Aberdeen & Grampian Chamber of Commerce

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Gareth Davies MP
Exchequer Secretary to the Treasury
HM Treasury
1 Horse Guards Road
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27 July 2023

Dear Gareth,

Thank you for your letter dated 6 July.

Meantime, the burdensome and punitive Energy Profits Levy continues to deter investment and undermine confidence in the UKCS.

While the introduction of the Energy Security Investment Mechanism (ESIM), or 'price floor', took a small step towards acknowledging the considerable problems in principle with the EPL, it will make no material difference if it is set at a rate of $71.40 per barrel for oil and £0.54 per them for gas over two consecutive quarters.

It categorically will not, as you assert, allow "companies to invest confidently in the UK, supporting our economy, jobs and energy security".

As the largest Chamber in Scotland and one of the most active within the UK, we represent around 1,200 firms. A third of these operate in the energy sector, representing a large and varied cross section of firms both large and small, from major global operators to small-scale local service companies who play a critical role in the energy supply chain.

Day in, day out, these firms tell us that the EPL price floor achieves nothing in terms of building investor confidence in the future of the North Sea — either in conventional oil and gas, or in the technologies required to unlock net zero, for example offshore wind and hydrogen.

Market prices for oil and gas have already returned to historically normal levels. There are no windfall profits to tax. A 75% tax rate on energy, one of the highest rates anywhere in the world, remains an ongoing threat to a world-leading energy sector which must be at the vanguard of our transition from fossil fuels to renewables.

It is for this reason we also take issue with the $71.40 per barrel rate upon which ESIM has been set, which appears to have been calculated at a 20-year cash average, taking no account of inflation or the increased cost of doing business over the past two decades. Several energy economists who we have discussed this with have suggested that it should reflect a real term 20-year average price per barrel of Brent crude, which is approximately $94. On this basis, it is very clear indeed that oil prices have already returned to well below average levels over the past six months.

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We would urge you to revise the price floor upwards on this basis, in a move that would truly give firms the confidence to make investment decisions now which can deliver energy security in the years ahead.

Finally, we appreciate your willingness to visit Aberdeen and meet with sector representatives to discuss and better understand these issues and will liaise with your office to make the necessary arrangements.

Yours sincerely,

Russell Borthwick
Chief Executive

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