



10 DOWNING STREET

Prime Minister

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

(i) UK's proposals for modifying
the contract are generous and
were omitted 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 pressure
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

Pune Minister

The Sleepers note in the
brief has been verified.

You should avoid being
enticed into negotiations

AT

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old
(file with
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File



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH

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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

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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 ENOC price. A cut in ENOC'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 ENOC 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 ENOC 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 ENOC'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 ENOC's prices in the coming quarter will be important to ENOC 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. ENOC REVIEW

Line to take (if raised)

- (i) ENOC has a useful role in establishing fair values and stabilising the oil market.
- (ii) We will not be changing the general level of ENOC'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 ENOC subject to a further review in 2-3 years' time. In its evidence to the Select


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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

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.

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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.