



Prime Minister

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Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

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NORTH SEA FISCAL REGIME

You will wish to know what changes I have in mind for the North Sea fiscal regime in the Budget. They have been fully discussed, and agreed, with Nigel Lawson.

2. My proposals reflect the changed prospects for oil prices. They also benefit from detailed consultations with the industry.
3. Nigel and I have concluded that it is important to concentrate on most cost-effective ways to encourage new development. Existing fields are still, by and large, earning good profits. New fields, by contrast, are likely to be smaller and more complex and therefore generally less profitable.
4. My main proposals are as follows:-
  - a. First, I intend to help current oil company cash flow, and so give some modest assistance to financing new activity, by phasing out Advance Petroleum Revenue Tax (which advances PRT into the early years of field life) between now and the end of 1986. This has been a major bone of contention with the industry.
  - b. Second, to encourage exploration and appraisal of new projects, I propose to enable companies to claim immediate PRT relief against any existing field for expenditure after Budget Day on exploration and appraisal.



This would give immediate tax relief worth up to 75p in the £ for such expenditure.

- c. Third, and most importantly, for new fields, (which will be defined to include the two N Alwyn and Clyde field, approved within the last year), I propose to double the PRT oil allowance and Nigel Lawson proposes to use his powers to waive royalties. These measures will mean that future fields will pay no special taxes before they have recovered their costs; all taxes will be based on profits; and only corporation tax will be payable on production below 1 million tonnes a year. On the future fields we looked at, this brings the average rate of tax down from over 70 per cent to around 60 per cent.

At this stage we are not extending these reliefs to future onshore or Southern Basin fields because the present evidence suggests that they are likely to be pretty profitable. But I have agreed with Nigel that, so far as Southern Basin fields are concerned, we will be ready to review the position with the industry since the evidence we currently have on their economics is very sparse. If we are convinced that there is a case for extending these concessions to the Southern Basin, we would do so for fields approved for development after Budget Day 1983.

- d. Fourth, following last May's consultative document, we would introduce new PRT rules giving full and immediate relief on assets shared between fields (such as pipelines). As a corollary we would bring any related receipts such as pipeline tariffs into charge for PRT. In order to prevent the charge on tariffs discouraging sensible and desirable sharing arrangements for linking in new smaller fields to existing facilities, I am proposing an exemption for the first  $\frac{1}{2}$  million



tonnes throughput a year for each different user field. This would be increased on a transitional basis to  $\frac{3}{4}$  million tonnes a year for five years for receipts under tariff agreements made before May 1982.

5. These proposals will cost £115 million in 1983/84 and represent a total package of reliefs of over £800 million over the next four years (subject to last minute changes in the forecast). They go a long way to meet the industry's pre-Budget representations, particularly those which they appeared to regard as particularly important.

6. Clearly no tax measures can be guaranteed of themselves to keep up the level of development, particularly at a time when the future of oil prices is so uncertain. And the industry itself recognises that it needs to work on new technological advances to reduce the costs of development of small deep water fields. But I believe these should provide effective, well targeted, fiscal incentives. They go as far as we should - within the overall Budgetary constraints - to meet the industry's concerns.

7. I am copying this to Nigel Lawson.

A handwritten signature in dark ink, appearing to be 'G.H.' with a stylized flourish.

(G.H.)

4 March 1983



10 DOWNING STREET

From the Private Secretary

8 March 1983

NORTH SEA FISCAL REGIME

The Prime Minister has noted without comment the Chancellor's minute of 4 March about the changes he has in mind for the North Sea fiscal regime in the Budget.

I am sending a copy of this letter to Julian West (Department of Energy).

M. C. SCHOLAR

Miss Margaret O'Mara,  
HM Treasury.

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