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 6 years they should surrender 50% of original area with an additional surrender of 25% 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 Commision 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 sacrifices 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;
(b) either (1) permanent graduated royalty
BEURDI and BORNEO arrangement
namely: 12\% up to 3 miles shore 8\%
for the next 7 miles 5\% beyond 10 miles
on (11) an agreement limiting Government's
take to 50\% or net profits. (This would
be more favourable to Company)
An investment allowance. If pressure is
such that you find claim for percentage
depletion cannot be resisted purely
arbitrary American practice 27\% up to
50\% of net profits reduced or
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
1). 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 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
northeast 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 5788 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 015 degrees
direction for 13 miles; thence to 000 degrees
direction for 11 miles; thence 017 degrees
direction to intersection with 25 fathom
line;

/ (b)
(b) for Surinam

From large triangular wooden beacon
latitude 5° 59' 53.8" north, 57° 03' 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 noted in future that northwestern and
southeastern 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.

b. 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.