POA2022/15361

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Russell Borthwick
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2 February 2023

Dear Mr Borthwick,

Thank you for your letters of 10 October and 17 November 2022 regarding the Energy Profits Levy. I am replying as the Minister responsible for the UK tax system. Please accept my apologies for my delay in responding.

First, I would like to emphasise that the Government recognises and welcomes the key role that North Sea operators, such as those represented by the Aberdeen & Grampian Chamber of Commerce, play in securing the long-term energy security of the UK, as well as supporting the transition to Net Zero.

The Government recognises the sharp increases in oil and gas prices over the past year have generated extraordinary profits for oil and gas companies whilst causing significant cost of living challenges across the UK economy. The Government acted in May 2022 by introducing the Energy Profits Levy, a temporary 25 per cent surcharge on UK oil and gas profits, to help fund cost of living support and address the atypically high level of profits being realised by the sector.

More recently, the Chancellor took further action at the Autumn Statement in recognition of the continued economic challenges the UK faces. It is fair for those with the broadest shoulders to help the country respond to the challenges it is facing. That is why Government has confirmed that the rate of the Energy Profits Levy will increase by 10 percentage points to 35 per cent. This has been effective from 1 January 2023.

Recognising that many in the country continue to struggle to meet the cost of living, the increase in the rate of the levy and its extension will ensure oil and gas companies realising extraordinary profits pay their fair share of tax and contribute towards the support being provided for the most vulnerable households and businesses

During this period of significantly elevated oil and gas prices, the Government has always sought to balance attracting investment with ensuring a fair return for the nation for the use of its resources, whilst continuing to encourage investment in the North Sea which is so important not only for domestic energy security, but also for the economy and jobs.

This is why the Autumn Statement confirmed the investment allowance will remain in place and its existing cash value will be maintained for most types of investment expenditure other than decarbonisation expenditure. To achieve this, the rate of allowance will be adjusted down to 29 per cent, but this means that for every £100 a business invests in upstream oil and gas production and exploration, they will continue to be able to claim around £91 in tax relief.

Looking ahead, the Government recognises the importance of continuing to attract investment as the UK Continental Shelf matures. It has announced that it will carry out a review of the long-term tax treatment of oil and gas production in the North Sea, to ensure the regime delivers predictability and certainty, supporting investment, jobs and our domestic energy security. The Government will aim to report on the review by the end of 2023. I know officials are beginning to have conversations with the sector on the shape of the review and will be setting out the parameters of the fiscal review in the first part of the new year and would welcome your engagement in this.

Turning to your comments on the North East Scotland Green Freeport Bid: our joint decision with the Scottish Government was made in line with the process and criteria set out in the Green Freeports prospectus, and a decision note outlining the reasons for ministerial selection will be published in due course.

Additionally, regarding the Acorn Carbon Capture Project: CCUS is a priority for this Government and it is progressing at pace. The Government will invest up to £1 billion to establish carbon capture and storage in four industrial clusters by 2030. The Government recognises the potential benefits of the Scottish Cluster and the role it could play in industrial decarbonisation in Scotland. Acorn is currently the reserve cluster, meaning that should either of the Track 1 clusters not be able to deliver, the Scottish Cluster would be called on instead. Further detail on the Track 2 process will be set out in due course.

I note you extended an invite to the Chancellor to visit Aberdeen and I am pleased he was indeed able to hear directly from oil and gas companies during his Fiscal Forum meeting in Edinburgh in December.

Thank you for taking the time to make me aware of these concerns.

Yours sincerely,

Victoria Atkins

VICTORIA ATKINS MP