

Correspondence from Dr Armand Hammer  
of Occidental on American investment  
in the UK.

Economic  
Policy.

P.M.'s Meeting with Dr. Hammer; February 1981

September 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>15-9-80</del>							
<del>17-9-80</del>							
<del>30-9-80</del>							
<del>3-10-80</del>							
<del>12-11-80</del>							
<del>17-11-80</del>							
<del>16-1-81</del>							
<del>6-2-81</del>							
<del>23-2-81</del>							
<del>6-3-81</del>							
4-8-81							
<del>GNDS</del>							
<del>X</del>							

PREM 19/4/84

See also

Enon Pt, P.C. 5, Budget.

PART 1 ends:-

CS to Dr. A. Hammer of 11/8/81

PART 2 begins:-

Jan Gao to CS + tax of 29/9/82.

jfh

Econ Pol

4 August 1981

The Prime Minister has asked me to thank you for your letter of 3 August and she is most grateful to you for sending her the article that appeared in the Financial Times.

The Prime Minister has particularly asked me to send you her best wishes.

CS

Dr. Armand Hammer.

6c

Prime Minister

2

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

3rd August, 1981.

The Rt. Hon. Mrs. Margaret Thatcher, M.P.  
Prime Minister and First Lord of the Treasury,  
10 Downing Street,  
London, W.1.

RH/8

Dear Mrs. Thatcher,

Further to our conversation at the reception at the Banqueting House on Wednesday night, you might have noticed with interest the comments in the press following my speech at the Flotta Terminal on Thursday, at the time of the visit of your Minister of State for Energy, Hamish Gray. The Times report I felt did not do my statement justice, as I was much more positive in my comments than they implied. I therefore enclose a copy of the article which appeared in the Financial Times, which apart from the headline, I feel better represents the position. We very much hope to invest more in the North Sea over the years to come.

I hope you have an excellent holiday.

ms.

With warmest regards.

Sincerely yours,

*Armand Hammer*

Armand Hammer.

# Occidental demands tax changes for development of N. Sea find

BY RAY DAFTER, ENERGY EDITOR

OCCIDENTAL PETROLEUM, the U.S.-based oil group, has discovered a new oilfield in the North Sea which it wants to develop at a cost of about \$700m (£388m).

However, the group told the Government yesterday that it would not go ahead with the project unless the UK offshore oil tax system was changed. Occidental has already postponed the \$500m development of a nearby field because of a tax wrangle.

Dr Armand Hammer, chairman and chief executive of Occidental, said in Scotland yesterday that if the newly-found reserves were not exploited the UK would lose over \$1bn in tax revenues and British manufacturing industry would lose about \$500m in orders.

Occidental and its partners—Getty, Allied Chemicals and Thomson—found the reservoir, containing about 70m barrels of recoverable reserves, in February, immediately south-east of their Claymore field, which is 110 miles north-east of Aberdeen.

The announcement of the find was made by the 83-year-old oil executive during a visit to the Occidental oil terminal in the Orkney Islands by Mr Hamish Gray, Minister of State for Energy.

The disclosures followed the pattern set in September last year when, during a similar visit by Prime Minister Mrs Margaret Thatcher, Dr Hammer announced that Occidental would be investing \$1.5bn in three projects in the UK. Yesterday he outlined the progress

with the schemes:

- North Claymore platform development (\$500m)—initially postponed because of tax changes. The project has since been re-evaluated. Occidental now believes it can extract most of the oil by means of underwater wells connected to the main Claymore platform.

- A specialised oil refinery—to process residual fuel oil—on Canvey Island in the Thames Estuary (\$500m). Occidental says its planning has been delayed because of a new safety inquiry into British Gas Corporation's methane terminal.
- A polyethylene plant at Peterhead, Scotland (\$500m). Dr Hammer said that on Friday Occidental paid £50,000 to the Grampian Regional Council for an option to lease land for the plant.

Mr. Reagan was replying to a letter he received earlier this month from Mr FitzGerald reiterating the U.S.'s longstanding policy of non-intervention in what is officially regarded here as an internal British matter.

Dr FitzGerald's hope was apparently that Mr Reagan would use his tete-a-tete meeting with Mrs Thatcher at last week's Ottawa economic summit to raise the issue. Officials here say he did not do so.

The letter to Dr FitzGerald is understood to contain expressions of great sympathy over events in Northern Ireland. But it also makes it clear that Mr Reagan does not want to get involved.

In March this year, President Reagan said in a St Patrick's Day message that the U.S. would be prepared to use its "good offices" in any Northern Ireland solution.

But it was subsequently stressed that this was not an offer to mediate—simply an affirmation that Washington would support any just and durable settlement.

Officials here were seriously embarrassed when news of the Reagan letter was leaked in

the whole country will be glad that the Civil Service unions have decided to accept the offer and return to normal work."

Work outstanding includes the processing of Pay As You Earn, National Insurance and Value Added Tax. The amount blocked is put by the unions at about £7.5bn, though the Government claims the figure is about £4.5bn. There are also the problems of delays to VAT repay-

Only the taxmen's union, the Inland Revenue Staff Federation, voted to reject it last night. But the union made it clear it would abide by the majority decision of the court.

Union leaders expect some pockets of resistance to a return in more militant areas. The council's major policy committee, comprising union general secretaries and other senior officials, will meet next Tuesday

# TUC advice on overtime

BY PAULINE CLARK, LABOUR STAFF

TUC LEADERS have, for the first time, given union negotiators clear and detailed guidance on how to cut overtime as part of a long-term strategy to combat unemployment.

The move by the TUC general council is significant in its effort to protect jobs at a time of recession, and in the face of the technology threat.

Announcing plans yesterday to intensify its campaign for reduced working time, the TUC drew attention to the need to tackle "the problem of excessive and systematic overtime"

to shop floor bargainers. The TUC gives straight forward advice to those threatened with redundancy, for instance, to trade overtime cuts for "no involuntary redundancy" agreements.

In its new Working Time Checklist for union negotiators published yesterday, the TUC pointed out that the centrepiece of its policy against unemployment was the case for reflation and growth set out in its 1981 Economic Review.

"It cannot be ignored, how-

010

Top Copy: Econ. Pol  
Budget PLS

Econ. Pol

OCcidental PETROLEUM CORPORATION

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LOS ANGELES, CALIFORNIA 90024  
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ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

6 March 1981

The Rt Hon Sir Geoffrey Howe MP  
Chancellor of the Exchequer  
House of Commons  
LONDON SW1

Budget

T 43

Dear Chancellor,

As budget time approaches, it seems appropriate to mention to you again that one action that could be taken by your Government to promote significant additional investments in the United Kingdom would be to eliminate the so called "ring fence" provision in the Oil Taxation Act of 1975 insofar as Corporation Tax is concerned. This could encourage new "downstream" manufacturing and processing facilities which utilize crude oil or natural gas as the principal raw material and the relief could be limited to capital allowances expended for such energy investments. Large capital investments, such as our proposed Peterhead project, which would create considerable employment, would be made less risky due to an earlier write-off of such investments for Corporation Tax purposes.

The revenue loss to the Government is only a temporary loss not a permanent loss as the revenue foregone is recovered fully out of the profits produced by the new investments. The temporary loss could be controlled for Government purposes by limiting relief to projects which commence to trade after a pre-established date. This would provide equal opportunity for prospective future investments.

Tax incentives are a proven and accepted means of inducing and encouraging new investments and your favourable consideration of this recommended change could result in substantial additional investments in the United Kingdom over the near term.

Sincerely yours,

*Armand Hammer*

Armand Hammer

cc The Rt Hon Mrs Margaret Thatcher MP  
The Rt Hon David Howell MP



FILE

VLB

*Exec AD*

23 February 1981

The Prime Minister has seen your letter of 16 February, and Julian West's of the same date, about the Occidental interest in purchasing a semi-submersible rig. She has noted the issues which will need to be resolved, and she is content that Mr. Tebbit should pursue these as set out in paragraph 3 of your letter.

I am sending copies of this letter to Julian West (Department of Energy) and John Wiggins (H.M. Treasury).

M A PATTISON

Mrs. Catherine Bell,  
Department of Industry.

*AV*

PRIME MINISTER

Dr. Hammer told you of the scale of the difference between British and overseas tenders for his semi-submersible rig requirements. I attach notes from Industry (Flag A) and Energy (Flag B).

Both Departments accept Dr. Hammer's order of magnitude about the difference between bids. Energy are keen to see this order come to the UK: Industry are more equivocal, in view of the strategy decisions taken last autumn for Cammell Laird and Scott Lithgow. But there was a saving clause in these decisions, which may now be evoked. Mr. Tebbit is looking at it. Neither Department is much impressed by the suggestion of a public commitment from Dr. Hammer to British Steel.

Industry do not take up the question of the increase in British Shipbuilders' tender over its initial response to Occidental's enquiry. But that is probably something of a red herring. Are you content to leave the issue in Mr. Tebbit's hands, on the basis of paragraph 3 of the Industry letter, or is this a point on which you want to see early collective discussion?

*Will leave it to Mr Tebbit  
but hope we can  
sort order.*

*Yes  
no*

17 February 1981



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

Mike Pattison Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

16 February 1981

*Dear Mike*

In your letter of 6 February to Julian West you asked for information about BS's quotation to Occidental for a semi-submersible rig.

2 The rig order on BS's bid is worth £110 million of which £67 million represents shipyard construction costs with the remainder being owner supplied equipment. Occidental have just received the tenders and are expected to come to a decision in April. While Occidental have not yet discussed these tenders with either this Department or the Department of Energy, on past experience it appears likely that BS's shipyard costs for the Occidental rig are, as Dr Hammer claims, 60% higher than those of the Japanese and Finnish bids. The gap was the same on the BP semi-submersible rig which BS secured after Ministers approved the use of supplementary credit by BS at a cost of £1.5 million.

3 BS's strategy which Ministers approved last autumn (E(80)38th) was for Cammell Laird and Scott Lithgow to give up merchant ship-building and concentrate on naval and offshore. Ministers decided then that, in principle, BS should not continue in the offshore market for semi-submersibles unless they could show that the business would be profitable to them and that they should not take initial orders at less than breakeven. However, Ministers also agreed that, exceptionally, they would consider proposals for taking an initial order at a loss if it would otherwise go abroad. In this case Norman Tebbit will be examining whether BS need, or should be allowed, to make their bid more attractive through the use of supplementary credit. He will be consulting colleagues on what should be done as soon as Occidental have given us details of the competing bids and BS's competitive chances on this order can be properly assessed. Offshore orders are vital for the future of Cammell Laird and Scott Lithgow. BS's present lack of competitiveness in this area is extremely worrying.

4 Your note also records Dr Hammer's remarks on his willingness to commit the group to British Steel for their North Sea requirement, if BS's tender for the rig can be made competitive. I am sure that this would be psychologically useful. However, very little steel, apart from the rig, is involved at present and, in any event,

/Occidental ...



Occidental would have to give full and fair opportunity to British suppliers under offshore procurement policy. I do not think, therefore, that Dr Hammer's position on steel is an important consideration, though it would certainly be a bonus if BS secure the rig order.

5 A copy of this letter goes to Julian West and John Wiggins.

*Yours ever  
Catherine*

CATHERINE BELL  
Private Secretary



B Await DoI offering  
MFD

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

01 211 6402

M Pattison Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

16 February 1981

Dear Mike,

Thank you for your letter of 6 February covering a copy of the note of the Prime Minister's meeting with Dr Hammer. The Prime Minister asks for information about the basis of British Shipbuilders quotation to Occidental for a semi-submersible production platform.

The Offshore Supplies Office of this Department are following this project closely and are conscious that British Shipbuilders' price is high (they have been told informally by British Shipbuilders that it is £67m which equates with Dr Hammer's figure of \$160m). They also understand, that British Shipbuilders' bid is likely to be well above those of the Finnish and Japanese yards although they would be surprised if it was out of line to the extent recorded in the note of the Prime Minister's meeting.

However, I am sure you will appreciate that they will not be in a position to compare the various bids until Occidental have discussed these with them.

We appreciate the importance for the success of British Shipbuilders' strategy of their submitting competitive bids, if they are to win orders for such work in the face of competition from established yards, especially in Finland and the Far East. This particular order, though, is important for another reason. British Shipbuilders are the only UK organisation to have bid. Should they fail to win the contract UK process plant manufacturers as well as the BSC could also lose out.

Turning now to the suggestion that Occidental might make a declaration of intent about future steel orders, if the order for the floating production platform goes to British Shipbuilders we would expect Occidental to order the steel from BSC. If the order is lost to one of the overseas yards then BSC could not be certain of winning the steel contract. Moreover, our advice is, that apart from



February 1981

the order for this floating platform, Occidental have no other major developments in prospect, and their other requirements for steel will be small.

I am sending copies of this letter to John Wiggins (H M Treasury) and Ian Ellison (Department of Industry).

Yours ever,

A handwritten signature in dark ink, appearing to read 'J D West', written in a cursive style.

J D WEST  
Private Secretary

CONFIDENTIAL

Elon  
Kanner



Lee K

10 DOWNING STREET

*From the Private Secretary*

16 February 1981

Thank you for your letter of 12 February, enclosing an Inland Revenue note on the operation of PRT. The Prime Minister has looked at this with considerable interest.

M. A. PATTISON

R. I. Tolkien, Esq.,  
H.M. Treasury.

SP



3 -

*Prime Minister*  
*Following your meeting with*  
*Hammer, the Chancellor has*  
*looked into the operation*  
*of PRT.*

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

12th February 1981

T.P. Lankester Esq,  
Private Secretary  
No. 10 Downing Street  
LONDON  
SW1

*MB*

*MAD*  
*17/2*

*Dear Tim,*

You may remember that when Dr Hammer met the Prime Minister, the Chancellor and the Energy Secretary recently he argued that only BP and Occidental - his own company - were paying PRT.

.....

The Chancellor thought that the Prime Minister might like to see the attached note by the Revenue about the incidence of PRT by field and by payer.

*Yours ever,*

*Richard Tolkien*

R.I. TOLKIEN  
Private Secretary





*A/Gen letter to  
T.L. in care  
P.M. Wicks to Gen*

INLAND REVENUE  
POLICY DIVISION  
SOMERSET HOUSE

10 February 1981

CHANCELLOR OF THE EXCHEQUER

PRT POSITION OF ESSO

1. You asked for advice on Dr Hammer's case that only BP and Occidental are paying PRT, while ESSO for example are not.
2. Dr Hammer's point is not strictly correct; other companies apart from BP and Oxy have already paid PRT. Indeed ESSO have a minority stake in FORTIES, which is, as you will be aware, a major PRT-payer.
3. What is true - and no doubt this is what Dr Hammer had in mind - is that BP and the Occidental consortium have major fields in a PRT-paying position (FORTIES and PIPER respectively) which account for the lion's share of PRT paid so far; while Shell/ESSO's biggest money-spinner - BRENT - has not yet reached PRT liability. The explanation is simply that BRENT is a large and expensive multi-platform development with a relatively slow build-up of production: it has not yet worked its way through the initial "front-end loaded" relief for development expenditure.
4. You will recall that the "new tax" is a potent revenue-raiser in 1981-82 - and PRT is not - exactly because it raises revenue from fields like BRENT which are not affected in the short run by changes to PRT. And it is a point in favour of

cc Minister of State (Commons)  
Mr Wicks  
Mr Corlett

Mr Pollard  
Mr Whitear  
Mr Johns (origin)  
PS/IR

the new tax as compared with Dr Hammer's own preferred "advance PRT" approach that the new tax raises relatively more from fields like BRENT with strong positive cash-flows in 1981-82, relatively less from FORTIES and PIPER whose cash flows are already depressed by PRT and CT liability.

*M.A. Johns*

M A JOHNS

BF

Prime Minister <sup>2</sup>

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We expect to hear  
from tomorrow from  
DoI on the steel/  
shipbuilding points.

Elon (M)

MA

ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

6th February, 1981

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

Dear Mrs. Thatcher,

I was so exhilarated by our meeting that I felt I should  
write immediately to thank you for so graciously giving  
so liberally of your time. I know you had an extremely  
busy day and I was honoured that you were able to see me.

I hope the matters we discussed today will be satisfactorily  
settled for all concerned.

With warmest regards.

Sincerely yours,

*Armand Hammer*

ARMAND HAMMER

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ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

6th February, 1981.

Mr. Ian MacGregor,  
British Steel Corporation,  
33 Grosvenor Place,  
London, SW1X 7JG.

Dear Ian,

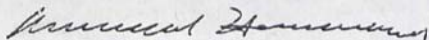
I received your letter of February 4th and I am sorry that I missed seeing you, although Zoltan told me of your excellent meeting.

I am completely sympathetic with the desperate struggle for survival you are experiencing in connection with your tremendous task. I discussed your letter with Mrs. Thatcher and told her I would be happy to help you in the way you suggest. However, I learned that the bid of British Shipbuilders had been increased by 100% from the outlined figure we were given six months ago, which is so out of line that we would be faced with more than the minor penalty to which you referred.

Geoffrey Howe and David Howell who were present at our discussion will I am sure convey to you the nature of our problem and my suggested solution.

Assuring you of my willingness to be of help in any way I can, I remain

Sincerely yours,



ARMAND HAMMER

P.S. Since dictating this letter we have spoken and I hope you can work out the details satisfactorily. Please keep in touch with Tim Halford on 01 828 5600 or 01 948 5061 (home) who will keep me advised.

CONFIDENTIAL



H8  
Econ Pof  
cc HWT  
DT

10 DOWNING STREET

From the Private Secretary

6 February 1981

*Dear Julian*

I enclose a note of the main points of discussion when the Prime Minister met Dr. Hammer of Occidental yesterday.

The Prime Minister asked that inquiries should be made urgently about the basis of British Shipbuilders' quotation to Occidental for a semi-submersible rig, and the linked suggestion that Occidental might make a declaration of intent in respect of future steel projects. I spoke to Ian Ellison about this last night, and would be grateful for information about the position as soon as possible. I understand that Dr. Hammer was in touch with the Chairman of British Steel after he saw the Prime Minister yesterday.

I am sending copies of this letter and enclosure to John Wiggins (H.M. Treasury) and Ian Ellison (Department of Industry).

*Yours ever*

*Mike Pattison*

J.D. West, Esq.,  
Department of Energy

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February 5, 1981

ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

Mr. Michael Pattison  
Private Secretary  
10 Downing Street  
London

Dear Mr. Pattison: *MAD*

Thank you for your kind acknowledgement  
of my letter of January 14 to the  
Prime Minister, and for placing it  
before her. *16/1/81*

My kindest regards.

Sincerely yours,

*Armand Hammer*

AH/fa

CONFIDENTIAL

cc: Hammer set.

SUBJECT

NOTE OF A CONVERSATION BETWEEN THE PRIME MINISTER AND DR. HAMMER  
AT 10 DOWNING STREET ON THURSDAY 5 FEBRUARY 1981 AT 1800 HOURS

Present: Prime Minister  
Chancellor of the Exchequer  
Secretary of State for Energy  
Mr. M.A. Pattison

Dr. Hammer

\* \* \* \* \*

The Prime Minister met Dr. Hammer of the Occidental Oil Corporation last night. Your Secretary of State and the Chancellor of the Exchequer joined her for part of the discussion.

Occidental's investment proposals

Dr. Hammer said that the three projects which he had announced during the Prime Minister's September visit to Flotta were all proceeding on schedule. But he was disappointed by British delays on the Peterhead project. In respect of Canvey Island, he was confident that Occidental could work with the local people, and the company was establishing a good working relationship with Sir Bernard Braine.

Referring to Occidental's intention to order a semi-submersible rig, Dr. Hammer said that the price quoted by British Shipbuilders had now risen to \$160 million, which represented a 100% increase on the initial quotation six months ago. Finnish and Japanese bids were about 60% lower. Dr. Hammer said that he was prepared to allow as much as a 20% preference for British purchase but his shareholders and partners would not accept 60%. The Chairman of the British Steel Corporation was an old friend of his. Mr. MacGregor had told him that if Occidental were to announce its intention to place all its future steel orders for North Sea oil operations in the UK, it would have a tremendous positive effect on morale. Dr. Hammer said that he was willing to do this, but he would have to wait until the price differential for the semi-submersible rig had been narrowed to the point where he could deliver on such an undertaking. The Secretary of State for Energy said that he was desperately trying to get the Chairman of British Shipbuilders to operate competitively so that he could get contracts of this kind.

CONFIDENTIAL

/ BS were

CONFIDENTIAL

- 2 -

BS were building a rig for BP at Scott Lithgow. He understood that the Cammell Laird yard was quoting about 20% above South Korean tenders for other contracts. The Prime Minister undertook to make inquiries.

Taxation

Dr. Hammer said that he was concerned about proposals for a change in the North Sea tax regime. He recognised that petroleum revenue tax had not been operating satisfactorily. In practice, only Occidental and BP were paying. Occidental were the second largest tax payer. In the last year, they had paid about £600 million and their liability for the current year would be similar. He recognised that the Chancellor was looking for ways of raising tax revenue from those companies who still avoided PRT because they could write off depreciation on major investment projects against liability. The Chancellor still seemed to be looking for additional revenue of £1 billion. But the other North Sea companies would eventually have to pay, and their liability would be increasing as the price of oil went higher. Dr. Hammer therefore argued that the Government should require further advance payment now, raising the required £1 billion, as an advance against future liability. It would also be open to the Chancellor to raise the rate of PRT above the present 87% figure, because the rising price of oil gave the oil companies a greater cash margin. Even if the percentage figure was raised, the companies could not legitimately complain because the tax was levied on profits. But the proposed new royalty came off the top of revenue and would certainly discourage new development. He entirely agreed that it was wrong that a company like EXXON should be paying nothing. Occidental brought its investments on line fast, and therefore paid PRT in the way in which the tax had been designed. He did not want to see others escape. By 1982 and 1983, many of the projects where investment had been offset against PRT liability would have come on stream, and PRT would also start to flow. The UK problem was therefore one of timing, and the principle of a second royalty unrelated to profit was scary to companies like his. He advised the Government to consider the issues further. Perhaps they could try his suggestions for advancing PRT, and raising the rate, for a year, and then judge whether a further tax was necessary.

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/ The Chancellor



CONFIDENTIAL

- 3 -

The Chancellor said that Dr. Hammer had acknowledged that the Government was entitled to more North Sea revenue, and that the Government was looking for a further £1 billion contribution next year, whilst preserving future tax income. Their differences, therefore, were over the argument between a profit-based and a revenue-based source of income for the Government. He and his colleagues had been into these issues with great care, but had found their proposal to be the most feasible option. They had had to design a supplementary tax to provide both current and future revenue. In his judgement, Dr. Hammer's proposal was not so likely to raise £1 billion next year and offer rising revenue thereafter. But, in view of representations like Dr. Hammer's, Ministers might well decide to try the new arrangements for one year, and to review them in the course of that initial year.

The remainder of the conversation was dominated by Dr. Hammer's reflections on OPEC as the greatest threat to the world. He regarded it as particularly important to develop energy sources which would allow the West to deal with OPEC from a position of strength. Coal conversion and shale oil programmes were therefore crucial. Occidental had a 5,000 acre block in the US containing 1,200,000,000 barrels of oil. Their research showed that the extraction was simple when the shale was heated to 900<sup>o</sup>F. Occidental would go ahead, if necessary, even without Government help. He was confident that they could handle the conversion cheaply enough to deal with imports. Similarly, coal liquification would be possible at a cost of around \$35-50 a barrel. Sheikh Yamani was already predicting an OPEC price of \$50 a barrel this year.

MAD

6 February 1981

CONFIDENTIAL

PRIME MINISTER

Flag E

1. I am told that Dr. Hammer will protest about the Codex decision, but is persuadable by you that the recommendation cannot be overturned without causing unnecessary problems. Mr. Channon's additional briefing on this point, which you may not have seen last night, confirms that there seems little prospect of a public collection stepping in. Mr. Channon cannot himself verify the details of the arrangements proposed by Mr. St. John-Stevan, because the latter conducted the negotiations privately and personally.

2. You may like to know that Dr. Hammer announced last night a \$250,000 donation to the Royal Academy. He also reaffirmed his commitment to the £1.5 billion worth of projects which he publicised when you visited Flotta. He said that all were proceeding to plan - Sir Bernard Braine was in the audience.

3. Dr. Hammer does intend to raise taxation issues with you this afternoon. In particular, he will argue that the new petroleum tax proposals threaten Occidental's plans for the North West Claymore field. As the Treasury briefing shows, this field would have been a viable proposition only as a result of an anomaly in the existing taxation provisions. You may like to leave the Chancellor and Mr. Howell to make the running in that part of the discussion.

Flag B,  
para 6.

MAD

5 February 1981



A

PRIME MINISTER'S MEETING WITH DR HAMMER

5 FEBRUARY 1981

(Brief by Department of Energy)

POINTS TO MAKE

DISPOSAL OF  
NATURAL GAS  
LIQUIDS

1. Welcome Occidental's proposal for a polyethylene complex near Peterhead based on ethane from the Gas Gathering Pipeline as furthering our desire to add as much value in the UK as possible to our hydro-carbons.
2. Stress that the disposal of the ethane is now a matter for commercial negotiations and that the announcement, on 17 December, in no way prejudged the outcome of these negotiations. Occidental's proposals are being taken very seriously by BNOC and BGC, who will be the largest sellers of the ethane.
3. Express hope that commercial negotiations will proceed to a point where a general disposal strategy can be formulated and decisions taken on the infrastructure in the Spring.

CANVEY ISLAND  
REFINERY  
PROPOSAL

4. Enquire about progress since last September, when the proposal was still at an early stage within the Occidental Organisation.
5. Welcome in principle proposals that would upgrade fuel oil; but express concern about the environmental and safety implications. There will be popular opposition to any scheme which would increase oil activity on Canvey Island.

/Would...

Would Dr Hammer consider an alternative site within the UK for a similar plant?

6. [If raised] Guidance on further planning procedures would have to be sought from the local planning authority. But it is doubtful if the authority will wish to give advice until they have the Inspector's report into the possible revocation of the United Refineries' planning permission.

CONSTRUCTION  
OF THE GAS  
GATHERING  
PIPELINE

7. Good progress is being made with the project, but it is clearly important to complete it as early as possible.

8. Express pleasure that BP, offshore manager for the project, has taken up Dr Hammer's helpful offer of advice from Occidental's pipelaying team.

FLOATING PRO-  
DUCTION  
FACILITY - N.W.  
CLAYMORE

9. Occidental's development plans for N.W. Claymore, are being actively examined by officials. The target date set by Occidental for approval (February 1981) cannot reasonably be met, but a decision should be taken by the Spring.

10. Thank Dr Hammer for Occidental's assistance to British Shipbuilders over their bid for construction of the floating platform. The Government is anxious to see British industry fully involved in this new technology and expects Occidental to bear this in mind when awarding the platform construction contract.



11. /If raised/ The proposed tax changes are not intended to stop viable development in the North Sea. But we have no desire to encourage developments which are profitable only because of the advantages given by the existing tax regime.
12. There is strong competition in all the areas Occidental have applied for and it is not possible to satisfy completely the aspirations of applicant companies.
13. The Department of Energy is currently considering all applications and an announcement is expected in February.
14. /If raised/ We are continuing to seek a political solution to the sovereignty dispute with Argentina. In any settlement the modalities for the exploitation of any hydrocarbon deposits will be an important factor.
15. /If raised/ We have protested to the Argentines about that part of the Argentine exploration block Magallene ESE which extends on to the Falklands side of the median line and is therefore an infringement of our sovereignty.

SEVENTH ROUND

FALKLAND  
ISLANDS:  
CONTINENTAL  
SHELF AND OIL

Department of Energy  
February 1981



DISPOSAL  
OF NATURAL  
GAS LIQUIDS

BACKGROUND

1. The Company has submitted a proposal to construct and operate a polyethylene plant near Peterhead. The plant would use ethane gas (a constituent of NGLs) at the rate of 350,00 tonnes per annum to produce linear low density polyethylene (LLDPE).

2. We should welcome Occidental's participation in NGL for a number of reasons:

- a. Their presence amongst the possible bidders would help to ensure keen terms for the ethane;
- b. Occidental at present have no plant in the UK; their LLDPE plant would be the first in the UK and put us with the leaders in production of this new material;
- c. Their proposal, should it go ahead, would act as a sweetener to the Grampian Regional Authority, which could make a nuisance of itself over pipelines to other destinations;
- d. The construction of the plant would provide employment. Long term employment prospects would be greatly enhanced if companies interested in the LLDPE could be encouraged to set up in the neighbourhood.

HMG's preferred disposal strategy is for ethane to be dedicated first to existing plants owned by ICI, BP, Shell and Esso at Teeside, Grangemouth and Mossomorran but, if possible within what is available, also to Occidental in Grampian.

3. However, the Minister of State for Energy announced on 17 December that the actual pattern of disposal of

NGLs should be determined by commercial negotiations. Occidental should not be given the impression that it has any sort of headstart over its 6 other competitors lest it be tempted to moderate the price it bids.

CANVEY  
ISLAND  
REFINERY  
PROPOSAL

4. Occidental were given outline planning permission, in 1971, for an oil refinery on Canvey Island consisting of a simple distillation plant producing large amounts of fuel oil. Following the oil crisis of 1973/74 and the subsequent change in demand the Company suspended work on the plant. In May 1977, Occidental made an application to the local planning authority to include upgrading facilities at the refinery; but by that time the HSE survey on Canvey was already under way. By the time the report was published the Company had again decided not to proceed and in 1979 wrote off the investment in Canvey Island.

5. Occidental's latest proposal to build a plant which will upgrade residual fuels to light distillate products was made after a public inquiry (Summer 1980) into the possible revocation of planning permission for another refinery project on Canvey Island which had been granted in 1973 but never acted on (United Refineries). The Inspector's report has been submitted to the Department of the Environment, but a public announcement is not expected for some time.

CONFIDENTIAL

6. Until more is known of the Inspector's report and Occidental's latest proposal, it is not clear whether further planning permission would be needed. A matter in the first instance for the Castle Point District Council, as local planning authority.

GAS  
GATHERING

7. Dr Hammer wrote to the Prime Minister, following her visit to Flotta in September, to suggest that the



Occidental pipelaying team headed by Mr Daniel (Senior Vice-President, North Sea) could offer advice to the Government on the construction of the offshore pipeline.

8. In fact, any fears of delay to the project relate mainly to the onshore work (the pipeline terminal and facilities for handling natural gas liquids), rather than to offshore pipelaying. However, Dr Hammer's offer was passed to the gas gathering Organisation Group (BP, Mobil, BGC) who have responsibility for the technical and operational aspects of the project. BP, as offshore manager for the project, subsequently had a useful discussion with Mr Daniel; they will be meeting again in February to review BP's offshore design study.

(OFFSHORE  
PROGRESS)

9. BP have now completed their design study for the pipeline. Contracts are shortly to be awarded for surveys of the pipeline route and junction platform area. The study reviews supplies of gas likely to be available to the pipeline; includes a technical appraisal of the pipeline's design, installation and operation, estimates costs; and sets out the construction programme for the offshore part of the project. The report confirms that the 1984/85 completion target can be attained. The programme envisages tendering for pipeline manufacture beginning in Spring 1981 and award of contract in September 1981. Deliveries of pipe-lengths to coating yards would begin in March 1982 so that part of the pipeline could be laid in Summer 1982. The bulk of the line is to be laid in Summer 1983 and the remainder, together with connections to platform risers,



in Summer 1984. Testing and commissioning of the main part of the system would be completed to allow gas to flow by December 1984. A southern feeder, linking to the main pipeline would be completed by October 1985.

(ONSHORE  
PROGRESS)

10. BGC have acquired land for the St Fergus terminal and have obtained planning permission. The design study, contracted to Fluor (GB), is almost complete, and a preliminary construction programme shows that the main construction contract should be awarded at the beginning of May 1981. (Prequalification of potential contractors is in hand). Site preparation would start at the end of the year with construction getting under way in Spring 1982. The terminal would be mechanically complete in June 1984, coming onstream at the end of September 1984. The timetable is tight and there remains a risk of construction delays: the timetable for Shell/Esso's terminal under construction at St Fergus is slipping.

11. Planning permission has been granted for NGL facilities at Nigg and contracts have been placed for design of the plant, design of land reclamation, and a site survey.

N.W.  
CLAYMORE

12. The proposals for the development of the Claymore extension are well advanced and plans were submitted to the Department in October 1980; this development cannot be deferred on depletion grounds.

13. Occidental plan that production will be based on a semi-submersible floating structure which will be the first example of a vessel specifically designed for this task. This plan is well conceived although there could be alternative ways of developing the reservoir. British Shipbuilders are the only UK contenders for



the contract with competition expected from Japan, North America and Europe. Both Occidental and their designers, Sedco Hamilton, have given British Shipbuilders assistance in preparing themselves to bid, but it remains to be seen whether their price will be competitive. Occidental are discussing credit facilities with the Department of Industry. Bids have to be returned by 2 February 1981; an indication of the successful contender should follow some six weeks later.

14. Occidental are pressing for early approval of their development plans, anticipating a response in February 1981. It is unlikely that the Department will have completed its examination by then, but a March approval would seem possible if the procurement issues can be resolved. However, this will be close to the Budget which could significantly influence the Government's and licensee's view of the project's economics; thus April would seem to be the more appropriate target date for development approval.

15. BSC is seeking to supply steel for the floating platform. BSC appear to have responded well to Occidental's enquiries and is in a good position to supply the steel in the event of the UK fabrication award.

16. Dr Hammer may threaten cancellation of the development of N.W. Claymore (and carry out his threat) because of the proposed changes in oil taxation. Recommendations are now coming to Ministers on changes to the

tax regime taking account of the industry's representations. The changes are not expected generally to discourage offshore development but some fields - and N.W. Claymore is one - are heavily favoured by the existing tax regime and the changes could make N.W. Claymore marginal at current oil prices. In any case, the expected increase in real oil prices would make development profitable within a decade or so. There may also be alternative ways of developing the field which are more economic though less profitable to the company under the present tax regime.

SEVENTH  
ROUND

17. Dr Hammer has previously indicated Occidental's interest in the Round; the Prime Minister wrote to him about this following her visit to Flotta. Since then the first batch of licence awards has been announced (in mid-December) for blocks in the "premium" company nomination area of the northern North Sea: Occidental applied for four blocks and were awarded two (though not their top preference). In addition, they are in the running for three blocks from the Department of Energy's list out of eight for which they applied, i.e. they have been notified as being shortlisted - along with other applicants - and have discussed exploration programmes with Department of Energy officials. Until our examination is complete, however, we cannot be certain how many of these blocks Occidental will receive.

CONFIDENTIAL

FALKLAND  
ISLANDS

18. The continental shelf runs continuously out from the eastern coast of Argentina past the Falkland Islands. The division of the continental shelf as between Argentina and the Falkland Islands has never been agreed; agreement is unlikely in advance of an overall solution



- 3 FEB 1981



to the sovereignty dispute. HMG have traditionally claimed that the boundary should be the median line (although the claim may not be sustainable in the light of the recent State Practice). The claim is reflected in the Falkland Islands (Continental Shelf) Order in Council of 1950 which vests in the Crown the rights of the Falkland Islands Government over resources of the shelf up to the 100 fathoms line. Beyond that, HMG have considered the UK to be the licensing authority. Argentina claims that the whole area forms part of the Argentine continental shelf.

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19. Because of the dispute there has been no drilling in the area. Two seismic surveys were undertaken on a commercial basis in 1978, and the data given to both the British and Argentine Governments. BNOC, who evaluated one survey, concluded that three areas might in normal circumstances (i.e. with no dispute) warrant further exploration. The most promising of these straddles the median line between Argentina and the Falklands. No oil majors have applied for a licence for further exploration work (though some small companies have shown interest). Licences could not in any case be issued in the absence of a regime covering the area: a regime agreed with Argentina is unlikely without an overall solution to the dispute and a regime declared unilaterally would only exacerbate the situation<sup>7</sup>.

20. The Argentine State Oil Company (YPF) recently put out for tender an oil exploration block which clearly

extends on to the Falkland side of the median line.  
We have protested at this infringement of our  
sovereignty and will shortly be notifying oil companies  
so that they may be aware of the position.

DEPARTMENT OF ENERGY  
February 1981

Covering CONFIDENTIAL



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

4 February 1981

M. Pattison, Esq.,  
Private Secretary  
No.10, Downing Street

*Dear Mike,*

..... I am enclosing a brief on tax issues for the Prime Minister's meeting tomorrow with Dr. Haamer of Ocidental Petroleum. The Chancellor will, of course, be supporting the Prime Minister.

I am copying this and the brief to Julian West, whose Secretary of State will also be at the meeting.

*Yours ever*

*Richard Tolkien:*

R.I. TOLKIEN

Covering CONFIDENTIAL

B

PRIME MINISTER'S MEETING WITH DR HAMMER - TAX ISSUES

1. Dr Hammer's tax concerns are likely to centre on the Chancellor's proposals last November for:-

- i. a new "supplementary tax" on North Sea revenues; and
- ii. a review of the reliefs given against Petroleum Revenue tax.

These proposals are for consideration by Treasury Ministers earlier on 5 February: it is assumed here that they will not then firmly decide against going ahead with legislation in the Finance Bill. Background details are attached at the Annex.

OCCIDENTAL'S POSITION

2. Oxy have followed the general industry line that the Chancellor should not proceed with his November proposals; but should instead raise revenue in 1981-82 through a "temporary levy" (which would count as advance payment of future PRT) as the prelude to extended consultations later this year on a PRT reform which would avoid the need for a new tax. This approach is objectionable first because it would not secure additional revenues in years after 1981-82 (indeed it would reduce them below the level expected from the regime as it now stands); and secondly because it would leave the PRT 'take' exposed to erosion and manipulation for a further year.

3. Very recently, some companies have proposed that the proposed new tax should instead be converted into a permanent system of PRT advance payment: we have no indication whether or not Oxy supports this approach. This proposal comes somewhat nearer satisfying Ministers' oil taxation objectives: but very possibly not near enough. At this stage, therefore, Ministers will not wish to give Dr Hammer any reason to hope that either of these two approaches will be adopted.

4. Overseas tax credit. In his letter to the Prime Minister, Dr Hammer argued strongly that the new tax would not be creditable against US tax (he is almost certainly right); that the new tax

would reduce PRT and Corporation Tax liabilities - which are creditable; and that this could expose Oxy and other US companies to double taxation.

5. In practice, US companies are likely to have sufficient UK creditable liabilities over the whole life of a field to avoid double taxation: the problem is that UK tax and US tax is out-of-phase, since UK tax give "front-end loaded relief" and US tax does not. This was a problem even before the new tax was proposed and we have been talking with the industry on a technical level about ways of "spreading PRT" so that UK and US tax is better matched. Subject to the views of the US authorities (who would, in effect, bear the cost of any concession by us) we are hopeful that a workable solution can be found in time for this year's Finance Bill.

#### Field Extensions

6. We understand that Department of Energy's briefing mentions Occidental's planned development of Northwest Claymore which may be rendered uneconomic by the Chancellor's proposals. It seems likely that the project is only economic under the existing regime because it would attract grossly excessive PRT relief: it is a declared objective of the review of PRT reliefs to remove any such incentive to wasteful or over-elaborate capital expenditure - and of course the consequent reduction in Government revenues.

#### New tax payment schedule

7. Ministers have approved for discussion with the industry a very tight schedule of payments for the new tax, involving ten "advance payments" a year, as field income flows in to the companies. This is necessary to even out the inflow of North Sea take over the year, and hence to "smooth the Public Sector Borrowing Requirement". Dr Hammer may argue in general that this is a further unacceptable drain on the industry's short-run cash-flow and in particular that the advance payments (which would for operational reasons be tied to tax due for an earlier period) may be unfair when current field income falls away for



whatever reason. Ministers will wish to hold the line on the general principle of advance payment, but may feel able to give some hope of relief for the 'hard cases'.

#### Incentives to Downstream Investment

8. Dr Hammer has proposed - in correspondence with No.10 last autumn - a breach of the North Sea ring-fence which would allow investment in new downstream projects (on, say, an ethylene cracker linked to the Gas Gathering Pipeline) to be set-off against North Sea profits. The result would be that substantial revenues - running into the £ billions over the next few years - would either be deferred more-or-less indefinitely or lost altogether. Even if this were acceptable, the proposal would be doubtfully cost effective. A great deal of additional relief would be given to downstream investment already planned <sup>even</sup> <sub>extra</sub> under the existing tax regime: it is unlikely that the investment generated would be sufficient compensation.

#### LINE TO TAKE

##### A. General

1. North Sea insufficiently profitable to bear more taxes
  - Always some uncertainty in assessing economics of the North Sea. But taking increases in real oil price and field costs over last few years into account, Ministers remain satisfied that oil industry can pay more both in 1981-82 and in future years without prejudicing exploration and development.
2. Industry presented with a fait accompli.
  - Ministers thought it right to give industry a broad indication of the measures which seemed best fitted to meet their objectives. Important for industry to be clear that a wide range of other possibilities were considered and rejected.
3. Inadequate time for consultation.
  - Never as much time for consultation as everyone would wish.

But I am satisfied that the industry has had time for a constructive response, and see no reason why any detailed problems should not be resolved by the time legislation is passed.

B. NEW TAX

4. Replace with "temporary levy" and restructure PRT.

- A temporary levy would not increase revenue after 1981-82 - indeed would reduce it - and it is very far from clear that PRT could be restructured to fill the gap. Indications are that the industry - for quite understandable reasons - would find it hard to agree on any reform of PRT, let alone one which will meet the Government's objectives.

5. Why not raise revenue from PRT instead?

- Government acknowledge importance of front-end loading and intend to preserve substantial element of protection for early cash flows. But PRT alone does not now allow adequate and prompt response to increasing North Sea profitability. [Increase in oil price has immediate effects on non-oil economy: therefore important that Government's North Sea take should also respond immediately.]

6. Turn the "new tax" into a permanent "advance PRT".

- Ministers will wish to look at this possibility very carefully before taking final decisions on oil this year and will be glad to consider any detailed proposals from Occidental on these lines. It is clear that advance payment does not raise as much as a new tax, other things being equal, and there may be other ways of tackling the creditability problems that US companies foresee.

7. "New tax" will bear unduly hard on "marginal fields".

- Government are anxious not to discourage exploitation of marginal fields - hence the generous oil allowance suggested for the new tax which will give proportionately most benefit

to the smallest fields. If Dr Hammer can demonstrate that genuinely marginal prospects will be damaged by the new tax, Treasury Ministers would look very carefully at any alternative proposal he may put forward.

8. New tax will lead to double taxation of US companies.

- Government recognise valuable contribution that US companies continue to make to North Sea exploitation, and would wish to avoid double taxation insofar as it is in our power. Ministers gather that underlying problem is not that creditable UK tax is or will be inadequate in total, but rather that there is a mismatch from year to year. Inland Revenue are already discussing "PRT spreading" with the industry on a technical level: Government will look sympathetically on any agreed solution.

9. The proposed new tax advance payments are objectionable in principle/will be unfair in particular cases.

- It is not unreasonable to expect companies to pay over a tax of this kind as it accrues and this is what the advance payments are intended to achieve. It may be however that the practical arrangements proposed could be improved to deal with hard cases where field cash-flow falls away: Ministers would look carefully at proposals to this effect.

#### C. REVIEW OF PRT RELIEFS

10. Is the Government still intending to rush through major PRT changes?

- We still intend to deal in the coming Finance Bill with such defects to the PRT reliefs as the review work may identify.

11. Surely there has not been adequate time for consultation?

- Oxy were commendably quick off the mark in briefing tax officials about the North Claymore project. Other companies have understandably <sup>taken</sup> longer to digest full implications of the Revenue's discussion paper. However, Ministers and

officials have now received a substantial volume of suggestions. Naturally they do not all point in the same direction.

12. Why not delay legislation on PRT reliefs?

- If the reliefs given through the PRT system are not well-directed - and they are not - then they should be put right as soon as possible. Otherwise resources will be wasted.

13. Has the review work shown there are any problems with the PRT reliefs?

- As the Revenue's background paper implied, all the reliefs can give benefit in cases where there seems little justification in economics or in equity. [If pressed: The "uplift" gives very substantial immediate relief for expenditure paid for out of field cash flow later in its life. Oil allowance will benefit profitable as well as marginal fields. As a result of PRT rate increases, the safeguard taper now spreads its relief much wider than intended. And the interaction of uplift and safeguard can completely undermine incentives to control costs.]

14. Have Ministers formulated their views on what changes should be made?

- Decisions will be made in consultation with the Secretary of State for Energy and will become apparent at the time of the Budget.

15. Can the companies achieve anything by further proposals?

- Naturally we will always be prepared to consider changes to the North Sea fiscal regime if a sufficiently good case is made. But proposals would have to meet the Government's objectives (ie a permanent increase in revenues, and making PRT reliefs more efficient and economical, without placing excessive burdens on individual companies or worsening incentives to control costs) as well as the companies' objectives.

16. Curtailing uplift and safeguard will have adverse effect on economics of satellite developments on existing fields.

- If a project depends on excessive tax reliefs for its economics, it is not clear that it is in the national interest to subsidise the use of resources in that project. But we would be interested to hear of cases where projects attractive in pre-tax terms could be rendered unattractive by curtailment of tax relief.

17. The uncertainty about new tax proposals, and the proposals themselves, will lower the level of exploitation activities.

- In deciding what should go in the Finance Bill we will be very much aware of the need to maintain the momentum of North Sea activity. But all groups offered 7th Licencing Round acreage in the £5m premium company nomination areas have taken them up. So some companies, including Oxy, do not seem to have been deterred.

#### D. CORPORATION TAX

18. Allow development costs of industrial projects to be offset against profits for "ring-fence" corporation tax purposes.

- The North Sea corporation tax "ring fence" was set up with the specific intention of stopping North Sea revenues from being eroded by losses and allowances from other activities. If, hypothetically, consideration were given to relaxing the ring fence, where could a dividing line be drawn to limit erosion of these revenues and would the results in terms of increased investment be worth the cost?

#### E. POSSIBLE TECHNICAL POINTS

##### General line to take

19. To welcome Oxy's constructive approach in rapidly putting to officials and Ministers' views on the Government's proposals. Ministers will take careful note of these alongside other representations.

If Oxy press specific points:

20. i. replace uplift by interest relief.

- Although there are substantial attractions in this route, there are major technical problems. (Companies would load all their borrowings onto North Sea projects; there would also be attempts to set up artificial financing arrangements to reduce North Sea tax.)

ii. Alternatively spread uplift over 5 years and tighten conditions for eligibility for uplift.

- Would this be better or worse than writing off eligibility for uplift at some point?

iii. safeguard should be retained for existing fields.

- Do Oxy therefore think there will be no future fields needing safeguard?

iv. the safeguard taper rate should be increased to 90 per cent.

- This will increase the marginal rate of "take" to almost 97 per cent: are Oxy content with this? Although it will reduce the areas of poor cost control, it will worsen incentives to waste within these areas.

## BACKGROUND

1. On November 24, the Chancellor of the Exchequer announced a new tax on North Sea oil production, and a review of the scheme of PRT reliefs. These changes would take effect from 1 January 1981. The Inland Revenue would invite the industry to consultations.

New Tax

2. For illustrative purposes, the new tax was suggested as being charged 20 per cent on gross revenues, with a 1 million tonne/year oil allowance. The tax would be deductible in computing PRT and CT. Companies have not suggested a better way of structuring the tax while still raising about an extra £1 billion in 1981/82 with significant future revenues.

PRT reliefs

3. The Revenue's 23 December Background Paper suggested a number of defects with the present PRT reliefs. Uplift (given instead of interest relief) could be given for post-production expenditure funded from field cash flow. Thus large immediate tax relief could be available when there might be no interest charge. The tax-free slice of production (the oil allowance) gives unjustified benefits to profitable fields. And it shields profits from tax as oil prices rise. The safeguard taper, which limits the PRT paid by less profitable fields, will become much more widely available than was intended (because increases in the PRT rate will widen the band in which the safeguard taper gives relief). The way expenditure adds to the safeguard base further weakens incentives to cost control. Indeed, it is possible for companies to make substantial positive returns out of useless incremental expenditure.

4. The Background Paper proposed a number of ways of cutting off each relief.

#### Company reactions

5. Companies have in general complained about:-

- the lack of stability in the fiscal regime.
- the future uncertainty caused by a new tax.
- the tough advance payment provisions suggested for the new tax.
  
- the way the new tax is not related to profitability.
- the effect the new tax, coupled with changes to the reliefs, will have on field profitability and hence exploration and development

The industry initially refused to talk with officials about specific proposals or changes, even on a "without prejudice" basis. The industry position is that the Government should if necessary take its £1 billion this year by a levy rather than a new tax, and should open discussions on how to achieve Government objectives through the PRT system.

6. Occidental's tax officials were, however, very quick off the mark in telling officials (11 December) about the effects on the economics of Oxy's North Claymore project of curtailing PRT reliefs. Specific points raised by Oxy are covered in the "Line to Take" section above.

#### Existing North Sea fiscal regime

7. Prior to the Finance Bill, the North Sea fiscal regime comprises royalties, PRT and "ring-fence" corporation tax. Royalties are based on 12½ per cent of the landed value of the oil; oil produced under early licence rounds gets a conveying and treating costs relief. Most royalty is now taken in kind by Department of Energy.



8. PRT is charged at 70 per cent (previously 60 per cent, originally 45 per cent) on gross revenues less royalties and certain reliefs. Qualifying expenditure - broadly expenditure of a capital nature - gets a 35 per cent "uplift" on top of the normal 100 per cent expenditure relief as a substitute for interest paid. A PRT-free slice of production ( $\frac{1}{2}$  million tones per 6-month chargeable period) - the oil allowance - is given for each field. Where PRT profits for a year (before deducting any upliftable expenditure) are less than 30 per cent of total upliftable expenditure to date, no PRT is charged; this is the "safeguard". For profits above this level, the "safeguard taper" limits PRT to 80 per cent of the excess of profits over 30 per cent of total upliftable expenditure.

9. The corporation tax "ring fence" means that losses made in the North Sea can reduce taxable profits made outside, but outside losses cannot erode revenues from North Sea profits.

#### Oxy as a company

10. In the UK, Oxy are a crude oil producing company. Their field interest are in Piper (a very profitable largish field) and Claymore (a field of medium profitability and medium size). Oxy want to develop North Claymore, an oil pocket within the existing Claymore boundary. This project, of doubtful pre-tax worth, is likely to be made appreciably less attractive by the changes to uplift and safeguard officials have recommended.

11. Oxy are fairly active in the 7th Licensing Round; they are in groups that have been awarded 2 blocks in the company nominated area; these have a premium of £5m/block. They are short-listed for licences in Department of Energy nominated areas.

12. Oxy have no UK refining capacity and sold off their UK marketing activities some years ago. Therefore they have no profits outside the CT ring fence against which to get immediate relief for the costs of building <sup>the</sup> refineries or petrochemical plants. This is why Oxy want relaxations to <sup>the</sup> ring fence. A relaxation would substantially reduce the post-tax discounted costs of such non-labour intensive investment. But the leakages inherent in such a relaxation would make it a very inefficient incentive to investment in such facilities.

CMA



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FROM THE MINISTER FOR THE ARTS

M A Pattison Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON  
SW1

4 February 1981

*Dear Madam*

I am enclosing some briefing for the Prime Minister's meeting with Dr Hammer tomorrow.

In addition to a note about the prospect of a public institution launching an appeal, I have included a note on the Reviewing Committee and the Waverley Criteria.

As you will see the draft press notice which we are proposing to issue follows the standard pattern and it will also refer to the other case which the Committee considered on the same day. We think it is wise not to refer to the agreement which was negotiated by Mr St John Stevas in our Press Release but to deal with it later if Dr Hammer is content to allow the agreement to stand.

We are in some difficulty as we do not know the full details of the agreement as Mr St John Stevas conducted the negotiation personally with Dr Hammer and Sir John Foster.

Subject to Dr Hammer's reaction, the Prime Minister may wish to ask him if he is prepared to allow the agreement to stand. If he is, it would be helpful for him to issue a statement to this effect. Mr Channon would then issue a statement welcoming Dr Hammer's generous gesture.

*Yours every  
Miss M G E Giles*

MISS M G E GILES

SPEAKING NOTE FOR THE PRIME MINISTER FOR HER MEETING WITH DR HAMMER ON 5 FEBRUARY

The Office of Arts and Libraries have contacted, either directly or through the British Library, half a dozen major public institutions that might have an interest in the Leonardo manuscript. I am told that none of these institutions is planning to use its own funds, or to launch a public appeal to raise funds, for the acquisition of the manuscript. Further, the Chairman of the National Heritage Memorial Fund, Lord Charteris, has indicated privately that the Fund would not step in. I cannot rule out entirely the possibility of a wealthy private benefactor donating the necessary funds to a public institution for the purpose. But in practice there seems to me very little prospect indeed of a public institution seeking to acquire the manuscript.

## BACKGROUND NOTE FOR THE PRIME MINISTER

### Reviewing Committee on the Export of Works of Art

1. The Reviewing Committee on the Export of Works of Art is an advisory body set up in 1952 in accordance with the recommendations of the Waverley Committee. It considers applications for an export licence for works of art where an objection to export has been raised by the appropriate Expert Adviser. It submits its recommendations to the Minister for the Arts.

2. The Reviewing Committee considers each case against three criteria recommended by the Waverley Committee and referred to as the Waverley criteria. These are:

- (a) It is the object so closely connected with our history and national life that its departure would be a misfortune?
- (b) Is it of outstanding aesthetic importance?
- (c) Is it of outstanding significance for the study of some particular branch of art, learning or history?

If the Committee finds that the item meets one or more of these criteria it normally recommends to the Minister that an export licence be withheld for a specified period to allow a public collection the opportunity to make an offer to purchase at a stipulated fair market price. The stipulated period recommended by the Committee is usually no more than three months, but may be extended to six months if the owner refuses to allow the object to be put on display to assist in a public appeal for funds or to allow the price to be quoted in connection with such an appeal.

3. The Minister announces his decision that a licence is to be withheld through a Press Notice. If, by the end of the stipulated period, no public collection has made an offer to purchase at the stipulated price, an export licence is granted by the Department of Trade. If, however, an offer has been made by a public collection at the stipulated price, an export licence is not granted. An owner is not obliged to accept an offer at the stipulated price but, if he refuses such an offer, the item may not be exported. It is made clear to him at the Reviewing Committee's hearing that, in such an event, the Committee would not normally expect to consider a fresh application for an export licence for the object for a considerable period, perhaps a decade, unless there were a material change in circumstances.

## DRAFT PRESS NOTICE BY THE DEPARTMENT OF EDUCATION AND SCIENCE

## TWO EXPORT LICENCES SUSPENDED

Mr Paul Channon, Minister for the Arts, has accepted the recommendations of the Reviewing Committee on the Export of Works of Art that licences to export the Leicester Codex by Leonardo da Vinci and a painting by Edward Haytley "Sir Roger and Lady Bradshaigh with Haigh Hall, Lancashire, beyond" should be withheld for three months.

The recommendations were made by the Reviewing Committee on the Export of Works of Art at their meeting on 28 January 1981. The Committee considered that the items were of national importance under the criteria laid down by the Waverley Committee.

Any public collection in the United Kingdom which is interested in making an offer to purchase either of the items can obtain further information from the expert adviser concerned.

NOTES TO EDITORS

The Leicester Codex by Leonardo

1. This manuscript, which was compiled in about 1508, consists of 36 sheets (ie 72 pages) in folio, measuring approximately 299x225 mm. It is written in Leonardo's hand from right to left. There are drawings on 59 of the pages. The main theme of the manuscript is the flow of water or, more broadly, physical geography. The manuscript was sold at Christie's on 12 December 1980 by order of the Trustees of the Holkham Estate.
2. A licence was granted on 29 December 1980 for the temporary export of the manuscript to Washington for the Inauguration ceremonies. The manuscript was returned to this country in time for the meeting of the Reviewing Committee on 28 January 1981 to consider the application for an export licence for the longer term.
3. The Reviewing Committee attached to their recommendation a note of concern about Dr Hammer's plans for the manuscript to be displayed

throughout the world in view of the risks involved. This has been drawn to Dr Hammer's notice.

4. If a public collection offers to buy the manuscript for £2,420,000 by midnight on 5 May 1981, an export licence will not be granted. (This figure represents the auction price plus the 10% buyer's premium.) The expert adviser, from whom further details can be obtained, is:

The Keeper of Manuscripts  
The British Library  
2 Sheraton Street  
LONDON  
W1V 4BH

Painting by Edward Haytley.



MAP has seen

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

01 211 6402

CONFIDENTIAL

Mike Pattison Esq  
Private Secretary  
10 Downing Street  
LONDON  
SW1

3 February 1981

Dear Mike,

Thank you for your letter of 14 January.

Although, as you say, Dr Hammer's visit is a private one I too am sure that he will take the opportunity to go over one or two of the points which he raised with the Prime Minister at Flotta last September.

I note that you have asked John Wiggins for briefing on taxation issues and I am sure that you are correct in your expectation that this will be a major topic of conversation. Occidental have suggested that the new tax proposals could affect their investment proposals. The only direct effect would be on the NW Claymore and this is covered in the brief. But Dr Hammer may seek to generalise the issue by suggesting that the reduction in Occidental's profits from the North Sea will affect Occidental's overall availability of finance also for the Linear Low Density Polyethylene (LLDPE) plant near Peterhead and the Canvey Island refinery.

I attach a line to take and background briefing on the following subjects:

- Disposal of Natural Gas Liquids
- Canvey Island development
- Gas Gathering
- Floating Production Facility for NW Claymore
- 7th Round

I also attach a brief on the Falkland Islands as I understand that Dr Hammer may well bring this up.

I am sending a copy of this briefing to John Wiggins since the Chancellor of the Exchequer is expected to be present at the meeting.

Yours sincerely,

J D WEST  
Private Secretary



E

10 DOWNING STREET

PRIME MINISTER

Speaking note explaining  
why public collections will  
not seek to purchase the  
Codex to follow on Wednesday.

MAP

3 February 1981



PRIME MINISTER

Dr. Hammer has up to an hour with you. The Chancellor of the Exchequer and the Secretary of State for Energy will be attending, although you will wish to have five minutes privately to discuss the Leicester Codex at the start.

Energy Issues


The Department of Energy have provided the speaking note at Flag A on current issues of interest to Occidental. There is a background note beneath the speaking note.

Taxation Issues

Dr. Hammer has written to you on several occasions recently about oil taxation issues. He raised with you 'ring fence' arrangements at Flotta, and wrote about petroleum taxation last month. The Treasury brief is at Flag B with Hammer's latest letter on the subject behind it.

Leicester Codex

Dr. Hammer is upset by the reviewing committee's recommendation, particularly in view of the arm-twisting under taken by Mr. St. John Stevas to secure long term guarantees of display in the UK. Dr. Hammer has set out his controlled anger in the letter to Mr. Channon at Flag C. You have agreed that you will raise this briefly with him on the basis that your friendship would make it unwise to create a precedent over this particular recommendation - the note I put to you is at Flag D and Flag E is a note from the Minister for the Arts confirming that there is no serious prospect of a public collection stepping in. (The recommendation was purely for a public collection, not private collectors, to be given an opportunity to raise the money - Dr. Hammer seems to have overlooked this point in his letter.)



3 February 1981



The Armand Hammer Foundation

10889 WILSHIRE BOULEVARD, LOS ANGELES, CALIFORNIA 90024

(213) 879-1700

IN CONFIDENCE

AIDE MEMOIRE

31.1.81.

From: Sir John Foster

To : Dr. Armand Hammer

Subject: The Codex Leicester

As you know I represented you at the hearing of the Review Committee on the Export of Works of Art and you might like to consider these points:

The news that Lord Leicester was desirous of selling the Leonardo da Vinci notebook was known for several months before the auction sale at Christie's.

The Treasury had negotiations with Lord Leicester but no agreement as to price was reached.

During this time there was ample opportunity for a public appeal to be launched to provide a fund to purchase the Codex. There was also every opportunity for any private United Kingdom individual or institution to make a competitive bid at the auction.

This great Italian masterpiece has been in this country since it was acquired by the Coke family in the early 18th Century and I believe that it has only been seen once in public in the last 270 years - and that was in 1952.

After the purchase by Dr. Hammer it was then necessary to make arrangements for transporting the Codex to the U.S.A. on a temporary permit basis for exhibition at President Reagan's inauguration.

Dr. Hammer wrote on December 17th a letter to Mrs. Thatcher setting out his plans for the Codex, to show it at the inauguration, and to get Professor Pedretti to mount the folios separately to be visible from both sides. Dr. Hammer proposed that the Codex should be shown in the U.K. for three months in every year during his lifetime.

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IN CONFIDENCE

IN CONFIDENCE

- 2 -

Dr. Hammer met Mr. St. John Stevas at Claridges on Saturday December 12th. Dr. Hammer proposed that he should show the Codex for three months in each year during his lifetime in the U.K. Mr. St. John Stevas wanted some assurance for the period following the death of Dr. Hammer. Dr. Hammer asked that this be worked out between Sir John Foster and Mr. St. John Stevas. The meeting between Dr. Hammer and Mr. St. John Stevas was a very friendly one, and was on the underlying assumption that Dr. Hammer would receive the Codex in the U.S.A. after the Codex has been before the reviewing committee.

Sir John Foster and Mr. St. John Stevas worked out the details of how and when the Codex was to be available for display in the U.K. After some considerable bargaining a formula acceptable to Mr. St. John Stevas was agreed, namely that the Codex should be shown for three months in every year not only during Dr. Hammer's lifetime, but also that it should be shown for 10 years after his death in the U.K. on the same basis.


Dr. Hammer would also notify the Foundation that after this period of ten years that he wished the Codex to be shown in the U.K. at convenient intervals.

Dr. Hammer then received an invitation from the inaugural arts committee of President elect Reagan to show the Codex at the inauguration. It was ascertained after this invitation was received that there were no facilities at this time in the U.K. to restore the Codex by separating the folios and protecting them by use of special perspex, in time to be shown in Washington on January 17th.

A copy of Dr. Hammer's letter to Mrs. Thatcher was sent to Mr. St. John Stevas with a letter asking for a temporary export licence, the need for which had been notified by telephone to Mr. St. John Stevas by Sir John Foster.

Mr. St. John Stevas when interviewed in London for American television stated that he had "made a deal" with Dr. Hammer for the Codex to be shown part of each year in the U.K. This was widely broadcast to the American people throughout the United States.

IN CONFIDENCE



IN CONFIDENCE

- 3 -


The Codex was exported on a temporary permit which Mr. St. John Stevas granted. The manuscript was shown at the inauguration in separate folio form. It was returned to the U.K. in time for the Reviewing Committee on the Export of Art on January 28th. At the hearing only one objection was raised to the export of the Codex, from Dr. Waley of the British Museum acting on behalf of the Board of Trade. He agreed that neither of first two criteria, national heritage and aesthetic value, applied. However, Dr. Waley thought that the third criteria, namely that it was of outstanding significance for the study and history of art and science did apply. His objection was muted. He said he saw no alternative to objection to the award of the licence thought solely on the grounds of outstanding significance for study.

He added, "I should like to emphasise that this view quite clearly carried no implication that the public study ought to be undertaken in this country rather than elsewhere". By those remarks Dr. Waley is removing the basis of the recommendation of the committee, since if it is exported the study of art will be in no way impeded. Dr. Waley also referred to the scrap-books of Leonardo da Vinci contained in collections in Italy, France, Spain and Britain.

It was pointed out for Dr. Hammer that the Codex could be studied equally as well, if not better, outside the U.K.; that the superior Codex in the British Museum was sufficient to enable studies to be made of the drawings and work of Leonardo in the U.K.; and that the study of the Leicester Codex did not depend on being near the Codex of the British Museum.

Whilst there are several manuscripts already in the British Museum and at Windsor Castle there is none in the U.S. nor in the many other countries of the world, where your collection can be seen. Some questions were raised as to the safety of the manuscript. I am sure the British Government will not fail to notice that you were advised, on this matter, by Professor Carlo Pedretti and the British Museum's expert Mr. D.P. Waley described Professor Carlo Pedretti as; "the greatest living authority on Leonardo" in his evidence to the committee.

IN CONFIDENCE



IN CONFIDENCE

- 4 -

It was also maintained for Dr. Hammer that the third criteria should not be taken literally, as in that case no manuscript could be exported, since it would be a feature of every highly priced manuscript that it would provide material for scholarship, only to be carried out in the U.K.

The interpretation of this third criteria should depend on whether it was necessary for the manuscript to stay in the U.K. for studies which could not be undertaken elsewhere.

The recommendation of the committee is contrary to the understanding existing between Dr. Hammer and Mr. St. John Stevas that Dr. Hammer would receive the support of the Minister for the award of an unconditional export licence having regard to the terms set out in the correspondence as to the future showing of the Codex in the U.K.

IN CONFIDENCE

PRIME MINISTER

1,  
—  
cc. Mr. Ingham  
Mr. Wolfson  
*Reece*

The Leicester Codex

As you know, the case for overturning the Reviewing Committee's recommendation is powerful.

But regardless of the grounds for overturning it, any such decision is almost certain to be damaging both to you and Dr. Hammer, because:

- (i) Dr. Hammer is well known to be a friend of yours with ready access;
- (ii) Publicity about Gordon Reece's departure from your service to his has hardly died down;
- (iii) Hammer's very presence in London next week is for his Daumier exhibition, which has benefited from Royal patronage;
- (iv) This would be the first time that an Arts Minister had overturned a reviewing committee's recommendation.

The alternative is this: when you see Dr. Hammer on Thursday, you explain that, in any other circumstances, you would have supported your Arts Minister's decision to overturn. However in this case you feel that you must protect him, and the reputation of the office of Prime Minister, from innuendo that would be unfair but nevertheless easy to make.

/ It is,

It is, unfortunately, a price that your friends sometimes have to pay. You are entirely confident that no national collection will have any prospect of raising funds for the Codex, even if they were inclined to try. It has already been more effectively displayed in three months of his ownership than in all its earlier years in this country.

Dr. Hammer should find it very difficult to resist this, especially considering his continuing interest in North Sea oil licences. He was, in any case, intending to exhibit the manuscript here again in the early summer, so that it should make very little difference to his plans. It will avoid much in the way of an unjustified smear campaign.

I understand that Mr. Channon now takes the view that it would be desirable to tackle the issue in this way.

Agree?

*MP*

Peter Minick.

I agree that we should proceed as Mr. Pattison suggests. I think this is necessary if your own position is to be protected.

30 January 1981

*John  
301*

file

055

Blow B.D.

22 January 1981

DR. AND MRS. HAMMER: 25TH WEDDING ANNIVERSARY

The Prime Minister has seen your letter to me of 21 January. She would be grateful if HM Embassy in Washington could arrange for the delivery of the message proposed in Washington telegram no. 183 enclosed with your letter under reference.

M. O'D. B. ALEXANDER

Francis Richards, Esq.,  
Foreign and Commonwealth Office.



070

1. CS  
2. Madba



Foreign and Commonwealth Office

London SW1A 2AH

21 January 1981

(1)

*In by letter to and  
commissioner Stefan  
not*

Prime Minister

Mr Glazer has clearly suggested this in order to ensure the success of his dinner party. However there would be no harm in obliging him if you feel so inclined. Agree?

Dear Michael,

*1/21/81*

Dr and Mrs Armand Hammer: 25th Wedding Anniversary

Our Embassy at Washington have been approached by a Mr Guildford Glazer who has suggested that the Prime Minister might wish to send a congratulatory message to Dr and Mrs Armand Hammer on the occasion of their 25th Wedding Anniversary. I enclose a copy of Washington telegram number 183 which gives a suggested text.

The Embassy have not made any particular recommendation and unless the Prime Minister has personal reasons for wishing to send a message we see no grounds for her to do so.

Yours ever,

*Francis Richards*

(F N Richards)  
Private Secretary

M O'D B Alexander Esq  
10 Downing St

*Caroline - [Tell Gordon  
we are sending a  
telegram]*  
*not*

GRS150

UNCLASSIFIED  
FM WASHINGTON 171630Z JAN 81  
TO ROUTINE FCO  
TELEGRAM NUMBER 183 OF 17 JANUARY.

FOR NAD

MR GUILFORD GLAZER, A WEALTHY CALIFORNIAN PROPERTY DEVELOPER, HAS WRITTEN TO ASK WHETHER PRINCE CHARLES AND THE PRIME MINISTER WOULD LIKE TO SEND CONGRATULATORY MESSAGE TO DR AND MRS ARMAND HAMMER OF OCCIDENTAL PETROLEUM ON THE OCCASION OF THEIR 25TH WEDDING ANNIVERSARY. THE GLAZERS ARE TO GIVE A DINNER PARTY TO CELEBRATE THE OCCASION ON 25 JANUARY AND SAY THAT BOTH PRINCE CHARLES AND THE PRIME MINISTER KNOW THE HAMMERS WELL.

2. IF EITHER THE PRINCE OF WALES OR THE PRIME MINISTER WISHES TO SEND A MESSAGE WE COULD ARRANGE DELIVERY. POSSIBLE TEXTS MIGHT BE:

(PRINCE CHARLES): QUOTE MANY CONGRATULATIONS ON YOUR 25TH WEDDING ANNIVERSARY. I SEND YOU BOTH MY BEST WISHES. UNQUOTE

(PRIME MINISTER): QUOTE I SHOULD LIKE TO JOIN YOUR MANY FRIENDS IN CONGRATULATING YOU ON YOUR 25TH WEDDING ANNIVERSARY AND IN SENDING YOU MY BEST WISHES FOR THE FUTURE. UNQUOTE

HENDERSON

[THIS TELEGRAM WAS NOT ADVANCED]

MINIMAL

NAD  
P & C D

The Armand Hammer Foundation  
10889 WILSHIRE BOULEVARD, LOS ANGELES, CALIFORNIA 90024  
(213) 879-1700

IN CONFIDENCE

Rt. Hon. Paul Channon,  
Minister for the Arts,  
Department of Education  
and Science,  
Elizabeth House,  
York Road,  
London,  
SE1 7PH

17th January, 1981

Dear Mr. Channon,

Firstly let me congratulate you on your new appointment as Minister responsible for the Arts and wish you every success in the many opportunities afforded by your office.

You will by now have received - as I have - the recommendation of the Review Committee on the Export of Works of Art, that my Leonardo Codex is covered by item three of the committee's criteria and that a licence should be withheld for three months to see if there is a British buyer.

Before you make your decision I know you will want to consider the agreement entered into by the previous Minister Mr. Norman St. John Stevas. I am sure no British Minister would want to go back on his predecessor's word - nor would he wish to place his predecessor in the position of having his agreement dishonoured. I am enclosing copies of some letters from Sir John Foster and myself to Mr. St. John Stevas outlining the terms. He struck a very hard bargain and he also took the opportunity of mentioning this agreement on U.S. network television.

Cont...

IN CONFIDENCE

IN CONFIDENCE

- 2 -

You will also know what a disappointment it would be to the people of the United States if my agreement with the Minister is reneged on. President Reagan was kind enough to write in the forward of the memorial catalogue of the Codex that I had re-printed for the Inauguration; "Nancy and I are very pleased that this major work, Leonardo's the Codex Leicester, has been made available to our Presidential inaugural celebration enabling so many Americans to share in his diverse genius".

Incidentally, I was more than a little surprised at the Committee's decision in the light of the expert advice that was received from Mr. D.P. Waley. He wrote; "I should like to emphasize that this view (withholding a licence for three months) quite clearly carries no implication that further study ought to be undertaken in this country rather than elsewhere". He clearly regarded the third criteria to be applicable in only the most superficial way and I hope you share my belief that this would not be sufficient reason for the British Government to go back on its word.

I was very happy to see that you have accepted my invitation to the Daumier exhibition tomorrow. I look forward to meeting you. I know we will have many friends in common.

Kind regards.

ARMAND HAMMER

Copy to: Rt. Hon. Margaret Thatcher, MP, The Prime Minister

IN CONFIDENCE

*General* <sup>*File*</sup>

16 January 1981

I am writing on behalf of the Prime Minister to thank you for your letter of 14 January.

I will of course place this before Mrs. Thatcher, and I know that she will carefully consider the arguments set out in your letter to the Chancellor of the Exchequer.

M. A. PATTISON

Dr. Armand Hammer



10 DOWNING STREET

TL MAP

To see this letter from  
Hammer about oil taxation.

I have commsed briefing  
from D/En for Hammer's  
meeting on Feb 5. I will

~~Do~~ add this to the list.

Do you think we ought to  
have Howell and/or a Tsy  
minister at that meeting  
(which is partly a courtesy  
and political one)?

MAP

I really think The Chancellor  
should come in

on this one  
r

PRIME MINISTER

Dr. Hammer writes enclosing a copy of a detailed letter to the Chancellor about petroleum tax.

We have acknowledged, without promising a written reply, as you may prefer to deal with this when he calls on you on 5 February. We are seeking advice from the Treasury, and can then consider whether it is best to reply in writing.

Given the complexity of the issues which Dr. Hammer raised at Flotta and more recently, would you like to have the Chancellor and perhaps Mr. Howell at the 5 February meeting?

*Yes please*

1. C.S.

*MAD*

*not.*

*You are arranging  
Chancellor & Mr Howell*

*done  
es. 20/1*

2. *ra MAD*

16 January 1981



10 DOWNING STREET

From the Private Secretary

16 January 1981

Dear John

BF 3.2.81

The Chairman of the Occidental Petroleum Corporation, Armand Hammer, has sent the Prime Minister a copy of the Company's letter of 15 January to the Chancellor about petroleum tax.

The Prime Minister is due to see Dr. Hammer on 5 February. She knows him well, and will expect him to raise a variety of issues concerning Occidental's operations and plans in the UK, as well as other personal and political matters.

U I should be grateful if you could ensure that we have briefing on these taxation issues by close of play on 3 February: this might ideally take the form of a note covering a copy of the reply to Dr. Hammer's letter to the Chancellor.

I am sending a copy of this letter and Dr. Hammer's letter to the Prime Minister to Julian West (Department of Energy).

Yours ever

Mike Paterson

A.J. Wiggins, Esq.,  
HM Treasury.

Sub



14 January 1981

6F 3. 2. 71

The Prime Minister expects to see Dr. Armand Hammer on 5 February.

This will be a private meeting covering a number of Dr. Hammer's interests, but he may be expected to press the matters which he raised with the Prime Minister at Flotta last September. Could you please let us have briefing on these and any other current issues affecting Occidental, by close of play on 3 February?

M.A. PATTISON

Geoffrey Dart, Esq.,  
Department of Energy.

26

OCCIDENTAL PETROLEUM CORPORATION

10889 WILSHIRE BOULEVARD • SUITE 1500

LOS ANGELES, CALIFORNIA 90024

(213) 879-1700 • (213) 477-0066

ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

14th January, 1981.

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

Dear Mrs. Thatcher,

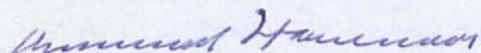
After our meeting on Flotta and the exchange of correspondence about the taxation of oil revenues, I feel you will not mind if I draw your attention to some effects of the proposed supplementary petroleum tax (SPT).

The industry is concerned with the affect the new tax may have on the level of investment in the North Sea. The tax is ineligible for foreign tax credit in the United States of America, as it is a supplementary tax not based on net income and not covered by the UK/US tax treaty. In fact this SPT will reduce the amount of taxes that at present can be credited in the USA as a foreign tax credit because by reducing the total profit of the oil company a lesser sum will be paid for petroleum revenue tax and corporation tax both of which are creditable taxes under the tax treaty.

We understand a number of oil companies are reconsidering projects already approved because of this tax, projects which if cancelled would delay the development of the North Sea and the regeneration of British Industry. We appreciate that the funds are needed by the Government and, therefore, we would like to propose some practicable alternatives which we believe would bring in a similar amount of revenue to the Government without the drastic effects which we believe the new tax may cause.

I am enclosing a copy of our letter to Sir Geoffrey Howe embodying our suggested measures.

Sincerely yours,



Armand Hammer.

P.S. I look forward very much to seeing you at 6.00 p.m. on Thursday, February 5th.

# Occidental International Oil Inc.

16 Palace Street, London SW1E 5BQ Telephone 01-828 5600 Telex 918818 Telegrams Oxyoil London

J. Doug Ratcliffe  
Chairman and Chief Executive Officer

January 15, 1981

The Rt Hon Sir Geoffrey Howe MP  
Chancellor of the Exchequer  
House of Commons  
London S W 1

Dear Chancellor

Subject : Proposed UK Continental Shelf  
Tax Changes

I am writing to record with you Occidental's concerns in respect of the above arising from the statement you made in the House on November 24 last. We believe that the introduction of a new Supplementary Petroleum Tax based on gross revenue rather than profit would constitute a critical deviation from normally accepted petroleum tax principles throughout the Western World.

The UKCS Supplementary Petroleum Tax would become a fourth tier of taxation (after Petroleum Revenue Tax, Corporation Tax and Royalties) and while recognising your need to raise additional revenue, I would urge you to consider it as a temporary measure and to contain it within the existing tax structure. A further concern on a permanent SPT being introduced is that it must lead to further investment uncertainty and would lend itself to regulation by succeeding Administrations whenever there was a need for additional and immediate increase in revenue.

I am therefore setting out below our comments on SPT and PRT reliefs. We feel that Occidental is well qualified to comment on these measures, since we have more experience than any other company, except possibly BP, of the current operation of the Oil Taxation Act, due to the fact that we are at present the second largest PRT payer in the North Sea.

1. Proposed Supplementary Petroleum Tax

To satisfy the requirement for short-term revenue we suggest that for 1981 you introduce an Advance Petroleum Tax equal to £2 per barrel of gross

/..

production less an allowance of 20,000 barrels per day for each field. This tax would be paid monthly during 1981 and would be designated as advances of PRT or CT creditable against those tax liabilities otherwise due in following years. This measure would generate the £1,000 million which is to be raised by the proposed Supplementary Petroleum Tax. For future years, the Government stands to gain substantially from PRT and CT as a result of increased prices for oil. The incremental Government take is 87.4 per cent including royalty, PRT and CT.

We feel that one of the greatest virtues of this suggestion from the Government's point of view is that it would increase the number of companies paying PRT in 1981, but for that reason it will not be supported by all companies.

If it is felt that Government take must ultimately be increased, we would rather see an increase in PRT, say to 75%, bringing the new Government take to 89.5%. Patrick Jenkin, when Opposition energy spokesman, said to the Commons in November 1974 that 'a flat rate prior charge tax is the wrong weapon'. He advocated a variable excess profits tax levied on profits above a given standard. We agreed with that policy at the time and nothing has happened to change our mind.

## 2. Changes to PRT Reliefs

We would be prepared to forego uplift on all discoveries after January 1, 1981. At present the industry is allowed uplift of 35% on certain development expenditures, in lieu of interest, as a deduction from PRT. The industry should instead be permitted to deduct for PRT purposes, actual third party interest charges on development capital. This will spread the interest relief over a period of years and will eliminate the 'contractor financing' problem. Development capital would be the initial capital costs of new fields or new satellite developments, etc. As an alternative provision if deduction of interest is unacceptable, uplift should remain at 35% but should be spread over a five-year period and the definition of upliftable expenditure could be tightened.

The oil allowance, designed to give particular assistance to the smaller fields, exempts from PRT the value of the first one-half million tonnes in

any one year up to a cumulative maximum of five million tonnes. Safeguard basically provides that if adjusted profits in any one year are less than 30% of accumulated capital expenditure to that date then the PRT charge is reduced to zero. Since it is proposed that Oil Allowance should be changed, it becomes even more important that safeguard should be retained for existing fields. Tightening the definition of development capital as indicated above will in any case provide some restriction. For new fields discovered after January 1, 1981, the safeguard taper rate could be increased to 90%. The present tapering provision sets a ceiling whereby the PRT charge for any year must not exceed 80% of the amount by which the adjusted profit for the year exceeds 30% of the accumulated capital expenditure to date.

We strongly believe that the combination of the new Supplementary Petroleum Tax (SPT) and the more radical of the proposed PRT relief changes could have an adverse effect upon developments in the North Sea, and the following are some examples :

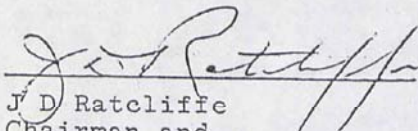
- The economics of any field with a lengthy development programme will be severely impaired by the 'front-ending' of tax liability imposed by SPT.
- SPT acts effectively as a large (around 10%) increase in Royalty, and although it would clearly only be one of the factors taken into account, it will serve to render any marginal field even less attractive than before to a potential developer. At this stage of North Sea development we are forced to search for smaller accumulations of oil and SPT will therefore have a discouraging effect upon enthusiasm for exploration, which would not necessarily be the result of changing the rate of PRT or advancing it. For US companies SPT would not be a creditable tax for foreign tax credit purposes and it will also reduce PRT and CT which are creditable taxes under the US/UK Treaty.
- The proposed changes to PRT relief, especially those on uplift and safeguard, will destroy the economics of some satellite developments, and these projects offer, at least in the short term, the best prospects for British industry involvement. As we told representatives of the Inland Revenue in December 1980, our own Claymore Field Extension project is not economic if uplift is abolished (or a cut-off date is introduced) and safeguard is abolished.

In addition to the loss of economic activity, there would of course be a total loss of tax revenue to the extent that such crude oil reserves were not produced.

- Any major projects such as the gas gathering system, planned for the North Sea, need to be funded from the companies' internal resources. The chances of such projects going ahead will be directly affected by any measures which reduce the funds available.

We are so concerned at the prospects we envisage that I felt I should bring the above to your personal attention in the hope that our suggestions might be given serious consideration.

Sincerely yours

  
J. D. Ratcliffe  
Chairman and  
Chief Executive Officer

copies : The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

bcc : The Rt Hon Margaret Thatcher MP  
Prime Minister and First Lord of the Treasury

Mr Philip Shelbourne  
Chairman  
The British National Oil Corporation

Mr Ian MacGregor  
Chairman  
The British Steel Corporation

Mr Robert Atkinson  
Chairman  
British Shipbuilders

Occidental  
International Oil Inc.

Rec. CF 11/12/80.

USA

**Tim Halford**  
Vice President  
European Public Affairs

16 Palace Street. London SW1E 5BQ Telephone 01-828 5600 Telex 918818 Telegrams Oxyoil London

5th December, 1980.

Mr. Michael Pattison,  
10 Downing Street,  
London, W.1.

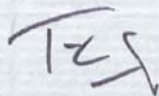
Dear Michael,

Further to your call earlier this week, I have talked to Dr. Hammer and he will be delighted to see Mrs. Thatcher at Number 10 Downing Street, at 6 p.m. on Thursday 5th February. I will be accompanying him.

My best wishes for Christmas and the New Year.

Kind regards.

Yours sincerely,



Tim Halford.

cc: 1d



cf.

10 DOWNING STREET

THE PRIME MINISTER

17 November 1980

Dear Dr. Hammer,

Thank you very much for your two letters of 12 November.

I shall take into account the additional points you have made about the Oil Taxation Act. I should be happy to have a further discussion with you about this, and about the project proposals you outlined at Flotta, when you are in London next February. Perhaps your London office could be in touch with No. 10 to settle a time once your dates are firm.

I should also very much like to attend the opening of the exhibition at the Royal Academy, but I fear that I am already committed to a heavy programme in that week in February, and I know that there will be other Government business arising between now and then. In these circumstances, I think I must decline your most generous invitation, both for the exhibition and for the dinner. I shall, nevertheless, look forward to seeing you here.

Yours sincerely,

MT

Dr. Armand Hammer



PRIME MINISTER

---

Two more letters from Dr. Hammer. One continues the dialogue on "ring fence" taxation provisions. The second touches on your visit to Flotta, Gordon Reece's new job, the Canvey Refinery and the Peterhead Ethylene proposal. But Dr. Hammer's real purpose is to get to see you when he is in London early in February next year. His Daumier art collection is to be on show at the Royal Academy. He invites you and Mr. Thatcher to the opening on 4 February (at which Prince Charles will be present) and the dinner afterwards. He also asks if he could call on you to bring you up to date on the projects discussed in Orkney.

February 4 may be a difficult date. You are Chairing NEDC and you hope to look in at the Women's Advisory Committee reception. It will also be the day before Cabinet.

*Reply* Would you like to decline Dr. Hammer's invitations, but agree *to* see him during his visit, to hear more of his project proposals, and to pursue the "ring fence" provisions?

If you agree with this, I suggest a brief reply now, leaving any more substantive comment to your meeting. These letters are, in practice, written in Occidental's London office, and I do not think you need continue a detailed correspondence. I attach a draft.

*MR*  
*Answer*  
*not.*

12 November 1980

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

P13 P1  
2 letters

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*

Armand Hammer.

pp. 1.

**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 was glad to receive your letters of October 3, and present herewith for your interest my further comments on the subjects under consideration.

However, I should first like to thank you again for your kind remarks about your visit to Flotta on September 4, a day Mrs. Hammer and I will long remember. I also should like to express appreciation of the comments by your Scottish Secretary, George Younger M.P. regarding the care my company has taken in dealing both with the environment and the community in Orkney. I take the liberty of quoting him:

" The development at Flotta in Orkney exemplifies very well the kind of cooperation which enabled so much progress to be made in that remote part of our country. It has proved possible to erect within only four years a terminal which, last year, handled 17 million tonnes, or 23% of the oil produced from the U.K. sector of the North Sea. This achievement was brought about by the positive and constructive approach shown by all concerned, and here I would like to pick out one particular aspect: The oil companies concerned in that project recognized the need to involve the local community in the development and, the other side of the coin, to ensure that the development became accepted within the community. This is surely the key to success. So many of the fears and suspicions which arise and which can significantly affect a development, do so because of uncertainty and lack of contact and of information. What has been shown is that this can be avoided by a full, frank and ongoing dialogue between the developers, the planning authority and the local community. This may not come easily to all who are involved. With their different backgrounds and needs, it may take a little time for all concerned to find common ground for communication. The companies for their part may understandably be reluctant to divulge their thinking, especially in the earlier stages."

.../....

The positive reputation my people have established for Occidental in Britain and Europe indicated to me that I should seek the services of an Englishman to help project Occidental's excellent record worldwide. Your comments about Gordon Reece's enthusiasm convince me I have picked the right man for the job.

Regarding the Canvey Refinery Project, I understand from my people in London that a very successful meeting was held earlier this month with the members of the Castle Point District Council and that they were less critical of our proposals for Canvey than had been anticipated. We will not be in a position to submit our application to the Council until early next year when our economic and marketing studies will have been completed. However, we are very aware of the concerns of the local community and are hopeful that by working closely with the Council and the Health and Safety Executive we can minimize any delays in gaining planning approval.

Discussions on the Peterhead Ethylene Project are also progressing well and an excellent rapport has been established with the Buchan and Banff Authority. Our economic studies on the project look very favourable and we are talking to a number of possible suppliers to negotiate a long-term contract for the gas at an acceptable price. The target completion of the gas gathering system in 1984 is of vital importance to our planning, as I am sure it is to all companies competing for the gas and Leon Daniel is eagerly awaiting the call from Sir Dennis Rooke. We believe Occidental's North Sea experience will enable a valid contribution to be made to the planning, co-ordination and on-schedule completion of the project.

Your comments on the oil taxation "ring fence" were of great interest and I feel it is now up to us to initiate studies to show, as I believe, that if the ring fence were widened, the benefits of increased investment brought about would more than offset the loss of revenue. This is more fully detailed in the accompanying subject letter.

I noticed in the press this week that Britain is now a net exporter of oil and is 97% self-sufficient in coal production. In the present world economy, these are vital factors to help consolidate the new strength you are bringing to Britain and, in turn, to help promote stability and economic growth throughout the western world.

.../...

I hope to be in London in early February to attend the opening of my Daumier art collection at the Royal Academy on February 4th. If your calendar is free, I hope you and your husband would find time to attend the Daumier opening, at which Prince Charles has graciously agreed to be present, and dinner afterwards. I understand that my London aide, Tim Halford, is in contact with Michael Pattison on this matter.

If you could spare me a few minutes at the beginning of February, I would very much like to apprise you of the exact position on each of the major projects we discussed in Orkney. I do hope we can meet as I have such warm recollections of our conversation on that occasion and hastening the progress of those projects is very much on my mind.

My very warmest wishes.

Respectfully,

*Armand Hammer*

Armand Hammer

cc Eng

R/6 2/10  
Evan FH

cc Energy July 79  
Gas Gathering Pipeline



10 DOWNING STREET

THE PRIME MINISTER

3 October 1980

Dear Dr Hammer

Thank you for your letter of 6 September on the timescale for construction of the gas gathering pipeline. I am most grateful for your offer of a discussion with the Occidental pipeline team under Mr. Daniel, and would like to have the benefit of the advice you have offered, As you probably know, David Howell has invited B.G.C., B.P. and Mobil to form an Organising Group for the pipeline. Their responsibilities include the technical work concerned. The Organising Group are best placed to benefit from discussion with your pipeline experts, and David Howell will arrange for their Chairman, Sir Denis Rooke, to contact Mr. Daniel direct.

(sgd) M T

Dr. Armand Hammer.

jfh

cc Dray, July 79  
Gas Gathering Pipeline

UENG

JFH



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.



cc Energy July 79  
Gas Gathering Pipeline

MR Ryder

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10 DOWNING STREET

THE PRIME MINISTER

3 October 1980

Dear Mr. Hammer,

Thank you for your letter of 26 September.

Gordon Reece is leaving his post in the Conservative Party and I am delighted to learn that he is joining such an excellent company as Occidental. It is most kind of you to offer to make his services available to us if we have any need for him on specific assignments in the future. I shall certainly be in touch with you if this arises.

We shall miss Gordon. He is full of infectious enthusiasm for his work. I am sure you will be very happy with his services.

All good wishes.

Dr. Armand Hammer.

Yours sincerely  
Margaret Thatcher

278

cc energy, July 79  
Gas Gathering  
Pipeline



10 DOWNING STREET

THE PRIME MINISTER

2 October 1980

Dear Dr Hammer

Thank you for your letters of 6 September about your proposals for petrochemical development at Peterhead and the refinery project at Canvey Island. I welcome proposals which will add value in the United Kingdom to our North Sea oil resources.

As I understand the position, you are no longer thinking in terms of a conventional refinery at Canvey Island. Instead you propose to produce from fuel oil lighter products likely to be in greater demand over the coming years. We share your views about the likely development of the oil products market. I am sure you are right to explain your change of plans fully to the local interests in Canvey Island so as to avoid misconceived opposition. I hope your staff will keep the relevant Departments here fully informed.

I am writing to you separately about our gas gathering pipeline. From that letter, you will see that David Howell has invited British Gas, B.P. and Mobil to form an organising group for the pipeline project. This is responsible also for advising on the suitability of proposed facilities onshore for taking the natural gas liquids as they become available. Your staff may wish to keep in touch with the Group on the Peterhead project. The Group, and the subsequent pipeline company, will not however own the N.G.L.s transmitted through the new line; and cannot, therefore, sell them. I note that you are in contact with B.N.O.C. about the possible purchase of its gas liquids carried through the new line.

/ Other companies have

278

Other companies have also offered to purchase for petrochemical use the liquids from the new line. However, your proposal to use the ethylene from the suggested cracker for polymerisation into linear low density polyethylene is interesting. Obviously the further downstream a petrochemical venture goes the greater the added value and the more employment it generates. Your particular proposals will therefore receive close consideration from all those involved in the supply of feedstock.

signed

MT

Dr. Armand Hammer

3

PRIME MINISTER

Dr. Armand Hammer has acknowledged your letter about the Seventh Licensing Round, and also comments on Gordon Reece's future work for Occidental.

Dr. Hammer claims to have been told that you would be writing to him about Gordon. Richard Ryder is not aware of any planned letter. Would you like to send the attached brief letter to Dr. Hammer covering the point?

*MRP*

2 October 1980

*copy of letter to Mr Ryder,*

*re*

*MRP*

- 1. MR. LANKESTER
- 2. PRIME MINISTER

One of Dr. Hammer's letters to you after the Flotta visit was about the 'ring fence' provision in the 1975 Oil Taxation Act. You said that you were particularly interested in this as a means of encouraging further investment.

The Chancellor is thoroughly sceptical. The attached draft, based on one from his office, emphasises his belief that most of the required investment will be attracted without new tax incentives.

Are you content to write as proposed or do you want to have a word with the Chancellor about this? His view is set out in the letter at Flag A, although he has not actually seen Dr. Hammer's letter as he is away at present.

MAF

*[Handwritten signature]*

1 October 1980

*Retype as amended.*

PRIME MINISTER

David Howell has suggested the attached draft reply to Armand Hammer's letter on the gas gathering pipeline. Beneath the draft, there is some material from Mr. Howell's office about the timescale for the pipeline, and about the availability of the necessary special steels from B.S.C.. On the latter point, the Department is saying that B.S.C. has seemed unlikely to get the contract, but has recently won some relevant ones: their performance on these will be crucial.

*MAP*

30 September 1980

CF.

PRIME MINISTER

David Howell's office suggested the attached reply to Dr. Hammer's letter about his Canvey Island Refinery proposal and his planned petrochemical development at Peterhead. The note from Mr. Howell's office beneath the draft shows that the Department is sceptical about the Canvey Island proposal, and would not wish to get committed to the Peterhead development until the competing offers from other companies have been sorted out. The draft reply is therefore intended to be encouraging but without commitment.

MA

30 September 1980



A

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

30th September 1980

Mike Pattison Esq.  
10 Downing Street  
LONDON  
SW1

Dear Mike,

You wrote to John Wiggins on 10 September enclosing this letter that the Prime Minister had received from Dr Hammer, who suggests some relaxation of the North Sea taxation ring-fence.

No doubt this could lead to some extra energy related investment on the mainland. Nevertheless, the Chancellor does not regard it as a serious candidate for consideration, for a variety of reasons - the major ones being

- a. It would undermine the justification for PRT as a tax on the economic rent arising from North Sea oil production; and gravely weaken the "field basis" (which is crucial to ensuring an early and secure flow of PRT).
- b. It would apply to much investment that would take place anyway, eg Dr Hammer's proposed \$1½ billion project.
- c. It would be very costly; the \$1½ billion project alone could cost some £500m tax; some by way of deferral and some a permanent loss. The potential tax losses must run into billions.
- d. Even as regards corporation tax, where the ring-fence represents a departure from the normal tax rules, the general principle that it is paramount to secure the North Sea tax take remains valid.

....

I attach the draft of a letter that the Prime Minister may care to send to Dr Hammer.

Yours ever,

*Richard Tolkien*

R.I. TOLKIEN  
Private Secretary



*cc Energy July 29  
Gas gathering Pipeline*



*2 PPS.*

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ  
TELEPHONE: 01-211 3000  
01 211 6402

Mike Pattison Esq  
Private Secretary  
10 Downing Street  
Whitehall  
LONDON  
SW1

29 September 1980

*Dear Mike,*

Thank you for your letters of 8 and 12 September about the correspondence from Dr Hammer of Occidental. This reply deals with points raised on the gas gathering project.

I attach a note on the main constraints, as currently seen, which affect the time-table for the project. The main point to note is that our fears of delay relate mainly to the onshore work (the pipeline terminal and facilities for handling natural gas liquids) rather than to offshore pipelaying. However, the possibility of delays is a threat to every part of such a complex project, and we would certainly recommend that the Prime Minister take up the offer of advice in Dr Hammer's 6 September letter. I attach a draft reply to that letter; the draft suggests that Occidental's advice would be of most benefit to the gas gathering Organising Group (BGC, BP and Mobil) whose tasks include advancing the technical and operational basis for the project.

You also asked about BSC's capability to supply the special steels needed for the project. BSC is well aware of the major opportunity which the project provides, and has been engaged in a major exercise, involving investment at Hartlepool and Redcar, to get itself into a position of being able to meet the probable steel requirements of the project. At this stage, the exact material specifications and delivery schedules for the project have not been finally established. However, BSC is continuing to liaise closely with BGC and BP on the technical details. In all of this activity BSC is being strongly supported by the Department's Offshore Supplies Office.

In the final analysis, however, price and delivery dates will be important determinants, and there will be strong competition from abroad, particularly from Japan and West Germany. Against this background BSC has much to do since over the years it has been singularly unsuccessful in supplying the oil companies' needs for offshore line-pipe. However, significantly, this year it has won 2 contracts of this nature (BGC's Morecambe Bay project and - still confidential - for BP's West Sole gas field) and these will provide it with the opportunity to establish credibility for further orders. It is vital therefore that BSC perform well on these contracts and the Offshore Supplies Office is monitoring the position closely. BGC



(2)

itself, with our encouragement, is deliberately promoting a closer relationship than in the past with BSC in order to keep them informed as early as possible on future pipeline requirements so that BSC is placed in a favoured position to compete.

I shall be writing to you separately about the Occidental letters you sent me on 9 September, dealing with the proposed polyethylene plant and with Canvey Island.

*Yours sincerely,*

*Geoff Dart*

G S DART  
Private Secretary

DRAFT LETTER



Armand Hammer Esq  
Chairman and Chief Executive Officer  
Occidental Petroleum Corporation  
10889 Wilshire Boulevard  
Suite 1500  
Los Angeles  
California 90024  
USA

GAS GATHERING PIPELINE

Thank you for your letter of 6 September on the timescale for construction of the gas gathering pipeline. I am most grateful for your offer of a discussion with the Occidental pipeline team under Mr Daniel.

David Howell tells me that the area currently thought most likely to be critical to the timing of the gas gathering line is the construction of the related onshore facilities rather than the laying of the pipeline itself. However we would not wish for a moment to relax on the time-table for the pipelaying given the overall complexity of the project and the scope for delay.

I would therefore like the project to have the benefit of the advice you have offered. As you probably know, David Howell has invited BGC, BP and Mobil to form an Organising Group for the pipeline project, and their responsibilities include the technical work concerned. The Organising Group are best placed to benefit from discussion with your pipeline experts, and David Howell will arrange for their Chairman, Sir Denis Rooke, to contact Mr Daniel direct.

PRIME MINISTER



## GAS GATHERING PIPELINE

### MAJOR POINTS ON TIME-TABLE

#### (i) Offshore

BP, as offshore operator for the project, will not have completed a detailed construction programme before the end of the year. In the interim they accept that 1984/5 completion is likely to be attainable. The present outline envisages tendering for pipeline manufacture beginning January 1981 and award of contract in April 1981. Following finalisation of the specifications, in the light of detailed design engineering, manufacture would begin. Deliveries of pipe-lengths to coating yards would begin in April 1982, so that the bulk of the line could be laid offshore during summer 1983. Trenching and tie-in of the pipe to individual fields would occupy 1984, with hydrostatic testing, drying-out and commissioning beginning towards the end of 1984 and rendering the line fully operational in 1984/5.

#### (ii) Onshore

2. Construction and commissioning of the terminal and natural gas liquids (NGL) facilities would be expected to take at least  $3\frac{1}{2}$  years. Site preparation must therefore be complete by (at the latest) early 1982, which necessitates start of site work in mid-1981 (earlier for any NGL facilities at Nigg, as the land has first to be reclaimed). Before site preparation can begin, planning permission must be obtained, the site must be acquired, the construction contract put out to tender and awarded, and sufficient design work done to provide a basis for the construction contract and site preparation.

3. However, this time-table, which is already tight, is subject to a number of uncertainties particularly in relation to the NGL facilities:

- (i) it is not yet clear what the NGL disposal route will be. (There is interest in Nigg, Mossmorran/Grangemouth/Teesside, and now from Occidental in Peterhead.);
- (ii) there is a cautious optimism on the prospects for obtaining planning permission, though in the light of the delays experienced on the Mossmorran project there could be difficulties resulting in delay;



(iii) in some cases there may be problems in site acquisition, particularly for a development at Nigg by someone other than Dow (Dow control the suitable land).

4. As regards the St Fergus terminal, BGC have acquired the land and have already applied for planning permission. There remains the risk of construction delays: the time-table for Shell/Esso's terminal under construction at St Fergus is suffering considerable slippage.

(iii) Conclusion

5. The critical item in the project time-table at present is completion of onshore facilities to handle specification gas and the natural gas liquids (NGLs).

Gas Division  
18 September 1980



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

01 211 6402

Mike Pattison Esq  
Private Secretary  
10 Downing Street  
LONDON

29 September 1980

*Dear Mike,*

Thank you for your letter of 9 September about the correspondence from Dr Hammer of Occidental. This reply deals with his letters about the Canvey Island refinery and the polyethylene plant in Scotland.

We, and other Departments, generally welcome proposals for upgrading fuel oil and for constructing a petrochemical plant to make use of natural gas liquids from the North Sea. However, there are particular circumstances which preclude positive endorsement of either of Oxy's proposals.

At Canvey Island major safety questions have been raised by the concentration there of oil and gas developments. There is certain to be popular opposition to Oxy's plans. The HSE has not yet considered the safety implications of those plans and we cannot yet assume that those implications are acceptable.


In Scotland there are six other companies competing for access to the NGLs from the proposed new gas gathering line. Forecast availability is not sufficient to meet all their demands as currently expressed. The country is likely to get most benefit out of the NGLs by avoiding commitment to any one buyer for the next month of two and preserving an atmosphere of competition both in terms of price and in terms of commitments to petrochemical development.

... Accordingly the draft letter attached tries to encourage without endorsing. It would answer both of Dr Hammers' letters together so as to avoid repeating similar expressions of encouragement.

*Yours sincerely,*

*Geoff Dart*

G S DART  
Private Secretary



DRAFT LETTER

Dr Armand Hammer  
Occidental Petroleum Corporation  
10889 Wilshire Boulevard  
Suite 1500  
Los Angeles  
California  
90024

Thank you for your letters of 6 September about your proposals for petrochemical development at Peterhead and the refinery project at Canvey Island. I welcome proposals which will add value in the United Kingdom to our North Sea oil resources.

As I understand the position, you are no longer thinking in terms of a conventional refinery at Canvey Island. Instead you propose to produce from fuel oil lighter products likely to be in greater demand over the coming years. We share your views about the likely development of the oil products market. I am sure you are right to explain your change of plans fully to the local interests in Canvey Island so as to avoid misconceived opposition. I hope your staff will keep the relevant Departments here fully informed.

In my earlier reply to you on the gas gathering pipeline, I mentioned that David Howell had invited British Gas, BP and Mobil to form an Organising Group for the pipeline project. This is responsible also for advising on the suitability of proposed facilities onshore for taking the natural gas liquids as they become available. Your staff may wish to keep in touch with the Group on the Peterhead project. The Group, and the subsequent pipeline company, will not however own the NGLs transmitted through the new line; and cannot, therefore,

(2)

sell them. I note that you are in contact with BNOC about the possible purchase of its gas liquids carried through the new line.

Other companies have also offered to purchase for petrochemical use the liquids from the new line. However your proposal to use the ethylene from the suggested cracker for polymerisation into linear low density polyethylene is interesting. Obviously the further downstream a petrochemical venture goes the greater the added value and the more employment it generates. Your particular proposals will therefore receive close consideration from all those involved in the supply of feedstock.

PRIME MINISTER



OCCIDENTAL PETROLEUM CORPORATION

10889 WILSHIRE BOULEVARD • SUITE 1500

LOS ANGELES, CALIFORNIA 90024

(213) 879-1700 • (213) 477-0066

September 26, 1980

ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

The Honorable Margaret Thatcher  
The Prime Minister  
10 Downing Street  
London

Dear Madame Prime Minister:

I deeply appreciated receiving your kind and informative letter of September 17. It was good of you to indicate the status quo of the Seventh Licensing Round.

Needless to say, I am indeed pleased that you were impressed with my company's operations at the Flotta Terminal and our interest in the UKCS.

I have met Mr. Gordon Reece who informed me he was leaving your service and that you would write me a note to this effect. He also said further that you had no objection to his joining our company.

Meanwhile, I have entered into a conditional agreement with him. I hope you have no objection. If he can be of any help to you in any way, even though he should be employed by me, I certainly would not object.

My very warmest regards.

Respectfully,

*Armand Hammer*

AH/fa

FILE

Encl P. 10 D



cc D/N

CF to note  
18/9

10 DOWNING STREET

THE PRIME MINISTER

17 September 1980

Dear Mr. Hammer,

I should like to thank you once again for your hospitality during my visit to the Flotta Terminal. I was much impressed by the operation your company is conducting there, both in terms of the rapid and efficient execution of the project and its operation, and in the relations you have established with the local community.

In your letter of 2 September, which you passed to me at Flotta, you mentioned in particular your application in the Seventh Licensing Round. You will know that the Department of Energy is now conducting discussions with all the applicant licence groups, and I understand that Occidental and its partners will be visiting the Department on 25 September to present their application and discuss it with officials. The Government has clearly declared its objective of restoring the momentum of exploration of our oil and gas resources on the UK Continental Shelf, and I am very pleased to learn of your company's continuing and substantial interest in the UKCS. Indeed we are encouraged by the strong, competitive response from the industry generally to the Seventh Round.

I know that David Howell aims to make the award of Seventh Round licences as quickly as he can after the discussion and assessment of all the applications has been completed. This should be by the end of the year.

/ In

VLS

In assessing applications for licences the Government will take into account not only the technical and financial standing of the applicant groups but also, as David Howell and Hamish Gray have made clear, the performance and plans of companies on their existing licences, their contribution to the British economy and performance in affording full and fair opportunity to British firms in the supply of goods and services.

I am grateful to you for the various letters you have sent since my visit clarifying matters we discussed at Flotta. I shall be writing to you again on these issues at the end of the month, when I return from a series of brief overseas visits. It was particularly kind of you to offer to bring together a group of businessmen during Sir Keith Joseph's recent visit to the West Coast of the USA. I understand that the timing of his visit made this impossible, but we much appreciated your offer.

Warm personal regards.

Yours sincerely

Margaret Thatcher

---

Dr. Armand Hammer

PRIME MINISTER

I attach a draft letter to Dr. Hammer.

This is essentially a thankyou for your visit, coupled with a response to the letter he gave you at Flotta, about Occidental's Seventh Round applications.

I have also added an acknowledgement of his subsequent more detailed letters. We should have replies ready for you when you get back from Yugoslavia.

The one letter to which you are replying is at Flag A. Flag B is a confidential note from Mr. Howell's Office about Occidental's prospects under the Seventh Round.

MAP

15 September, 1980.



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

Tel: 211 6402

M Pattison Esq  
10 Downing Street  
Whitehall  
London SW1

*From P.A.*  
*Type for PM as amended*  
*MAD 15/9/80*

15 September 1980

*Dear Mike,*

Thank you for your letter of 8<sup>✓</sup> September about the Prime Minister's visit to Flotta and enclosing Dr Hammer's letter to her of 2<sup>✓</sup> September.

This reply deals with Occidental's interest in the Seventh Licensing Round. We will deal with the other points separately.

The Department of Energy is now discussing with all the applicants for Seventh Round licences the details of their applications etc. As you know the response to the Round was generally a good one with strong competition among the leading oil companies for much of the territory offered. Examination of the applications should be completed by early November and until then we cannot be certain how Occidental will fare in the Round. The attached confidential note on their application and prospects may be useful for the Prime Minister.

Enclosed is a draft reply for the Prime Minister to send to Dr Hammer.

We are very glad that the Prime Minister was impressed with what she saw at Flotta. Our view in the Department is that Occidental are doing a very satisfactory job there, and it is gratifying to have this confirmed by the Prime Minister's own impressions.

*Yours*

J D WEST  
Private Secretary


DRAFT LETTER FROM THE PRIME MINISTER TO:

Dr A Hammer  
Occidental Petroleum Corporation  
10889 Wilshire Boulevard,  
Suite 1500  
Los Angeles  
California 90024

I should like to thank you once again for your hospitality during my visit to the Flotta Terminal. I was much impressed by the operation your company is conducting there, both in terms of the rapid and efficient execution of the project and its operation, and in the relations you have established with the local community.

In your letter of 2 September, *which you passed to me at Flotta,* you mentioned in particular your application in the Seventh Licensing Round. You will know that the Department of Energy is now conducting discussions with all the applicant licence groups and I understand that Occidental and its partners will be visiting the Department on 25 September to present their application and discuss it with officials. The Government has clearly declared its objective of restoring the momentum of exploration of our oil and gas resources on the UK Continental Shelf and I am very pleased to learn of your company's continuing and substantial interest in the UKCS. Indeed we are encouraged by the strong, competitive response from the industry generally to the Seventh Round.

I know that David Howell aims to make the award of Seventh Round licences as quickly as he can after the discussion and assessment of all the applications has been completed. This should be by the end



DRAFT LETTER FROM THE PRIME MINISTER TO:

Dr A Hammer  
Occidental Petroleum Corporation  
10889 Wilshire Boulevard,  
Suite 1500  
Los Angeles  
California 90024

I should like to thank you once again for your hospitality during my visit to the Flotta Terminal. I was much impressed by the operation your company is conducting there, both in terms of the rapid and efficient execution of the project and its operation, and in the relations you have established with the local community.

In your letter of 2 September, <sup>which you passed to me at Flotta,</sup> you mentioned in particular your application in the Seventh Licensing Round. You will know that the Department of Energy is now conducting discussions with all the applicant licence groups and I understand that Occidental and its partners will be visiting the Department on 25 September to present their application and discuss it with officials. The Government has clearly declared its objective of restoring the momentum of exploration of our oil and gas resources on the UK Continental Shelf and I am very pleased to learn of your company's continuing and substantial interest in the UKCS. Indeed we are encouraged by the strong, competitive response from the industry generally to the Seventh Round.

I know that David Howell aims to make the award of Seventh Round licences as quickly as he can after the discussion and assessment of all the applications has been completed. This should be by the end

/of

of the year.

In assessing applications for licences the Government will take into account not only the technical and financial standing of the applicant groups but also, as David Howell and Hamish Gray have made clear, the performance and plans of companies on their existing licences, their contribution to the British economy and performance in affording full and fair opportunity to British firms in the supply of goods and services.

I am ~~also~~ grateful to you for the various letters you have sent <sup>since my visit</sup> clarifying matters we discussed at Flotta. I shall be writing to you again on these issues at the end of the month, when I return from a series of brief overseas visits. It was particularly kind of you to offer to bring together a group of ~~investor~~ businessmen during Sir Keith Joseph's recent visit to the West Coast of the USA. I understand that the timing of his visit made this impossible, but we much appreciated your offer.



B

1. SEVENTH LICENSING ROUND. Occidental have applied, in partnership, for 12 blocks in the Seventh Round. However, these blocks are in popular areas and there is strong competition from a number of companies including majors such as BP and Shell (over half the blocks listed by Occidental have attracted a dozen or more applications).

Occidental with their partners will be coming to the Department on 25 September to present and discuss their application. Assessment of applications as a whole is still at an early stage. Nonetheless it seems clear that Occidental should be successful in getting some licences. Because there is so much strong competition for many of the blocks they have applied for it is not yet possible to indicate how many blocks they will be awarded nor whether they will be among those for which they have expressed a greater preference.

We expect to complete an assessment of applications in time to announce the award of licences around the end of the year.

2. EXISTING LICENCES. We regard Occidental as a good operator whose exploration performance has been of a high standard; their aggressive attitude to exploration is illustrated by the considerable number of wells drilled by them and the pace at which they have carried out work programmes. Since 1972, when they first became licensees, about 30 exploration and appraisal wells have been drilled as well as 70 development wells. Energy Ministers, in the run up to the 7th Round, made it clear in discussions with oil companies that the drilling record of licensees would be an important consideration in reaching decisions on the award of new licences.
3. FULL AND FAIR OPPORTUNITY FOR BRITISH SUPPLIERS. This is also an important factor in the assessment of 7th Round applications. Occidental's record on this matter is somewhat below average (ie in terms of the UK content of their total purchases). The view of our Offshore Supplies Office is that the company does not go out of their way to use British firms and gives the impression that they are ready to place orders elsewhere if the opportunity occurs.



*Left to  
Sub up to*

10 DOWNING STREET

*From the Private Secretary*

12 September 1980

*Energy working on this.  
BF 30.9.80*

I enclose a copy of the expected letter from Dr. Armand Hammer about the gas gathering pipeline.

I should be grateful for advice as to how the Prime Minister might reply.

**M. A. PATTISON**

J. D. West, Esq.,  
Department of Energy.

*Rd*

OCCIDENTAL PETROLEUM CORPORATION

10669 WILSHIRE BOULEVARD • SUITE 1500

LOS ANGELES, CALIFORNIA 90024

(213) 879-1700 • (213) 477-0066

ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

6th September, 1980.

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

Dear Prime Minister,

I have been giving a lot of thought to your expressed desire to find a way, if possible, to shorten the time, which you say was estimated at four years, for building the gas gathering pipeline.

Without being immodest, I am frank to say that our people believe that we have laid our gas pipeline in the shortest time, and in the most efficient way of any pipeline operator in the North Sea.

Unfortunately, when you were shown around Flotta and asked the question, our pipeline team headed by our Senior Vice President - North Sea, Leon Daniel, was not present - most of the people are in Aberdeen or, on the platforms, and Mr. Daniel himself was in London. I had a conference in London with Mr. Daniel, and I am convinced that he could be of great help to you and the Government in an advisory capacity. He has many suggestions for shortening the estimated time of four years, which we would if this were our project, and if our operations were dependent on our stopping flaring and getting our gas beneficially to market. If you think well of my suggestion, Mr. Daniel would be pleased to meet with Mr. David Howell and/or Mr. Hamish Gray, to go over the planning which has already been done, and to make any suggestions which might be of value to the Government.

Fortunately, our entire team is intact and while we are not in a position to undertake this work because of our commitments, we would be happy, if we could be of service in an advisory capacity. This offer is made without any view to compensation.

Mr. Daniel's telephone number is (0224) 574588, and in his absence Miss. Kate Graham, his secretary, will know where to contact him.

Sincerely yours,



Armand Hammer.



10 DOWNING STREET

PRIME MINISTER

As expected, Dr. Hammer has written to you about the pipeline timetable. I have already asked the Department of Energy to provide a note on the constraints which have led them to set a four-year timetable. I will now ask them to suggest a draft reply to Dr. Hammer. You may want to have a word with Mr. Howell before you write.

*MAD*

*Hope we shall take  
advantage of this*

12 September 1980

*offer and gratitude*

*ref.*

Eca 1981  
10 September 1980

BF 25. 9. 80

I mentioned to you on the telephone yesterday that Dr. Armand Hammer had offered his services to help your Secretary of State meet businessmen in California who might be interested in investing in this country.

I enclose a copy of Dr. Hammer's letter on the subject. This is one of a series of letters he wrote to the Prime Minister after he accompanied her on her visit to the Flotta terminal last week - when he announced investment intentions worth about \$1½ billion.

The Prime Minister will be replying to Dr. Hammer's various letters. She is much impressed by his firm commitment to investment in this country, even though she is aware that the timing of his announcements was doubtless connected with Occidental's applications for North Sea exploration licenses under the Seventh Round.

If you think it appropriate, perhaps you could arrange for your Secretary of State to send a brief response to Dr. Hammer's letter - perhaps suggesting that he would like to take up the offer of a future visit.

I would be grateful if we could have a copy of the letter for our records in due course, as the Prime Minister will also wish to acknowledge Dr. Hammer's letter.

M A PATTISON

Mrs. Catherine Bell,  
Department of Industry

284



File. Kb

10 DOWNING STREET

*From the Private Secretary*

10 September 1980

I wrote to you yesterday forwarding a copy of a letter from the Chairman of Occidental Petroleum Corporation to the Prime Minister about oil taxation policy.

The Prime Minister has now seen Dr. Hammer's letter, and has commented that she is particularly interested in his proposal to do away with ring-fence limitations, as a means of encouraging further investment.

Perhaps you could ensure that this is taken into account in the drafting of a reply.

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

A. J. Wiggins, Esq.,  
H.M. Treasury.

M. A. PATTISON

EP 2



file

10 DOWNING STREET

From the Private Secretary

9 September 1980

BF 12. 9. 80

BF 30. 9. 80

The Prime Minister has now received further correspondence from Dr. Hammer of Occidental about the investment proposals he announced when she visited Flotta last week. I enclose letters dealing with the proposal for a polyethylene plant in Scotland, with the Canvey Island Refinery project (which covers an exchange of correspondence with Sir Bernard Braine, M.P.) and with Occidental's commitment to its interests on the UK continental shelf.

①  
②  
11  
The Prime Minister will wish to reply to all this correspondence. I had previously asked you to let her have a draft reply to Dr. Hammer's letter of 2 September by the end of this week: perhaps this can include acknowledgement of the further letters. It would be helpful to have a full reply by the end of the month.

I am sending copies of this letter to Godfrey Robson (Scottish Office), with a copy of Dr. Hammer's letter on the polyethylene plant, and to Richard Dykes (Department of Employment), with a copy of his letter about Canvey Island.

Dr. Hammer has also written about the Petroleum Revenue Tax. I shall be in touch with you separately about this.

M. A. PATTISON

Julian West, Esq.,  
Department of Energy

5

OCCIDENTAL PETROLEUM CORPORATION

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ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

R 9.9.80

The Rt Hon Mrs M Thatcher MP  
Prime Minister & First Lord of the Treasury  
10 Downing Street  
London SW1

*Dear Prime Minister*

I noticed in the press this weekend that Sir Keith Joseph is on his way to San Francisco to interest United States companies in investing in the United Kingdom. If you think it would be useful for me to meet with Sir Keith please advise my London aide, Tim Halford (telephone number: 828-5600, work or 948-5061, home) of Sir Keith's contact numbers and addresses.

I will be happy to host a dinner in Los Angeles for a group of businessmen in the area who might be interested in investing in the United Kingdom if this was thought to be appropriate and of benefit.

I would reiterate how very honoured Mrs. Hammer and I were that you were able to visit Flotta last Friday. It was a truly wonderful day.

Sincerely yours,

*Armand Hammer*

Armand Hammer





2

10 DOWNING STREET

PRIME MINISTER

Here are four further letters from Dr. Hammer following up your visit last week.

I hope to let you have an initial reply to him at the end of the week. Energy and the Treasury will then let us have a full response later in the month.

MA

I am particularly  
interested in his last  
proposal to do  
away with

9 September 1980

with (the last chart)  
as a means of  
encouraging further  
investment. my



file  
10 DOWNING STREET

From the Private Secretary

BR  
9 September 1980

BF 25. 9. 80

I enclose a letter to the Prime Minister from Dr. Armand Hammer of Occidental Petroleum Corporation about oil taxation provisions as a bar to investment.

This is one of a group of letters sent to the Prime Minister by Dr. Hammer following her visit to the Flotta terminal last week - where Dr. Hammer announced his intention to invest a further \$1½ billion in the United Kingdom.

The Department of Energy will be providing the Prime Minister with a reply to Dr. Hammer's letters on a number of other points that arose from her visit to Flotta. I should be grateful if you could let us have a draft reply to this one by 25 September.

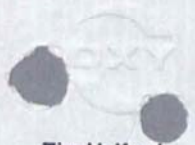
I am sending a copy of this letter and enclosure to Julian West (Department of Energy).

M. A. PATTISON

John Wiggins, Esq.,  
HM Treasury

6

4



# Occidental International Oil Inc.

**Tim Halford**  
Vice President  
European Public Affairs

16 Palace Street, London SW1E 5BQ Telephone 01-828 5600 Telex 918818 Telegrams Oxyoil London

8th September 1980

The Rt. Hon. Mrs. M. Thatcher, PM,  
10, Downing Street,  
London,

*Prime Minister*

Dear Mrs. Thatcher,

*I have acknowledged*

Dr. Hammer asked me to send you a copy of  
the attached Campobello Human Rights  
Conference details.

*MAJ*  
*15/9*

Kind regards.

Yours sincerely

*T. H. W.*

W. T. Halford

Enc.



# INFORMATION

THE OCCIDENTAL NORTH SEA CONSORTIUM

INFORMATION SHEET

SUMMER 1980

20/19 A1

B 1/6/79

**Further information from the Public Relations Department**

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16 Palace Street - London SW1E 5BQ Telephone 01-828 5600 Telex 918818 Telegrams Oxyoil London

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## I INTRODUCTION

### THE OCCIDENTAL GROUP

In the North Sea, Occidental of Britain Inc. and Occidental Petroleum (Caledonia) Ltd., subsidiaries of Occidental Petroleum Corporation, are operators for a group consisting of Occidental 36.5 per cent; Getty Oil (Britain) Limited, 23.5 per cent; Thomson North Sea Limited, 20 per cent and Allied Chemical (North Sea) Limited, 20 per cent. The British National Oil Corporation (BNOC) now participates in certain of the licences.

### FIRST ACTIVITY IN THE BRITISH SECTOR OF THE NORTH SEA

Occidental carried on reconnaissance and surveillance in the late 60's. Then an active search for oil started in 1970 encouraged by a modest discovery of oil at Montrose in the British sector and a major oil find at Ekofisk in the Norwegian sector of the province by other companies. Occidental was instrumental in forming the Occidental Group in 1971 in preparation for the fourth round of licences.

Having acquired and interpreted 20,000 miles of reflection seismic data, the Group placed applications for British sector North Sea blocks with the Government in 1971. In March 1972, the British government awarded the Occidental group a petroleum production licence for six blocks covering about 316,000 acres of the North Sea. In January 1973 and May 1974 respectively, the Piper and Claymore fields were discovered.

In November 1976, the Government and BNOC concluded an Agreement on the basic terms for participation by BNOC with members of the Occidental North Sea Group in respect of their interest in the licences covering the Piper and Claymore Fields. Under the Agreement, BNOC has an option to purchase, at international market prices, given percentages of crude oil and natural gas liquids available from the Piper and Claymore fields. BNOC has a crude oil purchase option which, under one year notice provisions, escalated up to 51% by 1st April, 1980. The Participation Agreement provides for BNOC to become a party to the Piper and Claymore licences, and associated operating Agreements.

In the fifth round of licences the group, including BNOC, were awarded block 14/18 adjacent to the Claymore field. To date three exploratory wells have been drilled.

In the sixth round of Licences (announced March 26, 1979) the group, including BNOC, were awarded block 13/28, approximately 35 miles South West of the Claymore Field. An exploratory well was drilled on this acreage early in 1980.

## II PIPER

### OIL FOUND: PIPER FIELD

Two unsuccessful exploratory wells were drilled in the summer of 1972. Then, in early 1973, the Occidental group struck oil for the first time in commercial amounts using the self-propelled semi-submersible rig "Ocean Victory", under contract from Odeco. This discovery well, on block 15/17, 100 miles east of Wick, flowed at a combined rate of 8,848 barrels per day (bpd) of low-sulphur crude oil on production tests from two zones at a depth of just over 7,500 feet. This well was identified as 15/17-1A, and the field was named the Piper Field. The first appraisal well on this block, 15/17-2, drilled about two miles north of the initial discover, tested at a combined rate of 32,129 bpd of high quality crude oil from two intervals at depths below 7,800 feet.

Using information gained from the two successful wells, an appraisal drilling programme for the evaluation of Piper Field was mapped out.

### PIPER FIELD EXTENDED

Throughout 1973 drilling on Piper Field was intensive and successful. By October four more appraisal wells had been drilled. 15/17-3, drilled in April, some 1-1/2 miles south-south west of the discovery well 15/17-1A, flowed oil at a rate of 16,415 bpd. The next well, drilled two miles north-north east of 15/17-1A, cored oil sand in the main Piper zone, but flow testing was not considered necessary. However, from the results of the 15/17-4 well it was possible to estimate that the oil column for the Piper Field was approximately 1,150 feet (from the top of the structure down to the water level).

By October, with two more wells drilled, a productive western extension to the Piper Field had been proved. An independent petroleum engineering consultancy, De Golyer and MacNaughton, retained by the Occidental group, currently estimate Piper to have originally held 618 million barrels of ultimately recoverable oil using a recovery factor of 45 per cent. Initial D and M studies estimated the life of the field to be at least 15 years from first production.



## THE PIPER PIPELINE

In 1973 Occidental successfully sought planning approval for a terminal to receive Piper oil on Flotta Island, in Orkney, and ordered pipe for a 127-mile 30-inch dia. submarine pipeline with a potential capacity of 560,000 bpd. This was laid between the field and the terminal in 1974-75.

## PIPER PRODUCTION PLATFORM

Fabrication work also began in late 1973 on the steel production platform for the Piper Field, assembled by a subsidiary of J. Ray McDermott and Company Inc. at Ardersier, Scotland. This platform, which was towed to location in June 1975, will eventually accommodate 36 wells for production or pressure maintenance and originally incorporated two drilling rigs. One has since been replaced by gas processing modules.

The deck support frame was installed in early August 1975 and the piling/drilling programme was assisted by the use of a specially adapted semi-submersible barge as a construction support vessel, the first time such a vessel had been used for this purpose in the North Sea. Drilling and production modules were installed during the summer of 1976. Following connection and commissioning of the equipment, drilling commenced in late October and oil from the first production well started to flow on Tuesday December 7.

The pipeline was filled in three weeks at the initial production rate of around 25,000 barrels per day. Oil arrived at the Flotta terminal on December 27, 1976 and the first tanker started loading on January 11, 1977. In 1979 the field produced an average of around 280,000 stock tank barrels per day.

A cutback in Piper Field production to 200,000 bpd from April 1st, 1980 which has the Department of Energy's interim approval is being carried out to enable the sensitivity of Piper field reservoir performance to variations in the production rate to be properly evaluated, and to test the potential for maximising overall recovery, so that the most effective long term production profile for the field can be established and submitted for Department of Energy consideration. The evaluation is expected to take approximately six months.

#### PIPER GAS CONSERVATION PLAN

A 35 mile gas pipeline has been laid to link the Piper platform with the Midline platform (MCP01) on the Frigg gas pipeline system. The gas passes through the Frigg/UK pipeline operated by Total Oil Marine Ltd. The 35 mile 18 inch dia. pipeline link from Piper to MCP01, jointly owned with Texaco North Sea UK Company, is capable of carrying up to 90 million cubic feet of gas per day. Texaco gas, from the Tartan field will be added to the Piper - MCP01 flow.

Facilities were added to the Piper platform to increase the extraction of gas liquids (NGL) and to separate the dry gas. The NGL is transmitted with the crude oil to the Flotta terminal in Orkney, where further plant has been installed to separate it from the oil. This will result in the recovery of 13 million barrels of propane and more than 8 million barrels of ethane and propane mixture over field life.

The gas plan, which will lead to the beneficial recovery of 80 per cent of the gas over field life, maximises the recovery of associated gas from the Piper field and meets the British Government's objective to minimise flaring. It is expected that the gas flow from Piper will peak during 1979.

Note: Claymore does not have a surplus of gas. In fact, some gas is fed to Claymore from Piper through the existing gas pipeline for platform fuel and gas lifting of oil.

#### ARRANGEMENTS FOR NATURAL GAS LIQUIDS

A second LPG plant has been commissioned at Flotta which doubles the gas plant capacity to 12 thousand barrels per day. A separate ethane-propane NGL product is processed for marketing in Northern Europe and transported to the Norwegian Company, Norsk Hydro at Porsgrunn Norway, in specially modified vessels under Scottish ownership.

### III CLAYMORE

#### CLAYMORE FIELD DISCOVERED

Occidental made its first oil field discovery at Piper in 1973. A second field, Claymore, was discovered on block 14/19, about 20 miles west of Piper field, in May 1974. The first well on the Claymore structure was drilled in the summer of 1972 and was a dry hole. The discovery well 14/19-2 encountered oil-bearing sands of Jurassic age at depths below 8,000 feet and on production tests of three intervals oil flowed at a combined rate of 3,200 barrels per day. By August another successful well, 14/19-3, had been drilled on the same block, testing at approximately 2,000 barrels per day of 30 degree gravity crude. 14/19-4 was then drilled and tested at the combined flow rate of 2,800 bpd. De Golyer and MacNaughton estimate proven ultimate recoverable reserves originally contained in Claymore at 404 million barrels. The field started production on the 14th November, 1977 and during 1979 produced an average of around 80,000 stock tank barrels per day. On February 24th, 1978 HRH Prince of Wales visited Claymore - his first official visit to a North Sea Offshore Installation.

#### DEVELOPMENT

It was decided to locate a production platform at 58°26'58" North and 00°15'13" West in 360 ft. of water. The installation, very similar to that designed for the nearby Piper platform, has capacity for 36 wells, of which 24 will be production wells and the remainder will be for water injection. Oil is delivered via an nine mile, 30" pipeline link into the main pipeline between the nearby Piper field and the storage terminal at Flotta in Orkney. The Claymore Field does not contain sufficient gas in association with the oil to support all power generation and lift-gas requirements on the Claymore Platform. As an integral part of the Piper gas conservation plan (see previous page) it was decided therefore, to construct an additional twenty mile 16" pipeline to transfer gas from Piper where, an excess of gas was available.

## CONSTRUCTION

The main platform structure (jacket) was designed by Petro-Marine Engineering of Gretna, Louisiana and was fabricated at the Cherbourg, France yard of Union Industrielle d'Enterprise. When completed, the jacket, weighing 12,200 tons, was transported 1,250 miles to the jobsite on board the Launch barge "Intermac - 500". Control of the launching, up-ending and positioning operations was the responsibility of Netherlands Offshore Company and a King Wilkinson management team. Tow-out took place during June 1976.

The jacket was fixed initially with 4-48" dia. pin piles and fixing was then completed by a further 24-60" dia. skirt piles.

The next stage of construction involved the setting of the Deck Support Frame (DSF). This was fabricated at Methil (Scotland) yard of Redpath Dorman Long. Weighing 1000 tons, the DSF was transported to the jobsite and was lifted and set by derrick barge on 7 August 1976.

## IV MSV THAROS

In January 1980, the multi-function support vessel MSV THAROS entered service for the Occidental North Sea Consortium providing fire fighting, emergency support, maintenance and diving capabilities for the Piper and Claymore oilfields, the pipeline network terminating at the Flotta Island Terminal in Orkney, and B.P.'s Forties Field and pipeline network to Cruden bay, Scotland. British Petroleum have a 25% stake in the vessel, which will also answer emergency calls in the yellow sector of the North Sea; the area of the North Sea in which the Occidental Consortium share responsibility with other operators for emergency support.

## V THE FLOTTA TERMINAL

### THE TERMINAL

The Piper portion of the Flotta terminal is now complete and provides five storage tanks, each with a capacity of 500,000 barrels.

Two further storage tanks have been erected each with a capacity of 1,000,000 barrels to accommodate Claymore Field production. The terminal also has an oil stabilization plant, a gas liquification (LPG) plant, and a ballast cleaning and disposal works. The gas plant is able to handle 22 million standard cubic feet/day, much of which will be liquified for shipment to market, while most of the remainder will be used to fuel the terminal electricity generators. Oil tankers are loaded from one of two single point mooring systems in Scapa Flow, two miles from the shore, at a rate of up to 80,000 barrels per hour. A jetty was constructed for LPG loading.

The terminal employs approximately 270 people, many of whom are native Orcadian.

VI TEXACO - TARTAN AGREEMENT

In January 1979 agreement was reached in substance between the Texaco North Sea UK Company and the Occidental Consortium whereby crude oil and natural gas liquids from Texaco's Tartan Field would be transported through the Occidental group's pipeline to the Flotta Island oil terminal in Orkney.

Texaco has laid a 17 mile (27-KM) 24" diameter pipeline to connect the Tartan Field with the Occidental group's Claymore platform, where the oil will enter the existing pipeline system.

The Tartan Field, in block 15/16 lies between the Piper Field, to the east (block 15/17), and the Claymore Field, to the west (block 14/19). At peak production, Texaco anticipate shipping 89,000 barrels a day of crude oil and natural gas liquids (NGL). The Tartan Field is scheduled to come into production in 1980.

Gas from the Tartan Field will be transported by pipeline to Occidental's Piper platform and from there through a jointly owned pipeline to the Frigg Field gas line operated by Total Oil Marine Ltd., to the British Gas Corporation's St. Fergus terminal near Peterhead.

## VII FINANCING & COSTS

### FINANCING

Financing for the development of both Piper and Claymore Fields has been arranged independently by each member of the Occidental group. Getty and Allied Chemical met their share of the costs of the Claymore and Piper developments from their own resources.

In October 1974 Occidental of Britain and Thomson North Sea Ltd. independently concluded financing arrangements for \$150 million and \$100 million respectively to cover the costs of the Piper Field development. The loans were managed by International Energy Bank and Republic National Bank of Dallas. Occidental's arrangement has been repaid in full. Arrangements for the funding of Occidental's and Thomson's shares of the cost of developing the Claymore field were concluded on February 4, 1976. This financing was also arranged with an international consortium of banks headed by International Energy Bank and Republic National Bank of Dallas.

### DEVELOPMENT COSTS

The total investment for the development of the Piper and Claymore fields including exploration, implementation of a gas recovery plan, crude oil and gas pipelines, MSV Tharos and onshore developments is expected to be in the region of \$2.0 billion (\$2,000 million).

The total cost of the Flotta terminal and pipeline including both Piper and Claymore phases, and the gas plan, is estimated at around \$540 million.

The expected approximate cost of the Piper platform, including gas plan is \$540, and the estimated cost of the Claymore platform is \$510 million. Piper and Claymore development drilling programmes are estimated at \$125M and \$130M making total Piper and Claymore development costs of approximately \$665 and \$640 respectively.

If the cost to the consortium of the gas conservation project were extracted from the above, they would be in the region of \$150 million.

## VIII BRIEF FACTS

### THE PIPER PLATFORM

Position: Block 15/17  
UK sector North Sea  
110 Miles N.E. Aberdeen

Operator: Occidental of Britain Inc.

Participating Consortium: Occidental Petroleum (U.K.) Ltd. 36.5%  
Getty Oil (Britain) Limited 23.5%  
Thomson North Sea Limited 20%  
Allied Chemical (North Sea) Limited 20%

Consortium formed: 1971

Exploration Blocks  
(6) Awarded in fourth  
licencing round: March 1972

Piper field discovered: January 1973

First Production: December 1976

Recoverable oil  
reserves: 618m. barrels (current D and M estimate)

Estimated oil recovery  
factor: 45%

Total number of wells: 36 slots for oil production,  
water injection and injection  
of gas liquids for storage

Total platform product-  
ion crew:  
crews work twelve hour : @  
shifts on a week on 160 on platform at one time  
week off basis



PIPER - Cont'd

Major Construction Contractors

Jacket Construction: J. Ray McDermott Ardersier  
Scotland  
Mitsui Shipbuilding & Eng. Co,  
Tamaro, Japan  
and  
UIE Cherbourg, France

Module Construction: C.J.B.  
Module Design: Bechtel Corporation  
Production Drilling: Bawden Drilling

Production Details

Oil

Gravity: 37° API  
Average daily  
production rate  
for peak year  
(1979): 280,000 stock tank barrels per day  
sulphur level: 1% by weight

Piped to Flotta Island  
oil handling terminal  
in Orkney by 30 inch  
127 mile subsea pipe.

Gas

Dry gas constituents: % Methane: 81%  
Ethane : 12%  
Nitrogen and CO<sub>2</sub>: 5%  
Propane: 2%  
Butane and higher: traces

Max. flow rate: % 75m cubic feet per day

PIPER - Cont'd

The gas is piped to the St. Fergus gas terminal via a 35 mile 18 inch pipeline which joins the main Frigg field to St. Fergus gas pipeline at the midline compression platform (MCP-01)

Liquid gas constituents: Propane  
(finished product  
exported from Flotta)

Propane	98%
Ethane	0.9%
Butane	0.9%
(I.C.4)	
Butane	0.3%
(N.C.4)	
<u>Ethane NGL</u>	
Ethane	60%
Propane	35%
Methane	5%

The gas liquids are separated on the Piper platform and piped to Flotta in the 30" crude line for further separation and sold as Ethane NGL and Propane

In Field Vessels/helicopter

Helicopter: One 12 seat Bell 212, hangered on the Claymore platform, serves both Piper and Claymore platforms.

PIPER - Cont'd

Vessels

(shared between Piper  
and Claymore)

The MSV Tharos, a semi-submersible,  
providing rapid intervention  
support in case of emergency with  
a diving support role

Equipment includes:

- water cannon with a total  
capacity of 40,000 U.S. galls/min.
- remotely controlled arm for  
working on stricken installations.
- hospital accommodation for 150
- pollution dispersant equipment
- 16 man 'sat' diving unit
- underwater bell.

Northern Explorer, a ship shape  
vessel, also combining emergency  
and diving capabilities.

Princess Supplier/Queen Supplier

Converted supply vessels with fire  
fighting, pollution control and  
accommodation support facilities.

Maersk Retriever

Anchor handling support vessel for  
the M.S.V. Tharos combining fire  
fighting and support capabilities.

THE CLAYMORE PLATFORM

Position: Block 14/19  
UK sector North Sea  
100 Miles N.E. Aberdeen

Operator: Occidental Petroleum (Caledonia) Ltd.

Participating Consortium:

Occidental Petroleum (Caledonia) Ltd.	36.5%
Getty Oil (Britain) Limited	23.5%
Thomson North Sea Limited	20%
Allied Chemical (North Sea) Limited	20%

Consortium formed: 1971

Exploration Blocks  
(6) Awarded in fourth  
licencing round: March 1972

Claymore field  
discovered: May 1974

First Production: November 1977

Recoverable oil  
reserves: 404m. barrels (Current D and M estimate)

Estimated oil recovery  
factor: 27%

Field life: Approx. 20 years.

Total number of wells: 36 slots for oil production  
and water injection well.

CLAYMORE Cont'd

Product Details

Oil

Gravity: 30° API  
Estimated average  
daily production  
rate for peak year  
(1980): 80,000 stock tank barrels per day  
sulphur level: 1.8% by weight

Piped to Flotta Island  
oil handling terminal  
in Orkney by 30 inch  
9 mile spur line into  
Piper mainline.

Gas

Supplemented with Piper Field Gas  
for platform power generation, and  
gas lifting.

Total platform product-  
ion crew:

Crews work twelve hour : @  
shifts on a week on 160 on platform at one time  
week off basis

Major Construction Contractors

Jacket Construction: UIE, Cherbourg, France  
Jacket Design: Petro Marine, Gretna, Louisiana  
Module Construction: William Press, Teesside, England  
Module Design: Matthew Hall, London  
Production Drilling: Bawden Drilling

CLAYMORE Cont'd

In Field Vessels/helicopters

Helicopter: One 12 seat Bell 212.

Vessels

(shared between Piper  
and Claymore)

The MSV Tharos, a semi-submersible,  
providing maintenance and inspection  
and fire fighting support in case  
of emergency

Equipment includes:

- water cannon with a total  
capacity of 40,000 U.S. galls/min.
- remotely controlled arm for  
working on stricken installations.
- hospital accommodation for 150
- pollution dispersant equipment
- 16 man 'sat' diving unit
- underwater bell.

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the M.S.V. Tharos combining fire  
fighting and support capabilities.

## THE FLOTTA TERMINAL

The Flotta Island oil terminal in Orkney handles crude oil and gas products from the Piper, Claymore and Tartan fields in the U.K. sector of the North Sea.

## FUNCTION

Oil arrives at the terminal by a 30 inch sub-sea line and first passes through the pig receiver - the pig is a steel device for cleaning the inside of the pipe of wax or other impurities. It is forced down the line by the oil behind it. From the Pig Receiver the oil enters the Processing Plant where impurities and salt water are removed and gases are separated from the crude oil. Further processing of the gases produces propane and ethane products for storage and sale. Excess gas is used for fuel and power generation for the terminal. The oil is stored in five half million and two one million barrel tanks while the liquified propane is stored in two one hundred thousand barrel cooled tanks. The liquified ethane is passed to a separate processing and storage system. From storage, oil passes through the main pump house and custody meters to either one of the two single point moorings or the jetty to waiting tankers. Liquified gases are loaded by jetty only. De-ballast water, (which may contain oil particles) carried by vessels for stability in rough seas, is pumped ashore for treatment in the de-ballast water treatment plant before disposal in the Pentland Firth.

## POSITION

Flotta Island, Orkney, British Isles.

## DIMENSION AND CAPACITY

Size of Facility: 385 acres

Size of Island: 2319 acres

Oil Storage Capacity: Four and a half million barrels stabilised crude.

FLOTTA - Cont'd

Propane storage capacity: Two hundred thousand barrels

Ethane storage capacity: Thirteen thousand barrels

De-ballast water treatment storage capacity: One million barrels

Daily gas processing capacity: The terminal can process up to about 20,000 barrels per day of propane and ethane, depending on proportion of light components in the oil.

Number of staff: @ 270

EQUIPMENT DETAIL

Jetty: The steel piled jetty can accommodate crude tankers up to 150,000 tons and can handle gas tankers up to 50,000 cubic meters.

Single Point Moorings: Two single point moorings in Scapa Flow can accommodate vessels up to 200,000 tons in weather conditions up to 30 knots wind. 80,000 barrels per hour can be loaded from each SPM.

De-ballast water treatment centre: Two storage tanks and six skimmer flotation tanks, cleans to better than 25 ppm of oil. Water is discharged by pipe to the Pentland Firth.

Pig Trap: Receiver for scrapers and pigs used to clean main oil line of impurities and detect pipeline faults.

Process (Oil): Four 130,000 bpd desalters and stabilisers designed to remove salt, water, impurities and gas from the oil.

Process (Gas): Gas separated from the oil is broken down into propane ethane and methane in a separate gas plant. Propane and ethane is liquified by cooling and separately tanked, ready for shipment. Methane is used to power the terminal turbines, providing all power.

Terminal power source: Six gas turbine driven electric generators with a total capacity of 18,000 kw.

Flares: Two ground flares and an elevated stack flare provide for burning off gas in case of emergency.



cc Energy, July 79 File  
Gas Gathering Project

ds.



10 DOWNING STREET

From the Private Secretary

8 September 1980

Dear Julian

BF 12.9.80

BF 30.9.80

We told you by telephone on Friday of the announcement made by Occidental Petroleum of decisions in principle for further investment in the UK. The announcement was made by Dr. Armand Hammer whilst he was escorting the Prime Minister on her visit to Flotta. It covered reactivation of the company's Canvey Island project, on a basis which would be voluntarily acceptable to the local population; an ethylene plant at Peterhead, probably costing \$500 million; and a semi-submersible floating platform for work on relatively smaller North Sea fields.

As was made clear in Occidental's presentation to the Prime Minister and in Dr. Hammer's later conversations with her, the timing of his remarks was in part geared to support Occidental's applications under the seventh licensing round. Dr. Hammer also handed the Prime Minister the attached letter on the subject.

Mrs. Thatcher was much impressed with what she saw at Flotta - both in terms of rapid and efficient execution of the project, smooth operation, and excellent relations with the local authority and local people from the outset. She will want to reply in terms which are as forthcoming as possible to the attached letter, and it would be most helpful if you could let me have a draft by Friday 12 September.

In the course of the Prime Minister's conversations at Occidental, she followed with particular interest the discussion of the laying of the company's pipelines. She commented that she was told that four years would be needed to lay the UK gas gathering pipeline, and that she was very keen to hear suggestions as to how this timescale might be reduced. It would be most helpful if you could let me have a note on the main constraints of the timetable. The Prime Minister has also particularly asked whether the special steels which will be required for the pipeline are likely to be obtained through BSC.

I should be grateful if you could let me have a note on these points as soon as possible.

Yours ever

Julian West, Esq.,  
Department of Energy.

Mike Pattison

ds

Energy July 79  
Gas gathering pipeline

OCCIDENTAL PETROLEUM CORPORATION

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ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

6th September, 1980.

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

Dear Prime Minister,

I have been giving a lot of thought to your expressed desire to find a way, if possible, to shorten the time, which you say was estimated at four years, for building the gas gathering pipeline.

Without being immodest, I am frank to say that our people believe that we have laid our gas pipeline in the shortest time, and in the most efficient way of any pipeline operator in the North Sea.

Unfortunately, when you were shown around Flotta and asked the question, our pipeline team headed by our Senior Vice President - North Sea, Leon Daniel, was not present - most of the people are in Aberdeen or on the platforms, and Mr. Daniel himself was in London. I had a conference in London with Mr. Daniel, and I am convinced that he could be of great help to you and the Government in an advisory capacity. He has many suggestions for shortening the estimated time of four years, which we would if this were our project, and if our operations were dependent on our stopping flaring and getting our gas beneficially to market. If you think well of my suggestion, Mr. Daniel would be pleased to meet with Mr. David Howell and/or Mr. Hamish Gray, to go over the planning which has already been done, and to make any suggestions which might be of value to the Government.

Fortunately, our entire team is intact and while we are not in a position to undertake this work because of our commitments, we would be happy, if we could be of service in an advisory capacity. This offer is made without any view to compensation.

Mr. Daniel's telephone number is (0224) 574588, and in his absence Miss. Kate Graham, his secretary, will know where to contact him.

Sincerely yours,



Armand Hammer.

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ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

September 6, 1980

The Rt Hon Mrs M Thatcher MP  
Prime Minister & First Lord of the Treasury  
10 Downing Street  
London S W 1

*Dear Mrs Thatcher*

As discussed with you yesterday, one action that could be taken by your Government that would encourage additional investments in the United Kingdom insofar as investing cash flows now being generated or to be generated from North Sea oil and gas production would be to eliminate the so called "ring fence" provision in the Oil Taxation Act of 1975. This provision precludes the matching of profits and losses of onshore and offshore activities for purposes of the Corporation Tax or the Petroleum Revenue Tax.

Understandably your Government would not wish to incur sizeable tax revenue losses by permitting existing onshore and offshore activities to be combined for tax assessment purposes, but the Oil Taxation Act of 1975 could be amended to provide that investment in new energy related projects which commence to trade after 1981 could be treated as an extension of the offshore activity and the first year write-off for such new capital investment onshore could be made against corporate taxes assessed against current oil and gas production.

It would not be necessary in our view to provide any uplift on such investment nor would it be necessary to change any other Petroleum Revenue Tax provisions. Your favourable consideration of this request shall be most appreciated and in my view could result in some substantial additional investments being made in the United Kingdom over the next several years.

*Sincerely yours*  
*Armand Hammer*

Dr Armand Hammer

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ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

September 6, 1970

The Rt Hon Mrs M Thatcher MP  
Prime Minister & First Lord of the Treasury  
10 Downing Street  
London S W 1

*Dear Prime Minister*

Occidental's Canvey Island Refinery

I promised to write to you explaining the background and future plans concerning the Canvey Refinery where we have \$130M invested.

A conventional distillation refinery was under construction in 1973/74 when the future market outlook for petroleum products was radically altered by the first major OPEC price rise. Early in 1975 Occidental stopped work following new economic studies which showed the refinery was unlikely to prove profitable.

Today there is still a large surplus of crude oil distillation capacity in the UK and western Europe and we cannot foresee proceeding with the refinery as originally planned.

Since 1975 we have studied numerous alternate projects which might utilize the Canvey site. Only recently have we succeeded in identifying an approach which we feel is likely to satisfy the requirements of the planning and safety authorities as well as our own economic criteria. Detailed work is in hand and we expect to receive consultants' reports around the end of the year and thereafter to decide whether to proceed.

You can imagine my surprise at seeing the comments in the press by Sir Bernard Braine, with whom I met on my last visit to London. I enclose a copy of my letter to him which I hope clarifies the position.

As the decisions of the Venice summit are put into effect, coal will increasingly replace oil in the firing of power stations. At the same time heavier crudes will form an increasing proportion of oil production. It may even become feasible to produce the heavy crudes of the UKCS. These factors will cause more imbalance in the "shape of the barrel", giving a surplus of heavy oils, specially vacuum and cracked residues, relative to naphtha and the transportation fuels. The installation of a residue up-grading refinery will help restore the balance. We have in mind to process 60,000 barrels per day of residues.

As planning work proceeds my London staff will be contacting the Department of Energy to discuss a number of aspects of the project touching upon energy policy. I am very hopeful of being able to bring this project to fruition.

Sincerely yours

Armand Hammer

Dr Armand Hammer

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ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

September 6, 1980

Sir Bernard Braine, M.P., D.L.,  
Kings Wood  
Rayleigh  
Essex

Dear Sir Bernard,

As you will recall, I consulted you about our desire to utilize our site on Canvey Island, to the benefit of the people of Canvey when the time was appropriate.

Whilst on my recent tour of the Flotta Island oil terminal in Orkney, Mrs Thatcher enquired about our plans for investment in Britain, and I mentioned the three projects widely reported in the Press, including our plans to make use of our investment on Canvey Island. When the Press gathered around I had no choice but to reiterate the statement that I had given to Mrs Thatcher. At that time I asked Tim Halford to immediately get a message to you so that you would not be caught unawares by the announcement. This, I believe, he did. Since this all came about unexpectedly, I can appreciate your surprise at hearing about it before we had a chance to consult you in advance. My experts tell me that the environmental and safety aspects of the installation of a hydro cracker should cause no more concern than the present design with a hydro skimmer, for which approval still stands. The present plan utilizes heavy oil residue from other refineries which through up grading, would gain the UK considerable added value. The proposed plant is also considerably smaller than that for which we have permission, with a throughput of about 60,000 instead of 125,000 barrels per day.

I will be glad to appear personally before the Council to explain how we would work with the local population, if you think it would help. We have worked closely with the people in Orkney, where we are very well regarded, as Prime Minister Thatcher can testify. We want to be a good neighbour and cooperate with the local population so that we can be seen as an asset bringing considerable

- 2 -

jobs to the Island on a permanent basis, and even more during the construction period. If the Council approve our application, we will do everything reasonably possible regarding control of emissions and pollution, and in maintaining the highest standards of safety, even if it involves us in considerable extra expense.

Earlier this month you were informed that the equipment being moved to Canvey Island from the RBP refinery in Antwerp was purely for storage purposes. I can confirm this to be the case, as at this stage we have not yet identified equipment needed to carry out our plans. These will in any case take some time to finalise.

I appreciate you must have many questions, and I very much hope that we can meet in London in the near future, so that I can let you know the position.

Sincerely yours

Dr Armand Hammer

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*4 pps*

September 6, 1980

ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

The Rt Hon Mrs M Thatcher MP  
Prime Minister & First Lord of the Treasury  
10 Downing Street  
London S W 1

*Dear Prime Minister*

Occidental's Proposal for a Polyethylene  
----- Plant in Scotland -----

As promised, I am writing to give you more details of the chemical project we discussed during your visit to Flotta.

Energy Paper No 44, published in June, indicated that the proposed new gas-gathering pipeline will bring to St Fergus a raw gas carrying large quantities of gas liquids. I understand British Gas will install a separation plant producing dry gas, condensate, mixed NGLs, and ethane gas.

Ethane can be used to manufacture synthetic natural gas but this adds very little value. Occidental would like to purchase ethane from St Fergus and up-grade it locally via ethylene to polyethylene, all at the same site. This will avoid the need to ship potentially hazardous liquid gases such as ethylene, and will enhance the value of the ethane about six-fold.

In 1979 nearly 40% of the UK's polyethylene consumption was imported. We will need to be highly competitive in order to displace imports and achieve the necessary market penetration in Europe.

My staff have provided the attached note giving more details.

*Sincerely,  
Armand Hammer*

Dr. Armand Hammer

Attachment



OCCIDENTAL'S PROPOSAL FOR A POLYETHYLENE PLANT

IN SCOTLAND

Subject to satisfactory negotiation of feedstock supplies and the necessary governmental approvals Occidental proposes to take the lead in constructing and operating a polyethylene plant, key features of which are outlined below:-

Site Location

With the help of the Grampian Region and Banff local authorities several suitable sites have been identified in the Peterhead - St. Fergus area, 30 miles north of Aberdeen.

Feedstock

We have asked BNOG to negotiate with us a contract for a 20-year supply of ethane gas at the rate of 350,000 metric tons per year. This represents less than one-third of the U.K. ethane forecast to reach St. Fergus via the new gas-gathering system. The ethane would be taken by pipeline from the St. Fergus separation plant to be operated by British Gas.

Process

We will use a conventional ethane cracker to produce ethylene, all of which will be polymerized to linear low density polyethylene (LLDPE) using an advanced low-pressure process.

Ethane cracking gives rise to very small by-product quantities. These will be used within the plant as fuel.

### Products & Markets

The plant will produce about 250,000 MTPY of LLDPE. It is expected that about 80,000 will be sold within the U.K. initially, the eventual market depending on the response of users and fabricators to the growing availability of competitively-priced polymer. The balance will be exported to Europe where the superior properties and competitive price will facilitate displacement of LDPE based on naphtha feedstock and old high pressure processes.

PE polymer markets are still expanding and the U.K. particularly has the potential to use much greater amounts. Over 200,000 TPY are presently imported.

The competing projects in Scotland, Shell/Esso at Mossmorran and Dow in Nigg Bay, are largely planned as ethylene and LPG exporters.

### Logistics

Preliminary studies indicate that the polymer can readily be moved by trucks then by train from Aberdeen and by ship from an extended quay in Peterhead Harbour. No potential hazards are associated with handling LLDPE.

### Employment

It is expected that about 300 people will be employed directly in the operation of the plant, product movements and in administration of the business. During the three year construction phase about 1500 people would be employed by our contractors. The products produced would also provide employment for several thousand people.

### Investment

Approximately \$500 million will be needed, allowing for inflation and assuming a construction period 1982-84.

### Company Structure

We expect to invite participation by a number of UK companies with interests in the use of LLDPE. It is also proposed to study the possibility of a UK public offering of a part of the shares.

### Planning, Design, Environmental and Safety Submissions

Planning applications and environmental studies will be started as soon as we have agreed the basis for the necessary feedstock supply. We do not plan to ship ethylene or other potentially hazardous cryogenic liquids and hopefully the definitive planning approvals and design can be achieved in one year.

### Economic Factors

By 1982/84 the Grampian Region will not qualify for Regional Development Grants. Satisfactory economics will depend on the ethane feedstock and advanced technology providing a competitive edge over established European producers, sufficient to overcome the product shipping cost disadvantage.

### Tax Treatment

Established profitable companies operating onshore in the UK enjoy the cash-flow benefit of being able to re-invest in new plant and equipment out of pre-tax profits. The present main UK producers, ICI and Shell, probably have this advantage.

The Oil Taxation Act 1975 separated the taxation of North Sea profits from those onshore in the U.K. so we cannot re-invest pre-corporation tax profits from Piper and Claymore in this plastics project. (It was this change of tax law in 1975 which was the "last straw" in destroying the forecast economics of the original Canvey Refinery project, causing us to suspend construction).

A

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MS

September 2, 1980

ARMAND HAMMER  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

The Right Honorable Margaret Thatcher  
The Prime Minister  
10 Downing Street  
London  
England

Dear Madam Prime Minister:

As you have honoured us with a visit to the Flotta Terminal, I thought it an appropriate moment to emphasize Occidental's commitment to its interests on the UK continental shelf.

Since the Occidental consortium was first awarded licenses in the fourth round in 1972, we have, as a company, done everything possible to explore and develop the acreage awarded in accordance with British government policy, and in line with good oilfield practice. This is nowhere better shown than in our record of gas conservation, both offshore and onshore, and in the local community and environmental care taken in the construction and operation of the Flotta Terminal.

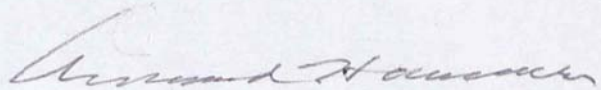
We are anxious to reinvest Piper and Claymore earnings in Britain and, therefore, have applied for twelve blocks in the recent seventh round of licensing and would vigorously explore all twelve, should they be awarded. We have also sought and completed farm-in arrangements whenever possible to gain access to additional acreage. A number of projects have been discussed with the British National Oil Corporation, including joint ventures in British waters and overseas in China and Tunisia. We have indicated that we would welcome the opportunity to take part in such projects with BNOG.

I recently met with Hamish Gray, and he is fully

aware of our position, and our current endeavor to obtain further opportunities for investment and exploration on the UK continental shelf.

My kindest regards.

Respectfully,

A handwritten signature in cursive script, appearing to read "Bernard Hausman".

AH/fa