



Mr. Turnbull

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NORTH SEA FISCAL REGIME: 1985 BUDGET

Thank you for your letter of 8 March.

I am very pleased that you have decided to maintain immediate relief against corporation tax for oil and gas exploration and appraisal expenditure. This will certainly help to maintain the rates of drilling and discovery at high levels at a time of considerable uncertainty over oil prices.

I note that you intend to withdraw relief against PRT for expenditure on onshore exploration and appraisal. I would be grateful for sight of the form of words to be used in announcing the change. I think that we should also ask our officials to monitor its impact and report back by the end of 1985.

As you say, it is for the industry to mount a better case for a concession on incremental projects than they have done so far, but we must give them every chance to do so. My officials will be consulting yours on the draft of letters to send to the individual companies involved. These will make clear the need for further thinking by the companies, as, doubtless, will John Moore's letter to UKOOA.

I note your intention to publish a consultative document on mines and oil wells allowances in the early summer. The Inland Revenue will, I am sure, be clearing this with officials of other Departments involved, including mine, before publication. I assume that the document will not cover allowances for development drilling. We will need to look at any proposals to change these in the light of further progress on incrementals.



I have already indicated my agreement to the minor changes you propose on extended production tests and on the Oil Taxation Act 1983.

I am copying this to the Prime Minister.

A handwritten signature in dark ink, appearing to read 'Peter Walker', with a large, stylized initial 'P'.

PETER WALKER