

MS

PRIME MINISTER

OIL TAXATION PROPOSALS

- You have of course already
 signed the Chancellor's proposals.
 If you are disposed to give
 weight to Mr Hamill's concerns, we
 shall have to have a meeting after you
 return from Washington. He is kind of
 / attentive. He is kind of
 meeting tomorrow.
1. I have seen a copy of Geoffrey Howe's minute to you of 20 February. I am grateful to Geoffrey for keeping me in touch with his thinking and in drawing to your attention points on which we do not wholly agree. However, I felt I should explain slightly more fully my worries about his proposals.
2. First, I think that he somewhat overstates the case in saying that the industry generally accepts that his proposals are justified on the basis of current North Sea economics. Admittedly the industry is generally prepared to see us take an additional £1 billion from the North Sea next year, given our budgetary difficulties. However, they see it being taken as a temporary levy representing an advance payment of PRT; and I have seen little evidence that generally they accept there is a case for our taking additional revenues on a permanent basis. Certainly I do not think that we should put too much weight on Dr Hammer's views since his interests do not coincide with those of most companies active in the North Sea.
3. Second, I remain concerned about the proposal for the new tax to be paid on a monthly basis. This step will have an adverse effect on the cash-flow of companies and I do not think that the monetary policy arguments for it justify imposing this burden on them. Certainly they have said that they regard it as the last straw.
4. Third - and most important - I am very concerned about the proposal to press ahead with the changes to PRT as planned given the risk that, with these changes, PRT will no longer be creditable. If we did go ahead and the US subsequently ruled that PRT was no longer creditable the companies would take the view that we had decided on the new measure without having fully thought through the consequences: this would further erode their confidence in us and have in its turn a damaging effect on North Sea activity. Indeed their uncertainty as to whether the new measures would result in loss of creditability would in itself affect their North Sea activity. And the mere step of going ahead

without further consultation with the US authorities when we know that they are already taking a strong interest in the matter could encourage the US authorities to take a more critical line than they would otherwise have done.

5. I therefore believe that there is a case for introducing the changes at a later stage after further discussion with the US authorities. I recognise that it could take some time to secure a formal ruling from them. But at least this would give us a better chance of convincing them. And delay would have the presentational advantage of being seen by the companies as evidence of a willingness on our part to give them more time for consultation.

6. I recognise that by delaying we would not allow the longer term revenue gains to score in the MFS this year and that there would be a loss of a small part of the additional revenue we are seeking in the interim. On the other hand, I do not think that companies would benefit from the delay by taking advantage of the distortions in the current regime given that the regime is under threat of change. All in all I think that there is little to be lost, and something to be gained, from a delay in introducing these changes.

7. I accept, of course, that these are very much matters of judgement. But I thought you should be aware of my concern.

8. I am copying this minute to Geoffrey Howe and Peter Carrington.

SECRETARY OF STATE FOR ENERGY

23 February 1981

04.