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Energy - Policy DS
Original Copied to file
Prime Minister - March '79
Meeting with Mr. Garvin
Chairman of Exxon

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

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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 breakthrough on this front within the next 25 years. In the short run, 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 etc,

Tim Letcher

Bill Burroughs, Esq.,
Department of Energy.