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DR. ARMAND HAMMER
10889 WILSHIRE BOULEVARD, SUITE 1500
LOS ANGELES, CALIFORNIA 90024

12th November, 1980.

The Rt. Hon. Mrs. Margaret Thatcher, M.P.
Prime Minister and First Lord of the
Treasury,
10 Downing Street,
London, SW1.

Dear Prime Minister,

I have been giving further thought to our exchange of correspondence (September 6 and October 3, 1980) regarding the oil taxation "ring fence" provisions, and am most grateful that you and your Treasury colleagues will consider my proposal as you plan for the future in this field.

In response to the points your letter made to my proposal to broaden the "ring fence" provision of the Oil Taxation Act of 1975, may I take the liberty of respectfully submitting the following comments for consideration:

Revenue Loss -

- The revenue loss is not permanent to the Government; only one of timing. The revenue temporarily forgone is recoverable fully out of the profits produced by the new investments.

- The temporary revenue loss affects the corporation tax only; not the petroleum revenue tax. At its present 70% rate, the PRT would continue to provide a substantial and certain source of revenues from North Sea production. For example, Occidental will pay substantially more PRT than CT based on our estimated tax liability for 1980-82, and had the "ring fence" been broadened and Occidental's proposals underway, its total North Sea tax payments to the Government would at most be only reduced by around 30% per year. This would continue to be true based on our projections for the next few years.

Framing Tax Relief -

- Limit relief to capital allowances only; trading losses could not be claimed. This latter point preserves the primary purpose for the "ring fence" being enacted in 1975.

- Limit relief to energy investments in "downstream" manufacturing and processing facilities which utilize crude oil or natural gas as the principal raw material. Also consider restrictions to promote U.K. self-sufficiency which would displace imports and create jobs for U.K. workers.

- Limit relief through a pre-established date, which would provide equal opportunity for prospective investments and which would put a lid on the temporary revenue loss.

Inducing New Investment -

- Tax incentives are a proven and accepted means of inducing new investment. The economics of prospective energy investments, both announced and unannounced, may be improved sufficiently by tax incentives to assure the projects going forward.

My warmest regards.

Respectfully,

Armand Hammer

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