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From the Private Secretary

3 July 1984

Dear Michael,

VISIT OF MR. CLIFFORD GARVIN: CHAIRMAN OF EXXON

The Chairman of EXXON, Mr. Clifford Garvin called on the Prime Minister today at 1700 hours. He was accompanied by Mr. Forster, Chief Executive of Esso PLC. The Prime Minister asked Mr. Garvin about the state of the oil market. He said it was currently soft. The Saudis appeared to be producing around 5.7 million barrels a day and this had led to a surplus of supply which had pushed prices down by about $1. Earlier in the year the demand for oil had been stronger though he suspected this demand came from speculators and traders who were buying on fears of an interruption in supplies from the Gulf. EXXON and other large companies appeared to be holding minimum operating inventories.

Mr. Garvin praised the impact of last year's changes in the North Sea fiscal regime. This had produced a major increase in activity, around 30 - 40% for the Shell/Esso partnership. He regretted that Norway had been less forthcoming though this was probably because they had less need to develop their resources.

The discussion then turned to Sleipner gas. Mr. Garvin argued that projections of reserves based on geological data had large margins of error. It was important to create the environment which would encourage companies to explore, in the knowledge that they would be able to sell freely anything they found. If the UK established an export regime it would create such an environment though he doubted whether the UK would ever have to export. He believed the Sleipner field could be absorbed by the British market without backing out of future discoveries. He argued that EXXON had interests in the Norwegian, Dutch and British sectors and so the company could afford to take an unbiased

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view of all three. The Prime Minister said the UK did not want to take the full volume of gas being offered; this would have a high cost for the balance of payments when gas was available in the North Sea. Mr. Garvin thought the maximum possible gas in the North Sea was being developed and he was not aware of any undeveloped resources. He went on to explain why oil companies had not entered the business of gas supply in the UK. To do so they would have to compete with BGC which had available to it a series of contracts at different prices. This gave it both a price advantage and a greater ability to vary the rate of supply as demand varied.

The Prime Minister asked about the gas regime in the United States. Mr. Garvin described it as a mess. The United States now had reserves equivalent to only ten years' supply. This was the result of years of regulation but even after the relaxation took effect next January the position would still be unsatisfactory. From that date new gas, ie gas discovered after 1978 would be free from controls. The 60% of supply represented by old gas would still be controlled. President Reagan had tried to extend deregulation, but without success.

The discussion then turned to the US economy. Mr. Gargin thought business was in bullish mood and expected growth to continue. He did not think higher interest rates would harm the recovery. Although they had a serious impact on international debtors, within the US high interest rates not only added to the costs of business but also represented part of the income of families. The Prime Minister expressed her concern at the US deficit though she explained that the UK was inhibited from criticising the US too publicly. Britain took the view that the term downpayment implied that further deficit reducing measures would be introduced after the election.

Mr. Garvin said he had served on the Commission considering the operation of unitary taxation in the US. The Prime Minister remarked that progress had been slow; back in September she had been told to expect a resolution of the problem by February. Mr. Garvin explained that the key to a settlement was Governor Deukmeijan of California who had originally indicated to them a willingness to resolve the issue. A "water's edge" solution had been conceded for foreign companies. This had not been agreed for US companies as California had been reluctant to give up revenue of $0.5 billion. Mr. Garvin said his personal view was that progress would be slow and it was possible that no agreement would be reached between the companies and the States. In that case, it would be necessary for the US Government to seek a solution at the federal level.

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I am copying this letter to David Peretz (HM Treasury) and Len Appleyard (Foreign and Commonwealth Office).

Yours sincerely
Andrew Turnbull

(Andrew Turnbull)

Michael Reidy, Esq.,
Department of Energy