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Chancellor of the Exchequer  
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3 March 2023

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Dear Chancellor,

The North-east of Scotland, owing to its world-class energy sector, has a unique opportunity to be at the forefront of the UK's transition to net zero, delivering long term energy security and unlocking sustainable growth and employment opportunities. However, we require urgent support from the UK Government to realise that ambition and we share a growing sense of concern that several recent policy decisions are making this task far more challenging.

The Spring Budget Statement on 15 March presents an ideal opportunity for the UK Government to directly address these challenges and demonstrate its commitment to this region and its business community. We therefore call on you to:

**1. Implement a stable fiscal regime to incentivise greater energy security and accelerate the transition**

The overly severe application of the Energy Profits Levy (EPL) is creating an adverse environment for investment and jobs at precisely the time we need to be maximising domestic energy security and supporting transition at pace. The evidence of this is already becoming clear and we risk slipping behind peer global energy producing nations.

The UK only sanctioned three projects in 2022 with total investment of £577million that will deliver 63 million barrels of oil equivalent (boe). Meanwhile, in comparison Norway sanctioned \$42 billion of investment in the same period that will deliver 2.47 billion boe. Norway is already allocating these revenues to fund their energy transition.

Meanwhile, flight of capital away from the North Sea could set the UK's progress back significantly. Some oil and gas companies have already chosen to step back from participating in the 33<sup>rd</sup> Offshore Oil and Gas Licensing Round. Sector investors are telling us that even West Africa offers a more stable politico-economic environment and this is already leading to job losses, and personnel looking to move overseas. We cannot afford to lose skilled workers at a time when we need to scale up our workforce for renewables and emerging technologies.

The political argument that North Sea profits are a 'windfall of war' is no longer sustainable. The headline oil price is 19% lower than when Russia invaded Ukraine and the annual Treasury tax take from the industry is over 800% higher as a result of the Energy Profits Levy. In February 2022, North Sea taxes totalled £381 million per month. That figure now stands at £1.8 billion. In short, the extended application of the EPL is disproportionate and we urge you to reform it as an immediate priority. This should include the introduction of a price floor, as was originally intended, and other measures outlined in the detailed submission brought forward by OEUK.

We must have a fiscal and regulatory regime that supports lowering investment risk in the UK with an objective to maximise investment in energy security and accelerate the transition.

## **2. Relocate functions of the Department for Energy Security and Net Zero to Aberdeen**

We were encouraged to see the establishment for a dedicated Department for Energy Security and Net Zero (DESNZ) and see this as a perfect opportunity to help deliver your Government's levelling-up ambitions.

The 2021 Declaration on Government Reform policy paper committed to relocating 22,000 civil service roles outside of London by 2030, including 50% of senior civil servants. It stated that the UK Government "will look beyond London to all corners of the UK, as part of our mission to be a government more like the country we serve".

The North-east of Scotland is home to the critical mass in skills, experience and infrastructure supporting a globally recognised energy industry. A decision to relocate significant functions of DESNZ to Aberdeen would be welcome recognition of the City's leading role in energy transition and complement a second to none ecosystem that includes the North Sea Transition Authority, Net Zero Technology Centre, Energy Transition Zone and two universities leading on research and new technology that will enable us to achieve net zero. Furthermore, it would place the Department in close proximity with major North Sea operators, the highest concentration of energy supply chain companies in the UK and a 45,000-strong offshore energy sector workforce.

## **3. Invest in grid connections and capacity**

The recent ScotWind licensing round has approved developments that will generate 28GW of offshore wind power. Over 70% of the fields are within 100 nautical miles of Aberdeen. Our ports are investing to support the delivery of these huge projects and many of the operators are looking to establish global offshore wind sectors of excellence here. However, this ambition is severely limited by grid capacity which, in terms of current rollout plans, will reach 11 GW by 2030. Urgent investment in greater grid capacity in the North and North-east of Scotland is an absolute priority in terms of unlocking offshore renewables potential.

## **4. Support the Scottish Cluster**

The Climate Change Committee has stated that five large-scale CCUS facilities are required if the UK is to meet its emissions targets. The Scottish Cluster, of which the Acorn project at St Fergus forms the backbone, still awaits the green light to proceed and a continued lack of any timescale for its operation will put this project in jeopardy and raise serious concerns as to the negative impact this will have on the UK's ability to meet its net zero targets. We wish to see this project fast-tracked to ensure that we do not lose out on a shovel-ready investment opportunity that will create up to 20,000 sustainable jobs.

## **5. Deliver a New Deal to energise the North-east of Scotland**

The 10-year Aberdeen City Region Deal was agreed in 2016 with an initial funding package of £250 million. The Deal has been a showcase for delivery at pace and attracting additional funding from the private sector, bringing the entire investment envelope to over £1 billion. And as this innovation focused programme moves towards its end point, attention must turn to what comes next.

We wish to work with the UK government to support our region's role in delivering domestic energy security and catalyse the journey to becoming a true global energy capital for the low-carbon age. At the same time continuing to diversify our economy focusing on life sciences, digital technologies, tourism and food, drink, agriculture and fisheries, building on existing strengths and potential in all these sectors, sustaining and creating high value jobs and economic prosperity.

Our request is that UK Government matches Scottish Government's commitment of £500 million to the Just Transition Fund to create an ambitious, strategic programme aligned with our refreshed Regional Economic Strategy that supports these aspirations.

This will enable us to emulate the success of the current City Region Deal delivering strong return on investment and enabling this part of the UK to punch above its weight as a contributor to the exchequer for another 50 years and more.

With our region at a critical crossroads, we both hope to see our requests reflected in your Spring Statement and invite you to visit Aberdeen in the coming weeks where we will arrange for you to take part in a roundtable discussion with key industry stakeholders to explore further how we can work together to unlock this region's vast potential.

Yours sincerely



**Russell Borthwick**  
**Chief Executive**

CC:

Rt Hon Rishi Sunak MP, Prime Minister

Rt Hon Grant Shapps MP, Secretary of State for Energy Security and Net Zero

Rt Hon Alister Jack MP, Secretary of State for Scotland

John Lamont MP, Parliamentary Under Secretary of State

Andrew Bowie MP, Parliamentary Under Secretary of State (Minister for Nuclear and Networks)

Rebecca Hill, Scotland Insight & Engagement Lead, HM Treasury

Lord Malcolm Offord, Parliamentary Under Secretary of State for Scotland