

cc Dray, July 79
Gas Gathering Practice

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10 DOWNING STREET

THE PRIME MINISTER

3 October 1980

Dear Dr. Hammer,

Thank you for your letter of 6 September about the oil taxation 'ring fence' provisions, following our discussion on the trip to Flotta.

I would certainly like to encourage successful North Sea oil companies to plough their oil production profits back into the UK economy. Your proposal, that investment in new energy related projects should be allowed immediate tax relief against oil production profits inside the 'ring fence', is an interesting approach. As you recognise in your letter, my main difficulty lies in the revenue losses which would arise. In framing tax reliefs of the kind you suggest, it would be very difficult to restrict them only to additional investment proposals. Almost inevitably more generous immediate relief would have to be given to all new energy related investment - including a great deal which would have gone ahead without the need for tax concessions. On any reckoning, investment in new UK energy related work in the next few years is likely to be very substantial even without new incentives: indeed, you have yourself announced prospective investment of some \$1½ billion by a single company. Your proposal is one which I and my Treasury colleagues will certainly bear in mind as we look at arrangements in this field in the future. I am most grateful to you for writing to me to set it out.

I cannot thank you enough for the confidence and faith you are putting in Britain's future. It is now some weeks since my visit to Flotta, but the memory will stay with me for many years to come. Yours sincerely
Margaret Thatcher

Dr. Armand Hammer.