

receives. I recognise that it reduces the revenues of the oil companies as well – but it also reduces the tax they have to pay.

Detailed study has convinced me that, subject to some marginal adjustment, the total tax burden is not such as to discourage exploration or development. Nor is it so high as to deprive the oil industry of a reasonable, and often attractive, yield. In these circumstances I cannot reduce the overall tax burden to the extent that the industry would have wished. But I do agree with them on the need for some change of structure. I see, in particular, the advantage of profit-related taxes in relation to additional investment in existing fields. The Supplementary Petroleum Duty will therefore be abolished with effect from the end of this calendar year.

I propose at the same time that the rate of Petroleum revenue Tax should be increased from 70 per cent to 75 per cent; and that arrangements should be introduced for advancing PRT payments. Advance payments of PRT, although computed in the same way as SPD, will not be a separate tax but simply an acceleration of the existing tax. They will thus differ fundamentally from SPD in being fully set off without limit against ordinary PRT liabilities when these arise. This structural change is one which representative of the industry proposed.

As from mid-1983, there will also be a monthly instalment system of payment of PRT in order to secure a smoother public sector cash flow.

These changes will not effect the revenue yield of rather over 26 billion in the coming year. But in 1983–84 there will be a net cost,

after allowing for the saving in interest due to the new system of instalment payments, of some 270 million.

I have spoken earlier about current uncertainties in relation to oil prices and the future yield of tax from the North Sea. But I am aware of the concern felt by the industry about the number of changes in the regime there have been in recent years. For this reason, my hope is that the new tax structure I have proposed will provide a more secure and stable regime for the future, permitting development to go head uninhibited by major fiscal uncertainties.

I propose a number of other minor changes, partly in response to the views put forward by the industry. And I propose that regional development grants paid in respect of expenditure incurred after Budget Day should be taken into account for the purposes of PRT and ring fence Corporation Tax. We shall also need to legislate next year to deal with certain special problems effecting PRT expenditure reliefs, pipeline tariffs, and other non-oil receipts; these will be the subject of a consultation document which will be issued shortly.

These fiscal measures, combined with the decisions we have already announced on the abolition of the state's sole right to buy gas, and on the creation of the new private sector oil company, will provide a sound basis for another decade of successful enterprise in the North Sea.

I turn now from the energy industry to its industrial customers, to whose problems we have given a great deal of attention in recent years.