MT

Confidential Filing

PM's meeting with MR GARVIN chairman of EXXON and MR FORSTER chairman of ESSO. and subsequent correspondence

PRIME MINISTER

June 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~9.9.82~~							
~~15-9-82~~							
~~25-9-82~~							
~~10.10.82~~							
~~2-11-83~~							
~~21-6-84~~							
~~26.6.84~~							
3.7.84							

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CONFIDENTIAL

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BM

cc MASTER SET

cc HMT
FCO

10 DOWNING STREET

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

/ view of

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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.

/ I am copying

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

10 DOWNING STREET

Prime Minister

Mr Buchanan-Smith's office rang to relay two points he had put to Exxon on Sleipner

(i) UK's proposals for modifying the contract are genuine and were arrived at only after a great deal of debate and study within the Government

(ii) If there is significant delay in reaching agreement on the revised proposals, the pressures will grow for the UK to consider alternatives.

In short the UK has bargaining strength and will use it

AT 3/7

10 DOWNING STREET

Prime Minister

The Sleipner note in the brief has been revised.

You should avoid being enticed into negotiations

AT

2/7

COVERING CONFIDENTIAL

AO (file with AT)

File

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 7412

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

29 June 1984

Dear Andrew,

As requested, I attach a brief for the Prime Minister's meeting with Exxon on 3 July.

I will let you know if the sections on Sleipner and the world oil market need revision before Tuesday.

Yours
John

J S NEILSON
Private Secretary

COVERING CONFIDENTIAL

CONFIDENTIAL

PRIME MINISTER'S MEETING WITH EXXON - 3 JULY 1984

SLEIPNER

LINE TO TAKE

- Last week we told the Norwegian Government of our requirements for approval of the Sleipner deal.

- We believe that these requirements are compatible with the essence of the draft commercial contract and we hope you will use your good offices to give our proposals a fair wind.

BACKGROUND

1. The Minister of State for Energy met Norwegian Ministers in strict confidence last Wednesday. Mr Buchanan-Smith tabled the terms on which HMG would approve the draft Sleipner contract between BGC and Sleipner partners (Statoil, Esso, Norsk Hydro). These concern (i) offtake rates, (ii) destination of liquids, (iii) control over pipeline capacity and (iv) UK content in the project.

2. The Norwegians maintained that these were not issues for Governments to negotiate upon. The UK rejected this and the meeting closed. Subsequent contacts indicate that this was merely an opening Norwegian line and we expect serious Government-to Government negotiations to take place soon.

3. Esso (with a 26% share in Sleipner) appear very keen that the Sleipner project goes ahead. Their position seems more flexible than Statoil's and Mr Garvin's influence could be helpful in getting the Norwegian Government to adopt a realistic stance when negotiations resume.

N.B. 4. WE HAVE LEARNED THIS AFTERNOON THAT MR GARVIN HAS UNDOUBTEDLY BEEN BRIEFED BY ESSO NORWAY ON THE LATEST MOVES.

Gas 4 (D/Energy)

2 July 1984

PRIME MINISTER'S MEETING WITH EXXON, 3 JULY 1984

1. WORLD OIL MARKET

Line to Take

(i) Stability in the world oil market is of key importance to the Western economy.

(ii) Recognise that Exxon played a key role last spring (1983) in supporting the BNOC price. A cut in BNOC's price then could have triggered a downward spiral of international prices with no obvious floor.

(iii) The oil market has weakened a lot in the last 10 days and BNOC is under pressure again. We continue to look to Exxon and other oil companies to help stabilise the market.

(iv) Oil market stability depends primarily on OPEC (and particularly Saudi) willingness to restrain production. How does Exxon assess Saudi intentions?

Background

1. With surplus production capacity in the world of 10 mbd, maintenance of prices depends on the willingness of OPEC countries to restrict production. OPEC countries agreed to limit production to 17.5 mbd in March 1983. Saudi Arabia has acted as a 'swing' producer within OPEC. Recently, however, Saudi Arabia appears to have increased production, possibly by 1 mbd, which could well be behind the current weakness (with spot prices $2 per barrel below term). While this may be a tactic to forestall OPEC countries pressing for an increase in production quotas at the Ministerial meeting on 10 July, it is making it difficult for BNOC to maintain its prices. As an Aramco partner, Exxon should be well-placed to comment on Saudi intentions.

2. Last spring (1983) Exxon's support of BNOC's prices was important in preventing a downward price spiral. This was at some cost to the Company in the form of paying more tax than if it had relied solely on the spot market. Continuing support for BNOC's prices in the coming quarter will be important to BNOC and, more generally, to oil price stability.

2. IRAN/IRAQ

Line to Take

(i) Prompt, co-ordinated international action, in which stock-draw would have an important role, the best way to limit damaging oil price rises in an incipient crisis.

(ii) HMG welcomes US Government initiatives to secure co-ordinated stockdraw through the IEA. Pleased that US is publicly committed to early draw-down of the SPR (= Strategic Petroleum Reserve).

Background

The possible implications for oil supplies of a further deterioration of the situation in the Gulf were considered at the London Summit. Summit countries were satisfied that, given the stocks of oil presently available, the availability of other sources of energy, and the scope for energy conservation, adequate supplies could be maintained for a substantial period of time through international co-operation. The US Government is however known to have doubts about the IEA Emergency Sharing Scheme, which it sees as cumbersome and bureaucratic, but which is acceptable to HMG.

3. EXXON IN CHINA ETC : UK EXPORT OPPORTUNITIES

Line to take

HMG is stepping up efforts to promote UK offshore expertise world-wide. Would welcome any support Exxon can give.

Background

World offshore markets are currently worth some $40 bn/pa. This could rise to perhaps $100 bn/pa in the next decade, depending on the strategic and economic incentives to exploit high-cost oil. The UK should be well-placed to exploit this, and the Offshore Supplies Office is stepping up efforts to improve our industry's position. Although Exxon are non-operating partners with Shell in the N. Sea they do operate in numerous countries, including China and Canada, where harsh conditions offer special opportunities for N. Sea technology.

4. UKCS TAX REGIME

Line to Take (defensive)

HMG's objective - reflected in last year's Budget - is to maintain a fiscal regime which encourages maximum economic recovery of UKCS oil while giving the nation its proper share of the economic rent.

Background

Mr Garvin is expected to endorse the line in Esso's annual report:

- welcome the 1983 Budget's improved fiscal terms (including abolition of royalties);
- welcome the 1984 Budget announcement of corporate tax changes;
- welcome the 1984 Budget announcement of a review of fiscal terms for incremental projects at existing fields;
- regret HMG's decision not to improve tax treatment of Southern Basin [unnecessary because already profitable].

5. NINTH ROUND OF LICENSING

Line to take (if raised)

HMG is keen to encourage exploration in 'frontier' areas (especially those in deep water), and the generation of new UK-owned and controlled technology.

Background

The Round was formally launched on 8 June, and closes on 17 December: 195 Blocks are on offer, some of them in 'frontier' areas. The major objectives of the round are reflected in the 'Line to take'. 15 mature blocks will be awarded by cash tender - Esso are not enthusiastic but the auction for the 8th Round raised £33 M. - and the remainder on a discretionary basis.

6. BNOC REVIEW

Line to take (if raised)

(i) BNOC has a useful role in establishing fair values and stabilising the oil market.

(ii) We will not be changing the general level of BNOC's operations, but will review them from time to time to see if they are still worthwhile.

Background

Ministers have now agreed that, on balance, they are prepared to retain BNOC subject to a further review in 2-3 years' time. In its evidence to the Select

The National Archives

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PRIME MINISTER'S MEETING WITH EXXON - 3 JULY 1984

SLEIPNER

LINE TO TAKE

(Assuming Mr Garvin is not aware of latest developments)

- Sleipner is of course a complex issue with wide implications for the national economy which HMG is still considering. We hope to reach a decision soon. If we do come down in favour of Sleipner we will be looking for some flexibility from the Norwegian Government on a number of points which concern us.

(If Mr Garvin is obviously aware of latest developments)

- The Norwegian Government now know of our requirements for the approval of the Sleipner deal. We believe they can be met without changing the essence of the draft commercial contract. If they cannot meet our terms then clearly we would have to reconsider our gas supply alternatives which, as you know, look increasingly promising, both on the UKCS and elsewhere.

BACKGROUND

CONFIDENTIAL

1. The Minister of State for Energy met Norwegian Ministers in strict confidence last Wednesday. Mr Buchanan-Smith tabled the terms on which HMG would approve the draft Sleipner contract between BGC and the Sleipner partners (Statoil, Esso, Norsk Hydro). These concern (i) offtake rates, (ii) destination of liquids, (iii) control over pipeline capacity and (iv) UK content on the project.

2. The Norwegian maintained these were not issues for Government level negotiations. The UK rejected this and the meeting closed. A subsequent contact indicates however that this was an opening Norwegian line taken for domestic political reasons.

3. We understand that the Norwegian Government have told Statoil of our requirements, but not Esso or Norsk Hydro. We presume therefore that Mr Garvin will not know of Mr Buchanan-Smith's visit and we believe it would not be in our interest to break this confidence before the Norwegians choose to do so.

CONFIDENTIAL

4. Esso (with a 26% share in Sleipner) are very keen that the Sleipner deal goes ahead. If in fact Mr Garvin shows that he has learnt of HMG's approach to the Norwegian Government, it would enhance the UK's negotiating position if Mr Garvin could be convinced that HMG is serious in its intention to turn away from Sleipner if our terms are not met.

PRIME MINISTER

MEETING WITH MR CLIFFORD GARVIN AND EXXON

Mr Garvin, the Chairman of EXXON is coming to see you at 1700 on Tuesday. He will be accompanied by Mr Archie Forster of Esso. EXXON are holding a meeting of their World Board in London and had originally invited you to be chief guest at their dinner. This meeting was offered as a replacement.

Esso operates in the North Sea in a 50/50 partnership with Shell, with Shell being the operator. In the oil sector their fields are Brent, Cormorant, Auk, and Dunlin, with Leman Bank in the gas sector. Esso also have a 26% share in Sleipner.

The attached brief provides notes on the subjects which could be raised. Also attached is an extract from Esso's evidence to the Select Committee on Energy on Sleipner. As one would expect from a company with an interest in the field it is totally at variance with the evidence of BP which does not. You could also raise with Mr Garvin the question of unitary taxation. Does he believe the outstanding issues on the taxation of dividends of US corporations will be resolved quickly in order that the so called "waters edge solution" can be put in place?

Finally, you may want to discuss with Mr Garvin how he, as a businessman in the US, sees the prospects for interest rates and the federal deficit.

AT

29 June 1984

NOTE FOR THE FILE

I rang Mr. Wusteman today and asked him to change the time of Mr. Garvin's and Mr. Forster's meeting with the Prime Minister next Tuesday. It is now scheduled for 1700 hours.

CR

28 June 1984

BF 29/6

AT 21/6

10 DOWNING STREET

Note for Record

I spoke to Mr Wustemann about the PM's meeting with Mr Galvin and Mr Forster. I agreed that no biographical details were required.

We agreed on the following subjects as likely to come up

(A) General

(i) Prospects for US economy, interest rates, international debt, the banking system

(ii) Prospects for UK economy, particularly as a place to invest

(iii) Middle East and the Gulf

(B) Specific

(i) UKCS development

(ii) Taxation of oil and gas (~~but~~ confined to general remarks and not detailed questions)

(iii) Sleipner and development of UKCS gas

(iv) Unitary taxation.

AT 21/6

B/F
29/6

10 DOWNING STREET

David / Andrew

Mr Waistman from Esso phoned (245 2524) about the PM's meeting with Mr Garvin & Mr Forster on 3 July.

He would like to know if there are any particular subjects likely to be discussed, and whether the PM would like biographical details of them?

Can you phone him please

Nicky 20/6

Esso UK plc

R5
C.F. PPS

Esso

Esso House
Victoria Street
London SW1E 5JW

Telephone: Direct line 01.245 2524
Switchboard 01.834 6677
Cables: Essopet London SW1
Telex: 24942

2nd November 1983

File with DB

Mr. D. Berkeley,
Prime Ministers Office,
No. 10 Downing Street
London, S.W.1.

In the diary
DMB 7/11

Dear Mr. Berkeley,

I am writing to confirm the arrangements we discussed for the meeting between Mr. C. Garvin and the Prime Minister.

Mr. Garvin and Mr. Forster will come to No. 10 at 6 p.m. on Tuesday, 3rd July 1984.

Thank you for your help.

Yours sincerely,

J.W.F.

J. WUSTEMAN
Corporate Affairs Department

JW/mg

PM - PM's meeting with Garvin, Chairman of Exxon

-5 NOV 1983

DB To ~~note~~ DWB 25/10

AT 25/10

A. W. Forster
Chairman and Chief Executive

Esso UK plc
Esso House, Victoria Street, London SW1E 5JW
Telephone: Direct Line 01.245 3294/3295
Switchboard 01.834 6677

CONFIDENTIAL

21st October 1983

Mr. Andrew Turnbull,
Private Secretary to the Prime Minister,
10 Downing Street,
London, S.W.1.

Dear Andrew,

Thank you very much for your letter of the 10th October in which you advised me that the Prime Minister feels she would be unable to accept the invitation to be the Chief Guest at a dinner in July 1984 when the board of the Exxon Corporation will be here in London.

Obviously, I am disappointed but I understand the problems that would ensue and the reasons for her decision.

Thank you, however, for advising that the Prime Minister will be willing to see Mr. Garvin during the course of his visit to Britain and I will be in touch nearer the date to make a firm appointment.

Regards.

Yours sincerely,

Archie Forster

AWF;dh

file

DJG

cc: DT Energy

10 DOWNING STREET

From the Private Secretary

10 October 1983

You wrote to the Prime Minister on 13 September kindly inviting her to be chief guest at a dinner to be held when the Board of Directors of the Exxon Corporation meet in London in July 1984.

As you will appreciate, the Prime Minister receives many invitations from individual companies and it would be quite impossible for her to accept them all. She regrets, therefore, that she is unable to accept this invitation.

The Prime Minister would, however, be willing to see Mr. Garvin for a short discussion if that can be arranged during the course of his visit to Britain.

Andrew Turnbull

A. W. Forster, Esq.

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

01 211 6402

①
Prime Minister
Agree you decline this invitation but invite Mr Garvin to call on you during his visit?
AT 7/10

Andrew Turnbull Esq
Private Secretary to
The Prime Minister
10 Downing Street
London
SW1

Yes
MT

6 October 1983

Dear Andrew

Michael Scholar wrote to me on 15 September, asking for our advice on an invitation to the Prime Minister to a dinner with the Exxon Board next July.

Exxon is the world's largest oil company and its board of directors include the presidents of some of the biggest American companies. Through Esso UK and Esso Chemicals it has important interests in North Sea production, refining and marketing.

It appears that the company is aiming to make the dinner a major, high profile, affair. Some 200 people have been invited - all of them having important connections with the company. In addition to the Prime Minister you may know they propose to invite both the Chancellor of the Exchequer and my Secretary of State.

My Secretary of State has commented that Exxon would obviously be delighted were the Prime Minister able to accept the invitation, although if she does (and especially if other Ministers also attend) other major oil companies, including British ones, may be surprised that so much Ministerial attention is being paid to one American oil company.

It is of course, a matter for the Prime Minister's own judgement. However my Secretary of State has suggested that if she does wish to talk to the President of Exxon the Prime Minister may prefer to do so in a less time-consuming way ie by having a discussion with him at her own time and convenience.

I would be glad if you would keep me informed of the Prime Minister's wishes.

Yours sincerely
Michael Reidy

MICHAEL REIDY
Private Secretary

CF/GR
pps pl.

MCS 27/9

Esso Petroleum Company, Limited

Esso House
Victoria Street
London SW1E 5JW

Telephone: Direct line 01.245 2524
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Cables: Essopet London SW1
Telex: 24942

Mr. Michael Scholar
Prime Minister's Office
10 Downing Street
London
SW1

Your reference

Our reference JW/JMC

Date 26 ~~21~~ September 1983

Dear Mr. Scholar

As I undertook to do in our recent telephone conversation, I enclose brief biographies of the Directors of Exxon Corporation, both executive and non-executive, who will be visiting the United Kingdom next year. As we discussed, I have laid stress on their breadth of industrial interests.

I hope this information is helpful, if there is any further detail I can provide please let me know.

Yours faithfully

J. Wusteman

EXXON CORPORATION: BRIEF NOTES ON THE EMPLOYEE DIRECTORS

Clifton C Garvin, Jr.	: Board chairman and chief executive office of Exxon Corporation since August 1, 1975. He is chairman and director of the American Petroleum Institute, chairman of the Business Council and a trustee of the Committee for Economic Development. He is a director of Citicorp and Citibank, N.A., Pepsi Co, Inc., and Sperry Corporation.
Howard C Kauffmann	: Became president of Exxon Corporation on August 1, 1975. He has been concerned with Exxon's foreign operations. He is a director of the American Petroleum Institute, The Chase Manhattan Corporation and the Chase Manhattan Bank, N.A., and Pfizer Inc.
Jack F Bennett	: Senior vice president and a director of Exxon since August 1, 1975. Has concentrated on financial and economic affairs. His current responsibilities include the corporation's interests in the Asia/Pacific area and the company's corporate planning, controller's, treasurer's, tax, and communications and computer science functions. In September, 1971, Mr Bennett resigned his position with Exxon to become Deputy Under Secretary for Monetary Affairs in the Treasury Department. He became Under Secretary in 1974, returning to Exxon in his present capacity in 1975. He is a director of the Discount Corporation of New York, a trustee of the Committee for Economic Development and a member of the Council on Foreign Relations, Inc., the Financial Accounting Standards Advisory Council and the Advisory Committee on International Capital Markets of the New York Stock Exchange, Inc.
Jack G Clarke	: Senior vice president and member of the board of directors of Exxon Corporation since December 1, 1975. Principal responsibilities include the corporation's interests in the Middle East and its medical, public affairs and law functions. He is a director of Amstar Corporation and the Arabian American Oil Company. He is a trustee of the Carnegie Corporation of New York and a trustee and member of the executive committee of the Aspen Institute. He is a member of the Council on Foreign Relations Inc. and is on the board of governors of the Foreign Policy Association.

../2

Jack G Clarke (continued)	He is also on the advisory board of the Georgetown Centre for Strategic and International Studies.
Donald M Cox	: Director and senior vice president of Exxon Corporation since May, 1971. His principal responsibilities are for the corporation's interests in Europe, petroleum products and Exxon Enterprises (diversified non-petroleum ventures). He is a director of the Business Council for International Understanding and the National Foreign Trade Council Inc. He is also a member of the British-North American Committee.
James F Dean	: Senior vice president and director of Exxon Corporation since September 1, 1978. His principal responsibilities are Exxon International, Exxon Production Research Company, Esso Exploration and the corporation's exploration and producing activities.
Maurice E J O'Loughlin	: Director and senior vice president of Exxon Corporation since May, 1979. His principal responsibilities are for the corporation's interests in the Caribbean, Central and South America and for Reliance Electric Company (industrial, electrical, weighing and telecommunications equipment), Exxon Minerals, Exxon Research and Engineering, and the company's science and technology activities. He is a director of the Americas Society and a director and member of the executive committee of the Council of the Americas.
Lawrence G Rawl	: Senior vice president and director of Exxon Corporation since December 1980. His principal responsibilities include the corporation's interests in Canada, chemicals, employee relations and natural gas.

JW:ptm
Corporate Affairs Dept.

EXXON CORPORATION: BRIEF NOTES ON THE NON-EMPLOYEE DIRECTORS

Outside Directors

William A.Andres	:	Chairman and Chief Executive, Dayton Hudson Corporation. Director, International Multifoods First Bank Systems Inc., and the St.Paul Companies, Inc.
Prof.Randolph W.Bromery	:	Professor of Geophysics at the University of Massachusetts, Member of the Council on Foreign Relations.
Sir Richard Dobson	:	Ex-President, British American Tobacco Company, Director of Davy Corporation plc. Foseco Minsep plc; Lloyds Bank International plc and Molins plc.
Edward G Harness	:	Chairman, Executive Committee Proctor & Gamble
Jess Hay	:	Chairman & Chief Executive officer, Lomas & Nettleton Financial Corporation, Director of The Greyhound Corporation, Trinity Industries Inc., Mercantile Texas Corporation etc.
William R.Howell	:	Vice Chairman of the Board of J.C.Penney Company Inc.
Donald S.MacNaughton	:	Chairman of the Board of Hospital Corp. of America, Director of Third National Corp. and of Johnson & Johnson.
Martha Peterson	:	President Emeritus Beloit College; Director of Metropolitan Life Insurance Company.
Bert E.Phillips	:	Director & ex-Chairman of Clark Equipment Company, Director of Whirlpool Corporation; Amsted Industries Inc. and Massachusetts Mutual Life Insurance Company.
Harold A.Shaub	:	Director & Ex-President & Chief Executive Officer of Campbell Soup Company. Director of Scott Paper Company, United Medical Corp. & R.H.Macy & Co.
Otto Wolff Van Amerongen	:	Chairman of the Management Board & Chief Executive Officer of Otto Wolff Aktiengesellschaft, Cologne. Director of several German and International companies.

JW/mhk

PM: Mtg with Mr Garvin of EXXON

June 82

FILE ACK 15/9 R M

Indef.

15 September, 1983

I attach a copy of a letter the Prime Minister has received from Mr. A.W. Forster, Chairman and Chief Executive of Esso, inviting Mrs Thatcher to be the company's chief guest at a dinner in London on 2 or 3 July 1984.

I would be grateful for your advice as to whether the Prime Minister should accept this invitation.

BF

MCS

M. Reidy, Esq.,
Department of Energy

RM

A. W. Forster
Chairman and Chief Executive

Ris

ask DTI for advice

Esso UK plc
Esso House, Victoria Street, London SW1E 5JW
Telephone: Direct Line 01.245 3294/3295
Switchboard 01.834 6677

13th September 1983

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

Dear Prime Minister,

In July 1984, the whole Board of Directors of the Exxon Corporation, including both the Executive and Non-Executive members, together with the Chief Executives of Exxon companies in the USA and Canada, will be visiting the United Kingdom. During their visit, which will include a review of our operations and outlook in Britain and a visit to Mossmorran and offshore, we are also arranging a private dinner in London at which the Board Members can meet senior representatives of British Government and Industry.

I am therefore writing to invite you to be our chief guest on that occasion and hope that Mr. Thatcher would be able to accompany you. A suitable date would be July 2nd 1984, but July 3rd is an alternative which we would be glad to adopt if it would be more convenient to you.

The Directors of Exxon, who will be led by Mr. Cliff Garvin, whom you have already met, include representatives of many facets of American and international business life, together with senior academics. We hope, during their visit, to give them and the Chief Executives of the other Exxon companies the opportunity to appreciate fully the strengths of Britain's current situation, its prospects and the scale of our commitment in the UK since we are now one of Exxon's largest operations with substantial investment plans for the future. Your presence at our dinner will be a major contribution and support to that end.

We hope that other guests at the dinner might include the Chancellor and the Secretary of State for Energy, with other senior people from Government and Industry. We estimate that the whole party may total about two hundred, including wives.

We do not intend to arrange a lengthy formal speech programme but, if you wished to speak, we know that our guests would be most appreciative and we would be pleased to arrange it. Realising what pressures there must be on you for speaking engagements, however, we would be equally happy if you felt you did not wish to address the dinner.

I will be happy to provide any further details or information you might need in coming to a decision, and look forward to hearing from you in due course.

Yours sincerely,

Archie Forster

AWF:dh

PM

Prime Minister

MCS 6/10

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

September 28, 1982

PPS.

R.5

The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister
10 Downing Street
London SW1, England

Dear Prime Minister:

I am writing to thank you for your kindness in taking time out from what I know must be a very crowded schedule to provide an opportunity for a discussion with me during my recent visit to our operations in Britain.

I very much welcomed the opportunity to exchange views and ideas on the world, U.S. and U.K. economic and energy outlooks and, in particular, their implication for the desirable continued development of U.K. offshore oil and gas. Your understanding and comments were most helpful and I would like to confirm my desire that Exxon/Esso should continue to play an important part in the development of these resources and hence the British economy.

While writing, may I also apologize for forgetting, due to pressure of time, to thank you personally for agreeing to perform the formal opening ceremony of the Castle Peak Power Station in Hong Kong. As you know, Exxon is a major partner in the project with China Light and Power and we are very proud of our association with the project.

Thank you once again for your kindness in agreeing to see me and naturally, if I can be of any assistance at any time when you are in the U.S.A., please let me know.

Sincerely,

CC Garvin Jr

Prime minister

PM's mtg with Garvin

June 1982

BOX

PM

A. W. Forster

Esso Petroleum Company, Limited
Esso House, Victoria Street, London SW1E 5JW
Telephone : Direct line 01.245 3294/3295
Switchboard 01.834 6677

15th September 1982

R18 pps.

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

Dear Prime Minister,

Just a short note to thank you for providing the opportunity for Cliff Garvin to have a discussion with you last Wednesday. It was most thoughtful of you to spare the time from your pressing other commitments but I know Cliff found the discussions most useful and helpful to our business here.

8/9/82.

Yours sincerely,

A.W. FORSTER,
Chairman & Chief Executive.

AWF:dh

o/c MASTER CONFIDENTIAL Prime Minister

cc FCO
HMT

SUBJECT

10 DOWNING STREET

From the Private Secretary 9 September 1982

Dear Jeremy,

Mr. Garvin, the Chairman of Exxon, accompanied by Mr. Forster, the Chairman of Esso Petroleum, called on the Prime Minister on 8 September.

Mr. Garvin said that world oil demand had fallen by 5% in 1980 and again in 1981. It had already fallen a further 4% during 1982. Exxon had had to revise their projections of world demand down substantially. They did not believe that the demand for total energy in the free world would grow at more than 1% per annum. They were waiting for oil stocks to reach their minimum level, but this had not happened yet. Each time they seemed to be nearing the minimum there was a further drop in demand. OPEC was currently producing around 18-19 million barrels a day (mbd); during the winter this might go up to 22-23 mbd. On their projections demand would be around the same level in 1990. If Iraq and Iran came back into production they would bring with them a further 7-8 mbd capacity. Who in OPEC would move over?

Mr. Garvin continued that he believed it vital to develop oil resources outside the Middle East. They did not believe that OPEC would break up, whatever difficulties the cartel faced, because they had a common goal.

The Prime Minister commented that the oil market was not a free market, and that the two price increases had put the West into turmoil. The need for companies to re-equip in the face of greatly increased energy costs was one of the major causes of the high level of unemployment. She did not foresee a sharp take-off from the current recession; rather, a gradual growth.

Mr. Garvin said that the depressed state of the oil market in the years to come was bound to have an adverse effect on oil producer governments' revenues. Last year's UK Budget had made great inroads into the oil companies' cash flow. That, together with the decline in oil prices, was causing them to postpone marginal development in the North Sea. The Prime Minister said that, following the Chancellor's announcement on 9 June this year, we now had a secure and stable fiscal regime for the future. She enumerated the principal changes which the Chancellor had

/ announced.

CONFIDENTIAL

announced. Mr. Garvin and Mr. Forster said that one would need a microscope to see the benefits that this would bring the oil companies. Their marginal tax rate had been reduced from 90.5% to 90%. Circumstances had changed dramatically since the earlier measures by the Chancellor, and in their view the changes announced in June did not go far enough to take account of the changed circumstances.

Mr. Garvin went on to discuss natural gas. Companies would be bringing out much more gas from the North Sea if they could obtain a market price for the output, as in the oil market. The Prime Minister said she hoped Mr. Garvin was making the same point in the United States. Mr. Garvin acknowledged that the United States had misused a valuable natural resource over many years, but said that President Reagan had told him that he was committed to taking action. Mr. Garvin believed that, notwithstanding the delay in 1983, the President would do as he had said. The Prime Minister described the political difficulties which the Government had experienced in raising the price of gas. Mr. Garvin said that their bench-mark was the price which the Norwegians charged North-European consumers - 26 pence a therm. The British Gas Corporation were tough negotiators; that was fine, but short-sighted in the long term. By 1986-7 it would be necessary to find new sources of gas, and for that there must be a consistent market-based principle in the price paid to producers.

The discussion concluded with an exchange of views about the prospects for the United States economy.

I am sending a copy of this letter to Francis Richards (Foreign and Commonwealth Office) and Peter Jenkins (H.M. Treasury).

Yours sincerely,

Michael Scholar

Jeremy Clayton, Esq.,
Department of Energy.

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

Miss Caroline Stephens
10 Downing Street
LONDON
SW1

3 September 1982

Dear Caroline,

You wrote on 20 August to ask for briefing for the Prime Minister's meeting with Mr Garvin of Exxon on Wednesday 8 September, which I now attach. I apologise for the length of the briefing; I have asterisked the most important briefs in the index.

I am copying this letter to the Private Secretaries to the Secretaries of State for Foreign and Commonwealth Affairs and for Trade.

Yours sincerely

Jeremy Clayton

JEREMY CLAYTON
Private Secretary

INDEX

A

GENERAL ECONOMIC AND ENERGY BRIEFING

1 Lines to take

1.1 General UK Economic Outlook

- Continued progress is being made towards laying the foundation for sustained economic recovery. In July inflation fell to 8.7%, its lowest level since 1978. Progressive reduction in inflation, both here and in the United States is being facilitated by careful control of public expenditure and borrowing. As a result, interest rates are falling (UK banks base rate now down to 10½%) which will provide stimulus to both consumption and investment.

- The international competitiveness of UK companies is being assisted by the continued substantial rise in productivity - manufacturing output per head has risen over 12% since the end of 1980 and cost competiveness improved by 10 - 15% during 1981. Continued moderation in pay settlements will further this process.

- Although any recovery of the real economy remains hesitant - most independent forecasts expect a modest 1% growth of output in 1982 followed by 2 - 2½% pa growth over the next 3 - 4 years - partly because of the sluggish growth in world trade, it would be foolish to risk a renewed burst of inflation by artificially boosting demand.

1.2 General UK Energy Outlook

- Currently preparing new long-run UK energy projections, but would be premature to anticipate their detailed conclusions now. [Seems likely that they will contain substantially lower projections of demand than contained in the last published projections (1979), because of lower expected world growth and continued weakness of oil market]

World Oil demand having fallen 5% in both 1980 and 1981 looks set to fall another 4% to 44½ mbd this year. OPEC's output this year is likely to be about 18½ mbd. With a slight increase in demand next year and an end to destocking OPEC output could rise to 20 mbd. The seasonal summer downturn in demand is currently limiting OPEC output to 17½ mbd and whilst this could rise to nearer 20 mbd by the winter the market will be soft as OPEC's members, especially Iran and Iraq, try to increase their output. The oil cartel's cohesion could be tested over this period.

b) Longer term Exxon have decided not to publish their annual 'World Energy Outlook' which would have covered the period to 2000. It is suggested that they now foresee lower energy demands and prices in the longer term than previously, when they projected world energy demand rising at about 2½% p.a. The Governments planning oil price projections are currently being reviewed, having previously be higher than Exxon's. The outcome is awaited.

2.4 UK Oil Products Supply/Demand

1. The last oil price hike was in 1979. Illustrative UK inland demand figures for 1978, 1981, and confidential PIA* forecasts for 1986 are as follows:

M Tonnes

	1978	1981	1981/1978 %	1986
petrol	18.7	18.7	(same)	18.4-19.5
fuel oil	27.5	15.6	- 43.3%	15.3-16.1
Total inland deliveries	84.6	66.3	- 21.6%	63.0-68.3

Petrol demand has not been markedly affected by the oil price explosion; total UK consumption has remained broadly flat. But because of the development of more fuel efficient cars further growth in motor spirit demand is now thought unlikely. Fuel oil demand has been severely hit by recession, conservation and substitution (industry and power stations) and its prospects are still weak.

2 The UK is no longer a net importer of petrol, now that 4 further 'catalytic crackers' - which extract more petrol from a barrel of crude oil - have come on stream.

3 For the future the main uncertainties are:

(i) petrol: to what extent, may demand fall because of improved engine efficiency, or diesel substitution.

(ii) middle distillates: how much growth will occur in this sector (eg avtur for aviation jet engines, derv for road use).

* Petroleum Industry Association

- *In shorter-run*, to 1985, energy demand likely to continue growing more slowly than GDP, but this itself difficult to forecast with any accuracy. General view of independent forecasters is for 2-2½% pa GDP growth over next 3-4 years (broadly in line with Treasury forecasts.) Oil's share of energy demand likely to fall slightly; the additional nuclear capacity coming into service in next few years will mainly displace coal used for electricity generation.

1.3 World Oil Market Outlook

(i) Short term: The Government's view is that the world oil market will remain soft for the next two or three years. However, there are many uncertainties.

(ii) Longer term: Department of Energy officials are currently undertaking a review of oil price projections.

1.4 UK Oil Products Supply/Demand

(i) In the next 4 years UK oil products demand is expected to be broadly constant, though perhaps with some further weakening affecting the heavier oil products (which have substitutes);

(ii) UK a free market in oil products. This provides a framework in which the oil companies can plan on the basis of commercial, not political, uncertainties.

2 Background Notes

2.1 General UK Economic Outlook

- The progress of leading indicators has been erratic over recent months reflecting uncertainty over the timing of world recovery and the US Federal Govt. Deficit. The effect on the indicators of falling interest rates has been offset by the pessimism of recent CBI statements and publications.

- Despite a recovery in the profits of industrial and commercial companies - up 40% in the year to IQ 1982 - ~~slow~~ demand growth continues to delay new investment. Capital expenditure in the manufacturing, distributive and service industries fell 3% from 1982 Q1 to Q2. Together with renewed destocking, the immediate prospects for increased activity are not bright and further increases in unemployment, now verging on 3.3 million (UK), seem likely.

- Despite recent improvements in productivity, it will take time for UK companies to recover international markets lost during 1979-80 partly as a result of the high £ exchange rate of that period. Consequently, import penetration could significatly dampen the effects of reviving demand on domestic industry unless there are continued efforts to control production costs. The non-oil current balance of payments deteriorated from a surplus of £1.78 b in 1981 Q1 to a deficit of £0.39 b in 1982 Q2.

2.2 General UK Energy Outlook

Long-term projections to be published later this year in time for Sizewell Inquiry. Will contain details of energy demand by fuel and of potential electricity supply. Seems likely that we will be suggesting substantially lower range of energy demands than were contained in our last published projections (1979). New projections place maximum estimate (165 mtce in 2000) of demand for oil close to previous minimum estimate (157 mtce in 2000)

In the short-run, our view of total energy demand very dependent on developments in whole economy; but not unrealistic to assume UK energy demand will grow by average 1-1½% p.a. 1982-5, given a slightly faster growth in GDP.

During this period considerable new nuclear capacity will come into service (increasing nuclear output by one half) as part of Government's long-term programme to expand nuclear power.

Gas is likely to increase slightly its share of total energy demand.

Oil demand is likely to continue reducing slowly from the peak reached in 1973.

Coal will continue to hold an important place in UK energy consumption, but expansion of nuclear capacity inevitably reduces one major source of demand.

2.3 World Oil Market Outlook

a) Short term

Department of Energy estimates of oil market balance — million barrels a day

	1979	1980	1981	1982	1982 Q3	1982 Q4	1983	1985
Oil Demand Industrial countries	40.8	37.8	35.3	33.2	31.3	34.3	35.5	35.2
OPEC and Developing countries	10.6	10.8	10.9	11.2	11,2	11.4	11.5	12.1
Total Demand (outside communist area)	51.2	48.6	46.2	44.4	42.5	45.8	45.0	47.3
Other Supplies	21.6	22.7	23.2	24.6	24.7	24.8	24.9	25.1
Commercial Stockchange	1.8	0.3	-0.5	-1.4	-0.2	-1.5	-0.3	-
OPEC Crude Production	30,6	26.2	22.5	18.4	17.5	19.5	19.9	22.4

B

UK UPSTREAM OIL ISSUES

A. LINE TO TAKE

* 1. UKCS FISCAL REGIME

1.1 Stability of Future regime. The uncertainty that existed during the review is now behind us. We now have a secure and stable regime for the future.

1.2 Pipeline tariffs etc - Inland Revenue Consultation Paper. Recognise that this is of particular Importance to Esso because of pipeline tariffs on FLAGS, and emphasise that it is 'green around the edges'.

* 2. NORTH SEA DEVELOPMENT

2.1 Offshore exploration and development activity influenced by many factors (eg Technology, uncertainty as to future oil prices, need to appraise new discoveries).

2.2 Exploration and appraisal drilling now at a higher level than in recent years.

2.3 20 fields now in production : 6 more under development, and 4 more at pre-development stage.

* 3. EIGHTH ROUND

3.1 This was announced in May. The formal invitation to apply is likely to be issued (as a Gazette Notice) this month, and the closing date is likely to be in January 1983.

4. DEPLETION POLICY

4.1 Hope that Exxon will welcome the Government's decision not to impose cuts. But we must keep reserve powers in case of some major change in circumstances.

5. BNOC PRIVATISATION

5.1 The Scheme transferring BNOC's oil-producing business to Britoil came into effect on 1 August. This is a major step forward in the Government's plans to float Britoil later this year, market conditions permitting. The removal of direct state involvement in oil exploration and production should be welcome to the oil industry.

5.2 [Defensive]. The scheme effects an internal re-organisation of BNOC's business, and consequential effects on 3rd parties such as Esso have been kept to a minimum.

6. DISPOSAL OF BGC'S OFFSHORE OIL ASSETS

6.1 BGC are preparing for the disposal of their interests in four N.Sea oilfields.

6.2 [If pressed:] The aim is to complete the disposal as soon as possible, subject to market conditions. But the disposal could not be completed before summer 1983 at the earliest.

B. BACKGROUND NOTES

B.1 UKCS FISCAL REGIME

1.1 The changes announced by the Chancellor on 9 June were:

(a) no field will pay Advanced Petroleum Revenue Tax (= APRT) for more than 5 years;

(b) any APRT not set off against PRT within 5 years of the first payment to be repaid then;

(c) APRT to be allowed as a deduction in calculating the PRT payback period (prolonging the availability of PRT 'uplift' and 'safeguard' reliefs);

(d) the PRT payment on account due on 1 September 1983 can now be made over 5 monthly instalments;

(e) backdating by this year of an existing Finance Bill proposal to give quicker Corporation Tax relief on certain North Sea outgoings.

1.2 Pipeline tariffs etc - IR Consultation Paper. Esso (like Shell) are believed to be unhappy about the implications for existing agreements, particularly the Northern and Western legs of FLAGS (= Far North Liquid and Associated Gas System). Inland Revenue (Oil Taxation Office) have the lead.

B.2 NORTH SEA DEVELOPMENT

2.1 Tern Field Shell/Esso advised D/Energy in April this year of their decision to defer this field. They cited "onerous" tax regime as being one of the factors underlying their decision: the companies also mentioned falling oil prices and technical problems, which are arguably more important. There is no evidence that tax by itself would have been reason enough for deferral.

2.2 Figures for the first five months of 1982 show a total of 44 offshore exploration and appraisal well starts, compared with 26 in the corresponding period last year;

B.3 EIGHTH ROUND.

[No background necessary.]

B.4 DEPLETION POLICY

4.1 Some of the main points in SoS/Energy's recent policy statements are:

- no production cuts at least until end-1984;
- regulatory powers to be used to minimise gas flaring;
- reserve powers of intervention to be maintained.

It has been stressed that tax is not an instrument of depletion policy.

4.2 Esso benefit to a limited extent from the decision on production cuts and should welcome the new clarity and certainty given to depletion policy (although they might prefer general assurances and would undoubtedly prefer royalty banking - leaving the Government's royalty share in the ground which means it bears the whole cost-as the depletion instrument).

B.5 BNOC PRIVATISATION

5.1 The Oil and Gas (Enterprise) Act 1982 gives powers to introduce private capital into the oil-producing business of BNOC and into parts of BGC, notably its offshore oil business. A Scheme made under the Act, transferring BNOC's oil-producing business to Britoil, was approved by the Secretary of State for Energy and came into effect on 1 August 1982. In order to substitute Britoil for BNOC on licences, operating agreements and certain other legal documents, the Scheme imposed some changes; on third parties including licence partners such as Esso. So far, there has been a limited reaction from the oil industry to these changes; but it is important to avoid any substantial opposition to the Scheme, since one aggrieved oil company resorting to litigation could seriously hold up the timetable for flotation.

B.6 DISPOSAL OF BGC'S OFFSHORE OIL ASSETS

6.1 On 6 August, directions were issued to BGC, under the Oil and Gas (Enterprise) Act 1982, requiring them to:

(i) prepare, by end-November, a scheme to transfer their interests in the 4 oilfields to 4 new subsidiaries owned by a new holding company;

(ii) engage an independent petroleum consultant to prepare an evaluation of the interests by end-February 1983;

(iii) Prepare accounting information on the interests.

These requirements have been designed to preserve flexibility as to the ultimate disposal method.

DEPARTMENT OF ENERGY
OPH DIVISION

2 SEPTEMBER 1982

C

THE UK REFINING AND PETROCHEMICALS INDUSTRIES

Line to Take

(i) Both the UK (and West European) refining and petrochemicals industry have substantial excess capacity (about 30%) exacerbated by low market growth and weak prices;

(ii) in the UK refining industry, re-structuring led to 2 refinery closure decisions in 1981, and a further closure - BP's Belfast refinery - was announced in August 1982: but about 30% over-capacity will remain, so further closures cannot be ruled out;

(iii) re-structuring of the UK petrochemicals industry began in 1980. The latest BP/ICI announcement on closures and portfolio exchanges is to be followed shortly by a decision by Shell on the future of the Carrington (Manchester) complex;

(iv) [defensive] despite ICI's litigation, HMG is confident that S. 134 of the Finance Act 1982 - the so-called 'Mossmorran amendment' - is consistent with the Treaty of Rome.

Background

1. Esso have 2 UK refineries: a large and modern 'showpiece' refinery at Fawley (Southampton), which is currently benefiting from a large investment programme, and a smaller one at Milford Haven. At the time of the BP Belfast refinery closure announcement in August there were press reports that Esso are keeping the future of their Milford Haven refinery under review.

2. On the petrochemical side Esso, with Shell, are constructing a large (0.5 mtpa) ethylene cracker at Mossmorran. Esso's intention is to take their half share of the Mossmorran ethylene to their derivatives plant at Antwerp, so displacing some of their existing ethylene capacity on the Continent. To date £103 m has been spent, and a further £182 m has been committed in orders. ICI's litigation on S. 134 of the Finance Act, even if ultimately unsuccessful, meanwhile introduces an element of uncertainty into the tax valuation of Mossmorran ethane. In July Mr Ed Holmer, the head of Esso Chemical world-wide, warned D/Industry that if the ICI action were to succeed and the tax valuation of their feedstock increased substantially they would not operate the cracker, even if it were built.

3. The background on the 'Mossmorran amendment' is that it removes an anomaly (it does not provide a subsidy). It will permit inter-affiliate deals in ethane for petrochemical use to be valued, for tax purposes, on the same ('formula') basis as arm's length sales. ICI claim that the amendment 'in principle or in implementation' constitutes a state aid to industry, contrary to Article 92 of the Treaty of Rome. The case is likely to be heard in the UK courts in 1983, and may well then go to the European Court.

OP(H)2c
1 September 1982

D

GAS ISSUES

1. Lines to Take

1.1 WYTCH FARM

The sale of BGC's 50% interest in Production Licence 089 (which includes the Wytch Farm oil field) is already in progress. The sale is being conducted by British Gas, not the Government.

1.2 NORWEGIAN SLEIPNER GAS

BGC are genuinely interested in obtaining the gas at the right price. Our feeling is that it is not for governments to get involved at this stage and we will await the outcome with interest.

[If the possibility of selling the gas partly to the UK and partly to the Continent if raised:

- Clear that BGC are interested in obtaining all the gas, but sure that they would be happy to consider other options].

1.3 NORTH SEA GAS: GAS EXPORTS

The UK is willing to consider the question of gas exports if sufficient new discoveries of gas are made as a result of the impetus given to exploration by the freeing of the market through the Oil and Gas (Enterprise) Act. However, it must be remembered that, at present, we still have to import a quarter of our gas requirements from Norway.

2. Background Notes

2.1 WYTCH FARM

The sale is being carried out by inviting tenders from specialist bidders for the licence interest and associated assets. The present timetable envisages initial bids being received in October, with the sale being completed towards the end of January 1983, although this could vary, depending on the interest shown by prospective bidders.

2.2 NORWEGIAN SLEIPNER GAS

The Sleipner field is estimated to hold more than 200 billion cubic metres of recoverable gas (about the same size as Frigg) and the Norwegians are now in a position to offer it for sale. The UK faces an opening supply/demand gap in the early 1990s with the decline of both the Southern Basin fields and imports from Frigg as reserves are depleted. BGC therefore need to find large quantities of gas over the next few years, and Sleipner would therefore be interesting: however, we should not give the impression that BGC are weak buyers.

At a recent meeting with BGC the President of Statoil made it clear that he recognised that, following the passage of the Act, companies other than BGC would be able to buy the gas for landing in the UK. He undertook to inform BGC if Statoil were talking to other UK buyers.

2.3 OUTLOOK FOR THE PRIVATE SECTOR IN THE BRITISH GAS MARKET

The British market for natural gas has, to date, been the monopoly preserve of the British Gas Corporation. The climate of supply has, however, now been changed by the passage of the Oil and Gas (Enterprise) Act, which became law last June. This removes the Corporation's monopoly buying privileges over North Sea gas, and its sole right to supply large and medium sized customers in Great Britain (representing 37% of the total gas market, at present). Private sector companies wishing to compete with British Gas in the market are now able to negotiate access to the Corporation's integrated transmission and distribution network, with the right to appeal to the Secretary of State if necessary. These new measures create opportunities for the private sector which have not existed hitherto. We hope Exxon will be amongst those seeking to compete with British Gas.

E

THE SIBERIAN GAS PIPELINE

Line to Take

1. Most concerned at the worsening transatlantic rift over President Reagan's measures. Believe this has only benefited Russians. We must sort it out as quickly as possible.

2. We object strongly to the US Government's measures. I know of the concern in some circles in Washington about Western Europe's possible future over-dependence on Soviet energy supplies. But I know our European partners have done their sums and believe no suitable alternative supply exists. Doubt if they will agree to slow construction of pipeline. We must look ahead constructively. For the moment, both sides must damp down the dispute as much as possible. As you know we have taken minimum action to protect our companies' interests.

Background Note

CONFIDENTIAL

1. Following President Reagan's measures of 29 December and 18 June, Americans last week imposed orders 'temporarily denying export privileges' to two French companies - Creusot-Loire (a main contractor for the pipeline) and Dresser-France (a French registered US subsidiary which has begun shipment of compressors). John Brown (which with three other UK companies was prohibited by HMG on 2 August from complying with the American regulations) has begun shipment of the first six of 21 turbines ordered by the Russians. Americans have now restricted scope of measures against the French to oil and gas equipment, and intend that John Brown will be similarly treated. German and Italian companies are also expected to begin turbine deliveries in next few weeks.

2. There is clear evidence that the Amercians are seeking a way to extricate themselves from the impasse. But it remains to be seen what price they will demand from the Europeans, in terms of further implications on East/West economic relations, and whether our European partners will be prepared to pay the price demanded.

Department of Energy/FCO
3 September 1982

EXXON/ESSO

F

The Exxon Corporation

The Exxon Corporation is the world's largest corporation and operates in the United States and nearly 100 other countries. Their principal business is energy, including exploration for and production of crude oil and natural gas and petroleum products, exploration for and mining and sale of coal and uranium and fabrication of nuclear fuel. Exxon Chemical Company is a major manufacturer and marketer of petrochemicals. Exxon had a turnover in 1981 of $115.1bn (1980 - $110.4bn) and made a profit of $5.4bn (1980 - $6.2bn). They have recently reported a 35% drop in earnings in the first half of 1982 from $3.43bn to $2.13bn. The results reflect the depressed economic environment, reduced demand for oil and petrochemical products, the large surplus of processing plant, the falling value of oil production and the high cost of financing stocks and investments. Exxon are attempting to reduce their staff worldwide by 180,000; they have also been cutting back investments in alternative energies (notably the production of oil from shale).

Esso Petroleum Company

The Esso Petroleum Company (EPCO) is an integrated oil company involved in exploration and production, refining, distribution and marketing. Although it is the UK subsidiary of Exxon - Esso enjoys a large degree of autonomy and has always placed a great deal of emphasis on its "Britishness".

Two other Esso companies operate in the UK: Esso Chemicals, whose operations are limited to this country in the same way as EPCO; and Esso Europe which, rather by chance, has its headquarters in London but has a co-ordinating role for all Esso's European companies.

In the North Sea Epco has interests in the Auk, Brent, Cormorant, Dunlin, Forties and Fulmar Fields, as well as the Leman Bank gas field. In the past all Esso's exploration and production activity has been conducted in equal partnership with Shell; while this relationship is continued in some licences awarded to them under the Seventh Round; Esso also became an operator for the first time in partnership with smaller companies.

Approximately half Esso's refinery throughput in the UK is UKCS crude; Esso are an Aramco partner, and the remainder of their UK refinery throughput is mainly Saudi Arabian. The company operates two refineries in the UK: Fawley and Milford Haven. Fawley, near Southampton is the largest refinery in the UK and is now 30 years old. Milford Haven is more recent but only half the size. Together they have a crude distillation capacity of around 25m tonnes per year although the current state of the product market means that much less is actually being run.

Esso sell all of the major oil products used in the UK and have around 20% of the market, as do Shell and BP.

Esso's net revenue increased in 1981 from £3,219m to £4,199m to give a pre-tax profit of £805m compared with £205m in the previous year.

Esso Chemicals Ltd

Esso Chemicals is an affiliate of the Exxon Corporation, and began operations in the UK in 1966 where it is now the fourth largest petrochemical company. The Head Office is in Southampton, with the principal manufacturing site at Fawley, adjacent to the Esso Petroleum refinery. Esso Chemical's turnover in 1981 was £271m (1980 - £232m) and their pre-tax profit was £19m (1980 £8m)

OP(H)
DEPARTMENT OF ENERGY
SEPTEMBER 1982

G

CLIFTON C. GARVIN JR.

Chairman of the Board and
Chief Executive Officer

Exxon Corporation

Holds master's degree in chemical engineering from Virginia Polytechnic Institute. Joined Exxon Company, U.S.A. in 1947; elected President, Exxon Chemical Company, in 1965; to Exxon Board in 1968; President in 1972; Chairman in 1975. Chairman and Director, American Petroleum Institute; past Chairman, the Business Roundtable. Director, Citicorp and Citibank, N.A.; PepsiCo Inc; Sperry Corporation. Board of Governors, National United Way of America. Vice-chairman, The Conference Board. Board of Trustees, Sloan-Kettering Institute for Cancer Research. Trustee, Committee for Economic Development; Teachers Insurance and Annuity Association Stock. Member, The Business Council; College Retirement Equities Fund; National Petroleum Council; Business Committee for the Arts; American Institute of Chemical Engineers. Board of Trust, Vanderbilt University. Honorary Doctor of Commercial Science, New York University; Honorary Doctor of Engineering, Stevens Institute of Technology.

FILE

PM

10 DOWNING STREET

From the Private Secretary 23 August, 1982

We spoke the other day about the visit of Mr Garvin and who should accompany him when he sees the Prime Minister on Wednesday, 8 September.

As I suspected the Prime Minister would prefer it if he was accompanied just by Mr Forster.

CAROLINE STEPHENS

The Private Secretary to
Mr A W Forster

SW

GARVIN

MFJ

3/9

20 August 1982

The Prime Minister has agreed to see Mr C.C. Garvin, the Chairman of Exxon at 9 a.m. on Wednesday 8 September. I enclose a copy of a self-explanatory letter from the Chairman of Esso and would be grateful if you could supply us with a short brief to reach us by close of play on Friday 3 September.

CS

Jeremy Clayton Esq
Department ofEEnergy.

A. W. Forster

Esso Petroleum Company, Limited
Esso House, Victoria Street, London SW1E 5JW
Telephone: Direct line 01.245 3294/3295
Switchboard 01.834 6677

19th August 1982

R20

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

Dear Prime Minister,

I was delighted to see on my return from vacation advice from your private secretary that a change in your diary would now allow an opportunity for you to meet Mr. C.C. Garvin during his visit to Britain. I am therefore writing to confirm that I look forward to bringing Cliff Garvin to see you at No. 10 Downing Street at 9 a.m. on Wednesday, 8th September.

In considering the scope and content of the discussions that might take place, you may like to know that, with our major involvement and ongoing investment in the North Sea and elsewhere, Esso in Britain is now the largest Exxon business outside the U.S.A. and in that light I know that Cliff will be most interested in having your views and thoughts on the British business outlook and role that oil, gas and chemicals play in this. Any advice on Esso's role and how things might be enhanced would be most helpful.

Equally, I have suggested to Mr. Garvin that you will probably be interested to hear his own views on the overall business and energy outlook with particular reference to the U.S.A. and, of course, his own assessment of developments in the Middle East, based on his considerable involvement with that area. I know also that you are shortly to undertake a Far Eastern tour and Exxon does have sizeable oil, gas and chemicals interests and activities in that part of the world.

However, these are just my suggestions. Should there be any other particular issues you would like to cover, then if your secretary would let me know I will ensure that Cliff is alerted.

I enclose an updated summary on Cliff Garvin in case you would find this useful, and I look forward to bringing him to see you on the 8th September.

Yours sincerely,

A.W. FORSTER,
Chairman & Chief Executive.

AWF:dh

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

CLIFTON C. GARVIN JR.

Chairman of the Board and
Chief Executive Officer

Exxon Corporation

Holds master's degree in chemical engineering from Virginia Polytechnic Institute. Joined Exxon Company, U.S.A. in 1947; elected President, Exxon Chemical Company, in 1965; to Exxon Board in 1968; President in 1972; Chairman in 1975. Chairman and Director, American Petroleum Institute; past Chairman, the Business Roundtable. Director, Citicorp and Citibank, N.A.; PepsiCo Inc; Sperry Corporation. Board of Governors, National United Way of America. Vice-chairman, The Conference Board. Board of Trustees, Sloan-Kettering Institute for Cancer Research. Trustee, Committee for Economic Development; Teachers Insurance and Annuity Association Stock. Member, The Business Council; College Retirement Equities Fund; National Petroleum Council; Business Committee for the Arts; American Institute of Chemical Engineers. Board of Trust, Vanderbilt University. Honorary Doctor of Commercial Science, New York University; Honorary Doctor of Engineering, Stevens Institute of Technology.

PRIME MINISTER - on return

1. You have agreed to see Mr. Garvin, Chairman of Exxon. Mr. Foster, Chairman of Esso Petroleum wonders if he can accompany him.

Agree?

2. There is also a request for Mr. Cox, senior Vice President of Exxon and also Mr. Rick, President of Esso Europe to attend the meeting. But I think it would be much better if it was just Mr. Garvin and Mr. Foster.

Agree? - Yes MT

12 August 1982

bcc Alan Walters

Mr. GARVIN 17/8

10 DOWNING STREET

From the Private Secretary

10 August 1982

We corresponded in June about the visit of Mr. Garvin, the Chairman and Chief Executive of your parent company Exxon.

The Prime Minister's diary has slightly changed for 7/8 September and she wonders whether Mr. Garvin could come and see her at 0900 on Wednesday 8 September at 10 Downing Street.

Perhaps your secretary could give me a ring on 930 4433 to confirm this meeting.

CS

. Forster, Esq.

10 DOWNING STREET

PRIME MINISTER

I attach a note by Alan Walters asking if you would see Mr Garvin, Chairman of EXON. We had a letter from the Chairman of Esso in June and replied saying that you could not see Mr Garvin on either 7 or 8 September because of your very over-crowded diary.

The diary is now worse than it was and I have only one half an hour slot free on either of those two days.

Do you wish to see Mr Garvin?

Yes
We shall have to start. ½ earlier than

M.

9 August, 1982

much

MS

MISS STEPHENS

VISIT OF THE CHAIRMAN OF EXON CORPORATION 7/8 SEPTEMBER

I think it would be a good idea if the Prime Minister could find time to see Clifford Garvin, Chairman of Exon. He is also Chairman of the American Petroleum Institute and of the Business Round Table - both influential bodies in the United States.

But most important from our point of view is that he is a very strong supporter of the Government's policy with respect to the gas gathering pipeline and the new gas regime in the North Sea. Exon have discovered a big gas field well away from the late lamented proposed gas gathering pipeline. And they are anticipating bringing gas ashore far earlier than would otherwise have been the case.

Exon are proposing to invest heavily both in gas and oil in the North Sea. I think it would be useful for the Prime Minister to get a view from this international oil magnate.

AW

6 August 1982

ALAN WALTERS

R H

23 July,1981

The Prime Minister has asked me to thank you for your letter of 22 July, advising us that Mr C C Garvin, Chairman and Chief Executive of your parent company EXXON will be in London on Monday and Tuesday, 12th and 13th October. I very much regret that it will not be possible for the Prime Minister to see him during his visit as she will be in Blackpool that week for the Conservative Party Conference. I am so sorry.

CAROLINE STEPHENS

A W Forster, Esq

TW

A. W. Forster

Esso Petroleum Company, Limited
Esso House, Victoria Street, London SW1E 5JW
Telephone: Direct line 01.245 3294/3295
Switchboard 01.834 6677

22nd July 1981

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

Dear Prime Minister,

I have just been advised that Mr. C.C. Garvin, the Chairman and Chief Executive of our Parent Company, Exxon, will be visiting London on Monday and Tuesday, 12th and 13th October inclusive, as part of a trip which will also include Oslo, Bonn, The Hague and Paris.

Although this is still some time away, I am writing to ask whether it would be possible for you to spare time for a short meeting with him on matters of mutual interest. I know that he greatly values the opportunity to exchange views on world and local energy matters with Heads of Government in countries where Exxon has major activities and future plans, and, as I am sure you know, Esso Petroleum here in Britain is now one of Exxon's largest affiliates.

It would, therefore, be most helpful to our U.K. operations if you could spare some time from your very busy schedule. Cliff Garvin's schedule on the days in question is flexible and we could arrange any time that is suitable to you. I would be delighted to host lunch or dinner here at Esso House if that were more convenient.

Yours sincerely,

A.W. FORSTER,
Chairman & Chief Executive

AWF:dh

b MFJ

14 June 1982

The Prime Minister has asked me to thank you for your letter of 7 June.

Mrs. Thatcher was pleased to hear that Mr. Garvin will once again be visiting London. But I am afraid it will not be possible for her to meet him in September. She has an overseas trip planned for Tuesday 8 September and a busy day on the 6th preparing for the visit.

With best wishes and I am sorry to have to bring you this disappointing reply. Could you pass on the Prime Minister's regrets to Mr. Garvin.

CS

A.W. Forster, Esq.

Sw

R M

10 June, 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 7 June. This is receiving attention and a reply will be sent to you as soon as possible.

W R

A W Fosster, Esq

RM

10 DOWNING STREET

1 GR

Pl acknowledge 10/6

2 Caroline (o.v.)

You may want to wait until the dates for the French bilateral are sorted out before putting this to the PM, but my view is that a call by Garvin is not a top priority. The PM does not see the Chairmen of Shell and BP and BNOC regularly, so why should she do the same for Garvin.

GR
10/6

Office of The Chairman

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

Britain/in France?

7th June 1982

PPS.

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

R.8.

Dear Prime Minister,

I have just heard that Cliff Garvin, Chairman and Chief Executive of our parent Company Exxon, will be visiting London on the 7th/8th September, and since it is some time since he last had an opportunity of exchanging views with you I am writing to ask whether it would be possible for you to meet him during this visit.

There are many changes occurring in the world political and economic outlook, including the delicate balance of energy supply/demand and its implications for oil. Such major uncertainties are naturally of immense concern to large multinational companies such as Esso/Exxon and as a major investor in Britain I know that Cliff Garvin would greatly appreciate your views.

I recognise the many conflicting demands on your time, but I hope that it will be possible for you to agree to my suggestion and naturally a meeting can be arranged at any time convenient to you during the 7th/8th September. If a dinner or lunchtime appointment would be more suitable I would be delighted to be the host.

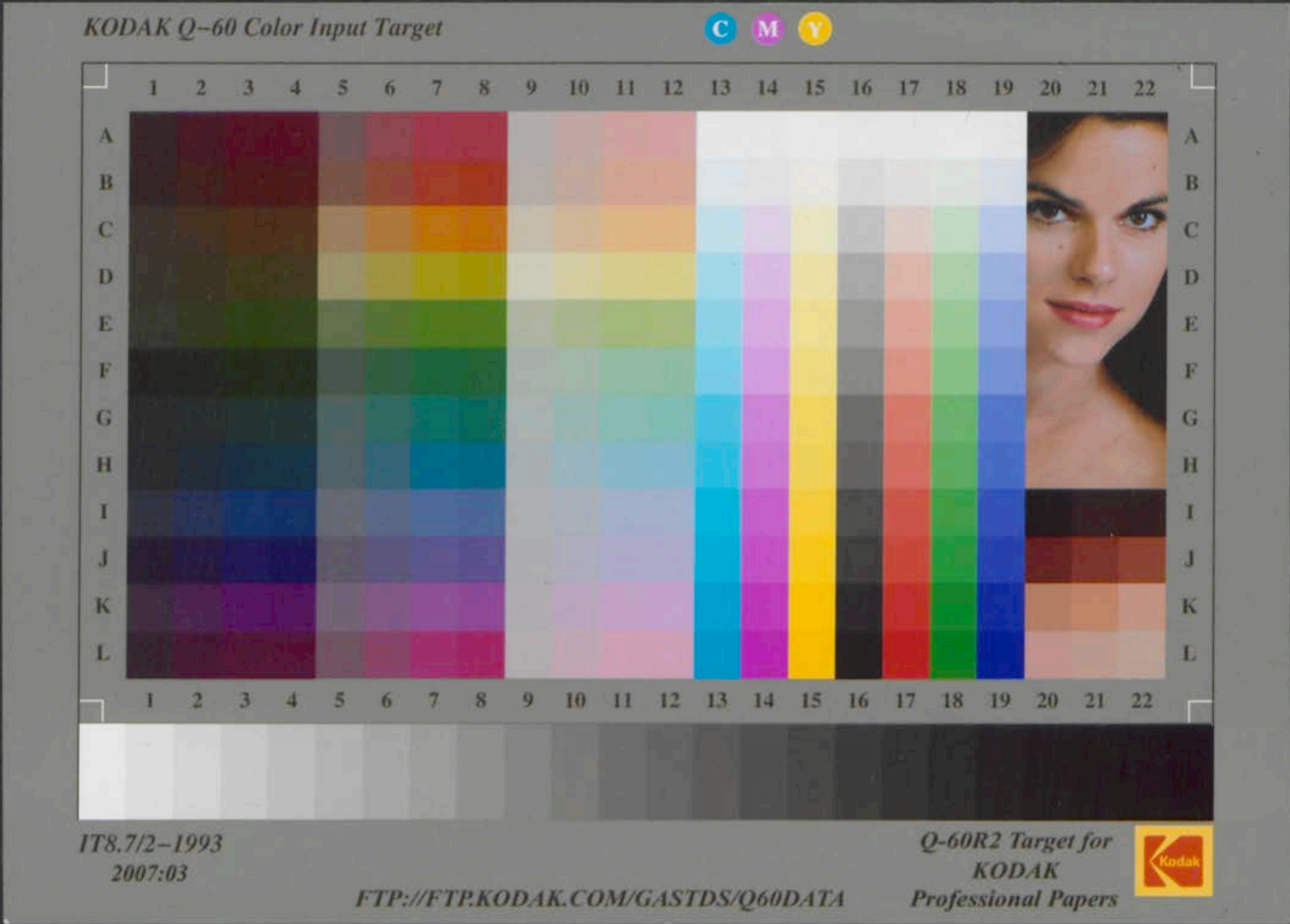
I very much hope you will be able to accept.

Yours sincerely,

Arthur Forster

A.W. FORSTER.

AWF/JD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