/80 about £130 million (current prices) (before concessions in (iii) below). Forecast yield to end 1985 about £1.8 billion (1978 prices). These figures lower by £20 million (79-80) and £0.2 billion (to end 1985) - than comparable figures announced August 1978 despite intervening surge in oil prices. This because of changes in other forecasts involved eg costs and exchange rate changes. Emphasises uncertainty of any such estimates.

(iii) Two concessions wanted by oil companies on relief for expenditure included (cost for 1979/80 £20 million).

Positive

(i) Bigger public share of a national resource.

(ii) Industry has been consulted; concessions in (iii) above given as result of their representation

(iii) Fair return, in stable political environment, still available on capital invested.

Defensive

(i) Government has re-appraised previous Administration's proposals in light of sharp and continuing increase in world price of crude oil from beginning of 1979, which has strengthened case for their introduction.

(ii) Structure of PRT unchanged. Will still be "front end loading" of capital expenditure; investment incentive provided by "uplift" still worth (in terms of tax) virtually same as that given by present PRT rate of 45 per cent and uplift of 75 per cent. Oil allowance at new level still of particular benefit to small fields. Safeguard provisions - important for marginal fields - remain unchanged.

(iii) The Government stands ready to repay royalties (free of tax) where necessary to safeguard the development of fields in the national interest.

(iv) Starting date as envisaged in previous Administration's announcement last August - not new. Postponement to July - next practicable date - would deprive Government of benefit in 1979/80 from recent upsurge in crude oil prices.

(v) Government recognises importance to companies' plans of stable North Sea fiscal regime. But this should not debar Government from making any well-justified changes.

(vi) Metrication proposals (authorised amounts in Oil Taxation Act 1975) conform with normal practice of the industry; have negligible tax consequences.

/continued

K3 (cont'd)

B. British National Oil Corporation

Proposed that BNOC's exemption from PRT be removed with effect from chargeable period beginning 1 July 1979.

Positive
Corporation has from outset been liable to corporation tax in normal way: it should also be liable to PRT.

Defensive
Fact that BNOC pays all receipts into National Oil Account is irrelevant. BNOC's exemption from PRT causes anomalies where it is a co-participator in the development of fields.

Contact point: C Sullivan (Inland Revenue) 438 7437

INLAND REVENUE
REVENUE
Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x] 12 June 1979

PETROLEUM REVENUE TAX (PRT)*

The Chancellor announced today in his Budget Speech that the Finance (No 2) Bill 1979 will contain a number of provisions relating to PRT. The changes will: increase the rate of PRT from 45 per cent to 60 per cent; reduce the "uplift" for certain qualifying expenditure from 75 per cent to 35 per cent; halve the oil allowance; and remove BNOC's exemption from PRT; make two relaxations in the rules for expenditure relief. It is also proposed to metricate amounts in the Oil Taxation Act 1975.

RATE OF PRT

1. It is proposed to increase the rate of PRT from 45 per cent to 60 per cent for chargeable periods ending after 31 December 1978.

UPLIFT

2. Expenditure undertaken to bring about the commencement of production or a substantial increase in the rate of production (or to prevent a substantial decline) and for certain other purposes not only ranks for immediate write-off in full as an expense but is also eligible for an "uplift" against PRT. It is proposed to reduce the rate of uplift from 75 per cent to 35 per cent for expenditure incurred under contracts entered into on or after 1 January 1979.

3. Specific sums committed for specific works under contracts entered into before 1 January 1979 would still attract the 75 per cent uplift. Other qualifying expenditure made under such contracts would attract uplift at 66 2/3 per cent. (The 66 2/3 per cent rate would ensure that the total value of the tax reliefs available for the expenditure would not exceed the amount of the expenditure).

OIL ALLOWANCE

4. For each field there is an "oil allowance" which is free of PRT. Under the Government's proposals this allowance will be reduced from 1 million long tons (subject to a cumulative limit of 10 million tons per field) to ½ million metric tonnes a year, subject to a limit of 5 million metric tonnes.

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* PRT is described in the Annex.

BNOC's EXEMPTION FROM PRT

5. Under the Petroleum and Submarine Pipelines Act 1975, PRT is not payable by the British National Oil Corporation (BNOC). It is proposed to remove BNOC's exemption from PRT for chargeable periods ending after 30 June 1979. There will be provisions to ensure that BNOC is given the same entitlement to PRT reliefs and allowances as other oil companies.

"COINCIDENCE"

6. The point at which oil is sold or valued for PRT purposes does not, under current rules, always coincide with the cut-off point for PRT relief expenditure: thus producers do not always get PRT relief for all the costs of transporting oil as far as the valuation point. It is proposed to remove this anomaly by changing the expenditure rules.

PAYMENTS BETWEEN FELLOW LICENSEES

7. If an asset or service is supplied by a fellow licencee in a field the expenditure allowable for PRT, under current rules, is restricted to the supplier's cost. It is proposed to remove this restriction.

METRICATION

8. It is proposed to convert references in the Oil Taxation Act to "long tons" and "cubic feet" to their metric equivalents.

SAFEGUARD

9. The Government does not propose to alter the safeguard provision under which the PRT charge is cancelled to the extent that in any calendar year it reduces the return on a field before Corporation Tax to less than 30 per cent* of the capital expenditure (measured on the basis of historic cost). The "tapering" provision will continue to apply to ensure that the PRT charge is not more than 80 per cent of the amount (if any) by which the return exceeds 30 per cent of the capital expenditure to date.

EFFECTS OF PROPOSALS ON GOVERNMENT REVENUES

10. The effect of the proposals on Government revenues, particularly in years ahead, is difficult to forecast as it depends on such uncertain factors as oil prices, exchange rates, costs and the level of production. For 1979/80, the increase in revenue is estimated as £130m (less £20m attributable to the relaxations in the PRT expenditure rules). The increase in total revenue to the end of 1985 is estimated to be of the order of £1.8bn (1978 Prices).

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* Broadly equivalent to just under 15 per cent after Corporation Tax at 52 per cent.

Petroleum Revenue Tax

PRT is a tax with special rules to reflect the circumstances of the oil and gas production industry. The tax is charged on the profits from winning oil and gas under licence in the United Kingdom (including the United Kingdom continental shelf); that is to say, the charge is made on the landed value of the oil and gas less the expenses incurred in finding it, extracting it and bringing it ashore. These expenses are licence royalties* and field costs including capital expenditure (but not interest payments).

The tax is charged on each field separately. This means that a company cannot defer paying tax on the profits of one field by offsetting against it the development costs of another field. However, abortive exploration expenditure or a loss on an abandoned field incurred elsewhere in the North Sea by the same group may be set off against PRT on developed fields.

PRT is deducted in computing profits for Corporation Tax purposes. Thus the effect for a company of an increase in PRT is partly offset by a subsequent decrease in its Corporation Tax liability.

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* Royalties are 12½ per cent of the landed value of the oil less, for First to Fourth Round Licences only, the cost of conveying the oil ashore and treating it.

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

01-211 6402

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

11 June 1979

Dear Tim,

PRIME MINISTER'S MEETING WITH MR GARVIN OF EXXON - 13 JUNE

As requested in your letter of 15 May to Bill Burroughs, I enclose background briefing the Prime Minister may care to use in her meeting with Mr C C Garvin of Exxon on 13 June 1979.

Copies go to recipients of your letter.

Yours sincerely
Colin C Ambrose

C L AMBROSE
Private Secretary

PRIME MINISTER'S MEETING

WITH

MR C C GARVIN, PRESIDENT EXXON CORPORATION

13 June 1979

Brief by the Department of Energy

Summary of Points to Make

1. What are Mr. Garvin's views on the World oil outlook - what action should Governments take?

2. We expect Esso in the UK to get proportionately rather more oil than other affiliates from the Exxon pool, given our North Sea position.

They have of course.
JL

3. (Assuming changes in PRT have been announced). Government has decided it must proceed with increases in PRT. Does not affect Government's continuing belief in long-term role for private sector oil companies in North Sea, nor does it constitute a recognition of PRT as a short term economic regulator.

4. US problems over energy supplies are well known - is there anything the UK can do to help? How does he view the recent decision by the US to "subsidise" imports of certain products?

5. (If raised). The Government is seized of the need for a quick decision on the planning application for Esso's ethylene cracker as Mossmorran.

Line to take

World Oil Outlook

1. The world oil market remains tight and world oil prices continue to rise dramatically. The IEA and EEC savings commitments seem to be very slow in taking effect. There is clearly a risk that the supply problem will only be solved via a world recession. Does Mr Garvin think that there is any more which Governments could do to avoid this worst of all solutions?

Exxon's Crude Oil Supplies to the UK

2. Esso supply about a fifth of the UK's needs for oil products. They have currently cut back supplies of most products to just over 90% of last year's levels. About half the crude supplies for Esso's UK refinery came from the North Sea and we feel that the UK affiliate should see some direct benefit from this, relative to those affiliates with no indigenous supplies, when calculating Esso's entitlement to imports from Exxon.

Certainly we should find intolerable a situation in which we make savings and see supplies diverted to countries which don't.

Fiscal Regime

3. In deciding the changes Ministers were naturally concerned with the impact of the UKCS fiscal regime on other aspects of offshore policy. We believe that even with the changes exploration and development of the UKCS is still attractive. (Further material on PRT in separate Inland Revenue brief).

Flag A

US Energy Policy

4. The US dominates the overall energy balance of the non-Communist industrialised countries; the US energy position is therefore crucial and we are taking a close interest in US progress towards achieving a reduction in oil demand.

5. Does Mr Garvin believe President Carter's proposal to decontrol crude oil will bring about a significant increase in US oil production? Does he defend the recent US decision to "subsidise" imports of heating oils?

6. Exxon, as well as Government, must be worried about the oil price situation. What role does Mr Garvin see for Government and oil companies in rationalising the situation?

7. Through their partnership with Aramco, do Exxon have any insight into the Saudis' likely attitude at the June OPEC meeting and their likely attitude on future production levels?

8. It has recently been announced that supplies from Alaska have been temporarily interrupted due to a pipeline leak. How significant does Mr Garvin think this is for the US and world supply situation?

<u>Mossmorran</u> (If raised)

9. The Secretary of State for Scotland is at present considering the material relating to the applications. He fully appreciated their economic significance and attaches great importance to dealing promptly with major industrial planning applications of this kind.

<u>Licensing and Assignments</u> (Defensive)

10. Licensing policy generally including the rate of licensing, assignments, and the role of BNOC is currently under review. (The Prime Minister will not wish to comment further on assignments unless the proposed statement on withdrawal of BNOC's privileges has already been announced in the Budget Speech or Debate).

Background

World Oil Outlook

11. The world oil market remains tight and prices are rising dramatically - $\frac{1}{3}$ up on average over last December with more rises in prospect at the next OPEC meeting at the end of this month. The IEA and EEC savings commitments seem slow to take effect, particularly in the US, and we are certainly not influencing prices. The reported closure of the Trans-Alaska pipeline would if prolonged greatly increase pressure on US, and therefore world, supplies. It seems increasingly likely that the problem will only be solved via the balance of payments and inflationary effects of higher oil prices which will reduce economic growth and therefore oil demand. As a rough rule of thumb a 10% increase in crude prices will reduce growth in the industrialised world by 0.4% after a year, and increase the US deficit by \$3$\frac{1}{2}$ billion after a year.

12. As far as the UK is concerned we expect to meet the IEA and EEC oil demand restraint targets. The measures we have taken include burning coal in place of oil in power stations and energy savings in the public sector. Internationally we have been pressing for all countries to implement their commitments speedily and for the need to look beyond present problems to the need to reduce dependence on oil in the longer term. Energy is bound to feature as a major subject at the Tokyo Summit (28-29 June).

We also believe that it is important to develop better relations between oil producers and consumers, in so far as this can be done in a fruitful way. A variety of proposals have been canvassed, including a Venezuelan initiative for a meeting of some OPEC and some non-OPEC oil producers including ourselves. If this takes place we would see it as a precursor to wider producer/consumer co-operation.

UK Supply Situation

Esso's Position

13. Esso say that the Exxon Corporation of which they are a subsidiary is about 14% short on crude supplies world-wide, and has pooled all its resources and shared

them out on an equal misery basis (CONFIDENTIAL: Esso say that in fact they have done rather better than some other affiliates - as is indeed the case if the general cut is 14% - but the Prime Minister will not wish to volunteer this information). (We have asked Esso UK with other companies to provide us with details of the reasons for their low allocations to the UK market.)

14. Esso Petroleum Ltd is the wholly-owned UK subsidiary of Exxon. Its refineries at Fawley (Southampton Water) and Milford Haven produce about 20% of the UK's petroleum products. Esso also imports a substantial quantity of products from European affiliates mainly fuel oil to meet its UK contracts for CEGB and others. In partnership with Shell, Esso is the operator of Auk, Brent and Dunlin fields, Esso's share of which currently produces about 150,000 barrels/day or half their net UK requirements.

15. Esso's participation agreement entitles BNOC to 51% of Esso's North Sea production, but this is automatically sold back to meet their UK refining needs unless the Secretary of State directs otherwise. He has never so directed.

16. Because Esso are net importers of crude oil to the UK they hold that it is contrary to UK interest to take from them any oil (such as royalty in kind), but in practice this will depend on how their 'pooling' system works in future.

17. Exxon have been attempting to obtain supplies from the new Iranian regime but our information is that their success has been limited. Meanwhile they are suffering further, as partners in Aramco, from their reduction in Saudi Arabian production from 9.5 to 8.5 million barrels/day and an increased participation take by Petromin, the Saudi Arabian Government Agency. It seems that, given an increased demand and the need to build stocks for winter, Exxon may be forced into more severe restrictions in the near future.

UK's Position Generally

18. The oil companies estimate that the UK is receiving roughly the same level of supplies as in 1978. However demand so far this year is up by about 2-3% overall, with a need to build up stocks against next winter. The situation has been exacerbated by unusually high demand for some products, eg premium petrol (up 8.3%) and burning oil (up 11.6%); and by the fact that the uneven pattern of shortages has hit some suppliers worse than others.

19. The Government has appealed to all consumers to reduce consumption by 5%, and is enlisting the aid of motoring associations, employers organisations and the trade unions. The Government is taking a lead in cutting back oil consumption in the public sector. The electricity industry is using coal instead of oil to generate electricity whenever possible.

Fiscal Regime

20. We understand that Mr Garvin's primary aim is to stress the importance the oil industry attach to a stable fiscal regime. The oil companies placed a great deal of reliance on the assurance about stability given by the then Paymaster General (Mr Dell) in 1975 but confidence was affected by the announcement by the previous administration in August last year of a proposed increase in Petroleum Revenue Tax. Since the proposed changes were announced there have been substantial rises in oil prices.

21. Mr Garvin is likely to be critical of the PRT changes which will be announced in the Budget on 12 June (a note on the changes, by Inland Revenue, will follow).

US Energy Scene

22. The US consumes about half the total energy consumption of OECD countries and produces about two thirds total energy production. US oil imports, have increased four-fold in less than a decade. Oil imports stood at 8.7 million barrels per day (mbd) in 1977; these are expected to increase to 11.5 mbd in 1985 and to 13 mbd in 1990. Despite the shadow of the Iranian oil crisis, US oil demand rose 1.4% during the first quarter of 1979 to a record 20.3 mbd.

23. At the Bonn Summit in July 1978, President Carter pledged oil import savings of about 2.5 mbd by 1985. The National Energy Act (NEA) agreed by Congress in October 1978, aimed at savings of between 2.6 and 3 mbd by 1985, but a major ommission was any form of decontrol of oil prices. In March 1979 the US, together with other IEA countries, agreed to reduce demand on the world oil markets by 5% or about 2 mbd; the US share of this reduced demand was 1 mbd. To achieve these savings, President Carter announced an energy package on 5 April 1979 consisting primarily of short term measures for energy demand restraint but with a number of new supply initiatives including the phasing out of crude oil controls by 31 September 1981.

The decontrol measures are not conditional on congressional approval although the President is asking Congress to approve a Windfall Profits Tax to prevent excessive new revenue flowing to the oil companies. The revenue from this Tax would be passed to an Energy Security Fund designed to assist low income groups affected by the removal of price controls, the development of mass transit projects and investment technology, eg oil shale, wood, solar and synthetic fuels. There is little Congress can do to de-rail the proposal to decontrol prices, but opposition is likely to the Windfall Profits Tax.

24. The US Administration have decided to grant subsidies on imports of distillates of $5 per barrel between 1 May and 31 August this year. This reflects their growing concern about the domestic political impact of current gasoline and diesel fuel shortages and the prospect of heating shortages in the winter. In particular, the measure is intended to bring back into the US market supplies from Caribbean refineries, which are normally sold largely to the US, but have recently tended to be diverted by the high product prices in European markets.

25. It has recently been announced that the Trans-Arabian pipeline, with a capacity of 1.2 mbd, has had to be closed down due to a leak. It is not clear how long this will take to rectify as the leak is in a buried section of the pipe. If the interruption continues for any length of time it would have a severe effect on the US and consequently world oil supplies.

Mossmorran Ethylene Cracker

The Project

26. Mossmorran, near the Firth of Forth in Fife, is the site of a proposed natural-gas-liquids separation plant and Esso ethylene cracker.

27. Together these plants comprise an essential element in the economic exploitation of the Brent oil field, which is rich in associated gas. But despite a public enquiry resulting in a recommendation in favour of outline planning permission in November 1977, no planning decision has yet been given by the Secretary of State for Scotland. Ministers from the Department of Energy, Department of Industry and Treasury have all stressed to Mr Younger the importance of an early and favourable decision.

History

28. The oil from the Brent field is piped to Sullom Voe. The bulk of the methane (natural gas) and natural gas liquids (NGLs: ethane, propane, butane and natural gasoline) will be piped to St Fergus. There the British Gas Corporation will take the methane and some of the ethane for the national gas grid. The plan is to pipe the NGLs from there to the separation plant at Mossmorran.

29. The total investment cost of the Mossmorran complex, together with the ancillary pipelines and terminal facilities, could well exceed £550 million. The quantifiable costs of the delays so far also approach £500 million loss to the companies and £250 millions to the nation with an adverse effect on the balance of payments of over £100 million. If the project is lost either because planning permission is refused, or because participants withdraw in the face of further delay in reaching a decision, the UK will lose not only its direct contribution to economic activity but the stimulus to further growth it could provide. Moreover there is the risk of discouraging other inward investment by a seeming lack of Government resolution to secure the means to facilitate development in the national interest.

30. Investigations ordered by the Scottish Office into possible radio hazards at Mossmorran and vigorous opposition by local objectors combined to delay the planning decision of the Secretary of State for Scotland. The further safety reports were submitted in March this year and the objectors given until 28 April to comment. All the necessary material should now be available for a decision.

Licence Interests

31. Esso Petroleum Co Ltd, a wholly-owned subsidiary of the Exxon Corporation, have been active on the UKCS since the 1st Round of licensing in 1964. At present they have interests in 21 licences in the southern and northern North Sea and West of Shetlands. They are operator for their two sole licences, Shell being their partner and operator in all others. They have been involved in 16 discoveries including the Auk, Brent Cormorant, Dunlin, Forties and Fulmar oilfields, and the Leman Bank, Indefatigable and Sean gasfields.

Sixth Round

32. Esso did not apply for a licence in the 6th Round. On the day the applications closed the Chairman of Esso wrote to the (previous) Secretary of State for Energy saying that Esso had decided not to apply for territory following an "assessment of all relevent economic and technical factors". He indicated that for the future, however, Esso would continue to be interested in considering exploration opportunities.

Assignments

33. Esso are involved in three outstanding assignment proposals, in each case in conjunction with Shell. All three cases were first put to the Department in 1977 and they were still under consideration when the new policy on assignments (ie to involve BNOC) was announced in April 1978. In the event Shell/Esso refused to cooperate with implementation of the policy, and accordingly the cases remain outstanding.

BIOGRAPHICAL NOTE

MR CLIFTON CANTER GARVIN, BS(ChE), MS(ChE)

1. Mr Garvin, President of the Exxon Corporation was born in 1921 and educated at Virginia Poytechnic Institute. He is married and has one son and three daughters.

2. After a term of military service, Mr Garvin became a process engineer at Exxon's Baton Rouge refinery in 1947 and remained there until 1961. After a short period in Exxon's Production Supply and Distribution Group he was appointed Vice-President of Exxon Central Region in 1963 and subsequently, President of Exxon Chemical Co. In 1968 he was appointed a Director of the Exxon Corporation and, in 1972, its President.

3. Mr Garvin's other business interests include a directorship of the American Citicorp and First National City Bank. He is also a member of the US Committee for Economic Development and of various US educational bodies, medical research institutes etc.

4. Exxon Corporation, the largest of the descendents of the old Rockefeller Standard Oil Company, is still the biggest oil company in the World, refining about 5 million barrels/day (of which Esso Petroleum Ltd contributes about 300,000 barrels/day). /This compares with a UK total petroleum consumption of less than 2 million barrels/day./

5. Exxon's total assets are over $50 billion and annual turnover $3 billion.

vb

Prime Minister

6 Mune 1979

You are providing the Prime Minister with a brief for her meeting with the Chairman of Exxon next week (my letter of 22 May refers). I now enclose a letter from Dr. Pearce, though I am not enclosing the brochures which he has sent. They are Chem Report '78 (Exxon Chemical Company); Exxon Corporation 1978 Annual Report; a booklet entitled "This is Exxon"; and Report and Accounts 1978, Esso Petroleum Company, Ltd.

TPL

KRB

Bill Burroughs, Esq.,
Department of Energy.

VB

10 DOWNING STREET

From the Private Secretary 6 June 1979

I am writing on the Prime Minister's behalf to thank you for your letter of 5 June, with the enclosures. The Prime Minister is looking forward to meeting you and Mr. Garvin next Wednesday.

TPL

Dr. A.W. Pearce, CBE.

JS

A. W. Pearce CBE

Esso Petroleum Company, Limited
Esso House, Victoria Street, London SW1E 5JW
Telephone: 01.834 6677

5th June, 1979

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
Westminster, S.W.1.

Dear Prime Minister,

As requested, I enclose herewith some biographical data on both Mr. C. C. Garvin and myself, and some brochures which cover both our parent company, Exxon Corporation, and Esso Petroleum Company Ltd.

There are, however, two additional factors which I think you might wish to know for your meeting with Mr. Garvin on 13th June. The first is that he had a meeting with Mr. Callaghan in April 1978, and at that time the topics of conversation were the problems of nuclear power generation, and the importance of developing alternative sources of energy in view of the political problems of the Middle East.

The second factor which you might like to know is that Mr. Garvin has been personally involved in some of the negotiations which took place with the Shah prior to the recent political changes, and for a number of years he has been the principal negotiator with the Saudi Arabian Government and, in particular with Sheikh Yahmani, who he knows very well.

Naturally, Mr. Garvin is very much involved in the current energy problems of the United States, and I have suggested to him that you might be interested in his views about not only the Middle East situation, but also what is happening in the United States.

I look forward to meeting you again on 13th June with Mr. Garvin.

Yours sincerely

AWP

AWP:ob

DR. AUSTIN WILLIAM PEARCE, C.B.E. Chairman & Chief Executive, Esso Petroleum Co.Ltd.
(since January 1972)

Born in 1921 at Plymouth, Dr. Pearce was educated at Devonport High School for Boys and Birmingham University. There he graduated with a first class honours degree in oil engineering in 1942 and was also awarded the University's Cadman Medal. He was awarded the degree of Ph.D. in Chemical Engineering in 1945.

In 1945 he joined the Company at Fawley Refinery as a technical assistant. After a number of appointments he became Process Superintendent in 1950, and Assistant Manager 3 years later. During this period he was elected a member of Hampshire County Council, and took a great interest in local education, becoming Totton Grammar School's first Chairman of Governors.

Dr.Pearce was appointed General Manager (Refining) in 1956 and remained in that position until January 1962. During this period he was particularly responsible for the construction of Whitegate Refinery for the Irish Refining Company, and the Esso Refinery at Milford Haven. He served on the Board of Directors of the Irish Refining Company from 1959 to 1964, and was appointed Chairman of that Company in 1965, and served in that capacity until 1971.

In January 1962 he undertook an assignment with Esso International Inc. New York, followed by attendance at the Advanced Management Programme at Harvard Business School in the Spring of 1963.

He returned in May 1963 to become Executive Assistant to the Chairman of Esso Petroleum Company and was appointed to the Board in December of the same year, with special responsibilities for the Company's supply, marine and pipeline interests. In 1966 he was given additional responsibilities for Esso Petroleum Company's refining operations. He was appointed a Managing Director in August 1968 and became Chairman and Chief Executive in January 1972.

In addition he was also appointed in June 1972 to the Boards of Esso Europe Inc., Esso Africa Inc., and Esso Supply Inc. He is also Chairman of Esso Pension Trust Ltd., and President of Esso Holding Company (UK) Inc.

Other Appointments:- Director (non-executive) Williams & Glyn's Bank Ltd.
Director (non-executive) National & Commercial Banking Group Ltd.
Board Member (part-time) British Aerospace
Member, General Council, Lloyds Register of Shipping.
Member, Board of Governors, English-Speaking Union
Vice-President, Royal Society for the Prevention of Accidents
Member, Energy Commission
Member, Commission on Energy and the Environment
Member, Advisory Council on Energy Conservation
Chairman, U.K. Petroleum Industry Advisory Committee
President, U.K. Petroleum Industry Association

Formerly:- 1968-1970 President of the Institute of Petroleum
1973-1976 Part-time member National Research Development Corp.
1973-1975 President, Pipeline Industries Guild
1975-1976 President, Oil Industries Club
Member, General Policy Committee, General Council of British Shipping.

Awarded C.B.E. in Queen's Birthday Honours List June 1974
Honorary Doctorate of Science conferred by University of Southampton April 1978
Elected Fellow, Fellowship of Engineering, March 1978.

Dr. Pearce's first wife died June 1975, and he re-married in May 1979 (Dr.Patricia Grice)
He has three daughters and two step-daughters. His hobbies are golf and woodwork.

June 1979.

CLIFTON C. GARVIN, JR.

Clifton C. Garvin, Jr., board chairman and chief executive officer of Exxon Corporation since August 1, 1975, has more than 30 years of experience in the Exxon organization, most of it in the refining and chemicals phases of the business.

Mr. Garvin was born in Portsmouth, Virginia, on December 22, 1921, and received his primary schooling in Baltimore, Maryland, and Washington, D.C. He attended Virginia Polytechnic Institute, from which he was graduated with a bachelor's degree in chemical engineering in 1943. From 1943 to 1946, he served with the U.S. Army Corps of Engineers in the South Pacific, attaining the rank of captain. He then returned to VPI where he received his master's degree in chemical engineering in 1947. He went to work at Exxon's Baton Rouge refinery on April 11 of that year, rising from process engineer to the post of refinery operating superintendent 10 years later. In 1963, he was elected a vice president of the U.S. operating affiliate.

Mr. Garvin was named executive assistant to the president of Exxon in 1964 and later held the same post with the chairman of the board.

In 1965, he moved into the field of chemicals, becoming president of Exxon's U.S. chemical affiliate and president of the worldwide chemical affiliate in December of the same year. He remained in that position until February 1, 1968, when he was elected a member of the board of directors of the parent company.

His chief concerns as a board member were Exxon operations in the United States and chemical operations worldwide.

In December, 1968, Mr. Garvin was elected an executive vice president and member of the executive committee, and on November 1, 1972, he became president of the corporation.

In addition to his Exxon career, Mr. Garvin has been active in a wide area of other interests. He is chairman of the Council for Financial Aid to Education, Inc., vice chairman of The Business Council, The Conference Board and of the board of trustees of the Sloan-Kettering Institute for Cancer Research. He is also a trustee of the Committee for Economic Development, Vanderbilt University Board of Trust, and the Joint Council on Economic Education. In addition, he is a trustee of the Teachers Insurance and Annuity Association of America Stock and a member of the College Retirement Equities Fund. He is a co-chairman of The Business Roundtable, a director and treasurer of the American Petroleum Institute and a director of the National United Way of America.

Mr. Garvin's memberships also include the Business Committee for the Arts and the American Institute of Chemical Engineers. He is a director of Citicorp, PepsiCo, Inc. and Sperry Rand Corporation.

In May, 1978, Mr. Garvin was awarded the honorary degree of Doctor of Commercial Science by New York University.

Mr. and Mrs. Garvin, the former Thelma Volland of Washington, D.C., reside in Greenwich, Connecticut. They are the parents of four children -- a son and three daughters.

# # #

1/79

CF
PPS. PM
1
JL.

Original in C/R

PRIME MINISTER

The Chairmen of Mobil Oil and Gulf Oil have both asked if they can meet you when they visit London later this month. The Department of Energy would like you to meet at least one of them if possible.

You are already meeting the Chairman of EXXON next week, and the two weeks when the Mobil and Gulf Chairmen will be here are the European Summit and the Tokyo Summit weeks. My own advice, therefore, is that you should not see either of them.

Agree? Yes

MT

JL.

4 June 1979

File
Prime Minister

PRIME MINISTER

YOUR VISIT WITH MR. GARVIN, CHAIRMAN OF EXXON: 13 JUNE

Dr. Pearce, the Chairman of Esso, rang to say would you prefer the meeting

Yes

to be just him and Mr. Garvin, or to include Mr. Cox, the ex-Vice President of EXXON, and Mr. Read, the President of Esso Europe who will be travelling with Mr. Garvin?

CL.

30 May 1979

File

289

BF 8.6.79

10 DOWNING STREET

From the Private Secretary

22 May 1979

The Prime Minister is to meet Mr. Garvin, Chairman of Exxon, on 13 June and I would be most grateful if you could supply her with a brief, arriving in this Office not later than Friday 8 June.

C.S.

Bill Burroughs, Esq.,
Department of Energy.

GB

10 DOWNING STREET

PRIME MINISTER

13 June is the second day of the Budget Debate. You were to have seen Mr. Garvin, Chairman of Exxon, at 4.30 at No. 10. I have had a word with Nick Sanders and he says that it would be quite feasible for you to see Mr. Garvin so long as we made the appointment at 5 o'clock. Could you confirm that you would be happy about this?

Ld.
I think that is
a little soon.
5.30? MS.

17 May 1979

File JS

Prime Minister

10 DOWNING STREET

From the Private Secretary B/F 11.6.79. 15 May 1979

Dear Bill,

The Prime Minister has agreed to see Mr. Garvin, the Chairman of EXXON, at 1630 hours on Wednesday, 13 June. I should be grateful if you would let me have - by 1800 hours on Monday 11 June - briefing for this meeting.

I am sending copies of this letter to Martin Hall (HM Treasury), Martin Vile (Cabinet Office), and Paul Lever (Foreign and Commonwealth Office).

Yours ever,

Tim Lankester.

W. Burroughs, Esq.,
Department of Energy.

JW

PM

10 DOWNING STREET

THE PRIME MINISTER

14 May 1979

Dear Mr. Pearce,

Thank you for your letter of 4 May conveying your congratulations on our Election victory.

My office has already been in touch with yours to confirm my meeting with Mr. Garvin, and I look forward to seeing him on 13 June.

Yours sincerely

Margaret Thatcher

A.W. Pearce, Esq., C.B.E.

10 DOWNING STREET

PRIME MINISTER

This is a letter of congratulations from the Chairman of Esso. It also asks if you are still prepared to see Mr. Garvin, Chairman of Esso's parent company. You have already told Caroline that you are willing to do so. I attach a draft reply.

TL

11 May 1979

Prime Minister

10 DOWNING STREET

PRIME MINISTER

Are you still happy to see Mr. Garvin, the Chairman of Exxon, on 13 June?

C.

Agreed MT

6 May 1979

Confirmed by telephone for 16.30 on June 13.

C.

8/5

A. W. Pearce CBE

Esso Petroleum Company, Limited
Esso House, Victoria Street, London SW1E 5JW
Telephone: 01.834 6677

R10/5

4th May, 1979

The Rt. Hon. Margaret Thatcher, M.P.,
House of Commons,
Westminster, S.W.1.

Dear Mrs Thatcher,

Although as I write this letter there are still quite a number of results to come through, I would like to express my congratulations to you personally, and to your party, on your success in the General Election.

You know even better than I that you take on massive responsibilities, and I hope that we in Esso can play our part in helping overcome some of the problems of the country.

Before the Election I did write to you and you agreed to see Mr. C. C. Garvin, Chairman of Exxon Corporation, which is our parent company, on the afternoon of Wednesday, 13th June. I realise that your new programme changes things very considerably, but I do hope it will be possible for you still to see him on 13th June and receive and up-to-date view of the current worldwide oil situation.

Yours sincerely

[illegible signature]

AWP:ob

Registered in England No. 26538 Registered Office: Victoria Street, London SW1E 5JW

8 March 1979

Thank you for your letter of March 6th and I am so pleased that our respective offices have managed to fix up a time when I can see Mr Garvin and I look forward to this meeting on Wednesday 13 June at 3.00.

A.W. Pearce Esq CBE

MHT

I have had a word with Richard about this and he thinks it might be a good idea. The 12th is a Thursday - the 13th you are visiting Taylor Woodrow's factory, and Finchley in the afternoon.

CS

7 March

Agreed MT

13 June

A. W. Pearce CBE

Esso Petroleum Company Limited
Esso House, Victoria Street, London SW1E 5JW
Telephone: 01.834 6677

RK

6th March 1979

The Rt. Hon. Margaret Thatcher, M.P.,
House of Commons,
London,
S.W.1.

Dear Mrs Thatcher,

Mr. C.C. Garvin, the Chairman of our parent company, Exxon, will be visiting the U.K. on Wednesday and Thursday, June 13th and 14th, and, subject to no changes which I recognise is an important assumption, Mr. Garvin will probably be meeting with the Prime Minister en route to Europe where he will be visiting the Prime Ministers of the major European countries. With Energy and the Middle East being such important factors today, Mr. Garvin will be having discussions with them about the way he sees the situation developing.

I was wondering if, subject to no problems at the time, you would care to meet Mr. Garvin and have similar discussions with him. If so, perhaps your office could get in touch with mine and we could arrange the details, contingent of course upon it being possible in June.

Yours sincerely

AWPearce

AWP:dh