Aberdeen & Grampian Chamber of Commerce

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Rt. Hon. Jeremy Hunt MP
Chancellor of the Exchequer
1 Horse Guards Road
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21 March 2024

Dear Chancellor,

Further to your Spring Budget earlier this month, I am writing again on behalf of the 1,250+ organisations represented by Aberdeen & Grampian Chamber of Commerce (AGCC), Scotland's largest Chamber, which collectively employ over 100,000 people across North East Scotland.

We are deeply disappointed by the decision to extend the Energy Profits Levy to March 2029. The justification for this windfall tax – a surge in energy prices in the wake of Russia's invasion of Ukraine – has evaporated. Energy prices have returned to normal levels which means that this supertax on the North Sea is now simply deterring investment, costing jobs, and holding back economic development across our region and the whole of the nation. Far from being a budget for long term growth, the decision to extend, rather than end, the Energy Profits Levy will have a severe detrimental impact, stifling growth and holding back the transition to net zero.

The economy of North East Scotland is heavily reliant on the energy sector and the EPL is already draining investor confidence. The *Regional Economic Forecast* published by EY this month forecasts Aberdeen to have the slowest growing economy in the UK over the next three years, noting, "the windfall tax continues to act as a barrier in investment". Leading investors are making it clear that they are shunning the North Sea due to the fiscal uncertainty surrounding the EPL and investment allowances. For example, the Chairman of independent Kistos Energy, Andrew Austin, recently told *Energy Voice* that his firm is "walking away" from investment in the basin. Serica has warned that the EPL leaves the UK open to "potential energy shocks in the future", while Harbour Energy, the largest British North Sea oil and gas producer, has reported a net profit of just £25m last year due to the EPL, and claims to be paying an effective tax rate of 95%. This level of taxation is neither fair nor sustainable.

The longer-term implications of a domestic energy sector drained of investor confidence should not be underestimated, both in terms of economic resilience and future energy security. While the UK derives a degree of energy security from domestic oil and gas production, there is a pressing need to scale-up and accelerate the transition to renewable energy production to deliver future energy security and protect the high productivity jobs currently sustained by the sector, a process which takes time and will require significant private sector investment. The current fiscal regime is inhibiting that wider investment and standing in the way of the type of economic development the Government says it wants.

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We would urge you to listen to your own backbenchers. Douglas Ross MP and David Duguid MP have both spoken out against the extension of the EPL, and have called for a higher price floor on the levy. Any windfall tax needs to target actual *windfall* profits, but the 20-year average figure used to set the current price floor has not been adjusted for inflation; if it were, the 20-year average would be $94 per barrel.

While there were announcements in the Spring Budget that we welcome, such as the cut in National Insurance, support for SMEs, and innovation, we are concerned that these will all be undermined by this unjustifiable raid on the North Sea, the key driver of economic growth, productivity and prosperity across our region.

We would welcome the opportunity to discuss these issues with you in more depth.

Yours sincerely,

Russell Borthwick
Chief Executive