

TELEGRAM

CYPHER

FROM: SECRETARY OF STATE
TO: GOVERNOR BRITISH GUIANA

27th June, 1957

IMMEDIATE

Secret 212 Your telegram 232 following from Kennedy begins Oil.

1. Area.

We would not wish to press you further for reduction in area for exploitation but we consider one quarter of total area i.e. 4,125 square miles is still too large for entitlement to mining licence and that Company should be content with a residual area of one eighth i.e. over 2,000 square miles. Our revision of model oil regulations contemplates amalgamation of exploitation and prospecting stages outlined Company could therefore be granted a starting licence for a period of 10 years. After 4 years they should surrender 50% of original area with an additional surrender of 12½% at the end of the sixth, eighth and tenth year thus leaving a residual area for mining leases as suggested above. This should be sufficient if as seems likely the only potential oil bearing areas are in the extreme northwest and southeast of continental shelf.

2. Fiscal.

United Kingdom Royal Commission on Taxation rejected percentage depletion allowance on the ground that circumstances of mining industry were not sufficiently peculiar to warrant discriminatory form of tax allowance. Even in U.S.A. this allowance has been frequently challenged. While Trinidad has granted allowance for marine wells in Gulf of PARIA, Venezuela has not found it necessary to do so in order to attract oil companies; in fact they are actually charging a premium for concessions in their area of the Gulf. The strongest objections to percentage depletion allowances are that amount of revenue sacrificed is incalculable and sacrifice would be made at a time when it might be difficult to defend politically i.e. when oil is being produced in substantial quantities. Your proposal to grant 27½% allowance subject to review after 10 years is unlikely to interest Company as production would be comparatively small during this period. For these reasons allowance has not as yet been granted in British dependent territories with the single exception of Trinidad marine areas. I must therefore advise you to resist it if you possibly can and suggest following alternative financial proposals may be considered:-

- (a) accelerated depreciation production capital expenditure within say 5 years coupled with reduced royalty rate;

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(omitted)

- (b) either (i) permanent graduated royalty BRUNEI and BORNEO arrangement namely:- 12½ up to 3 miles shore 8% for the next 7 miles 5% beyond 10 miles or (ii) an agreement limiting Government's take to 50% of net profits. (This would be more favourable to Company)
- (c) An investment allowance. If pressure is such that you find claim for percentage depletion cannot be resisted, purely arbitrary American practice 27½ up to 50% of net profits should be reduced to Trinidad model i.e. no more than 20% of gross income with upper limit of 40% of net income.

3. Amendments to model. No objection to omission of clause 12 of model exploration licence but I see no good reason for exclusion of clause 14 (granted lands included much greater). Latter clause might have to be invoked if marine areas granted to Company were successfully claimed by Venezuela or Surinam.

4. Working obligations.

Figure mentioned in your para. 5 appears much too low. Following minimum figures have been suggested by reputable oil company as appropriate land operations under prospecting licence: During first 5 years annual average £20 a square mile, next 3 years £50 a square mile and last 2 years £75 a square mile. As marine operations are more costly there would be a case for even higher figures than these. But even this expenditure would not ensure drilling within a reasonable period. Therefore consider that as additional safeguard Company should be required to commence drilling with reasonable expedition.

5. Definition of boundaries.

After full discussion with Foreign Office and Admiralty we are convinced that it is essential to define northwest and southeast limits of operations under licence in the absence of agreements with territories on precise definition of boundary of respective continental shelves we would wish to follow as closely as available data allow the principles set out in international law Commission's articles quoted in my previous telegram.

There is a considerable practical difficulty here in drawing precise lines on this basis owing to the absence of completely reliable charts. We have however adopted for this purpose United States hydrographic office chart 5728 of 1942 for Venezuela boundary and Netherlands chart 217 of February 1939 for the Surinam boundary; and on these bases we consider the following lines would be reasonable -

(a) for Venezuela

From the shore boundary, in 035 degrees direction for 3 miles; thence to 050 degrees direction for 11 miles; thence 017 degrees direction to intersection with 25 fathom line;

/ (b)

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(b) for Surinam

From large triangular wooden beacon
latitude $5^{\circ} 59' 53.8''$ north, $57^{\circ} 08' 51.5''$ west, in 010 degrees direction to
3 miles limit from coast; thence 033
degrees direction to intersection with
25 fathom line.

We should be grateful if your proposed definition
of area could be amended accordingly.

It should be stated *in law* that northwestern and
south eastern limits set out therein may be revised at any
time and in either direction in the light of results of
negotiations with Governments of adjoining territories
and that British Guiana Government will not be responsible
for any loss or damage Company may incur by reason of
their activities in the areas of the continental shelf
that might be claimed by other countries.

We propose that Her Majesty's representatives at
Caracas and Hague should be informed of steps we have
taken and that they should be asked to assess the
likelihood of negotiations being pursued on the subject
having in mind desirability of reaching agreements on
boundary lines of continental shelf before need arises
for starting any mining operations.

6. Exchange control.

I am sorry we have not yet been able to clear
this with Departments concerned. I will telegraph
again at the earliest possible moment.

Ends.

Secretary of State.

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