Aberdeen & Grampian Chamber of Commerce

Stephen Flynn MP
House of Commons
London
SW1A 0AA

Dear Stephen,

This letter is written on behalf of Aberdeen and Grampian Chamber of Commerce, which has over 1,000+ member companies in the North-east of Scotland.

The purpose for writing to you is to express deep concern about proposals to introduce a windfall tax on UK oil and gas profits.

It is our view that this short-term, economically illiterate move will achieve little apart from making the North Sea – already one of the world's most mature basins – less attractive to investors.

This would place jobs, tax revenues and our domestic energy security at risk, and also limit ability and appetite to invest in the low carbon research and development we so desperately need.

BP chief executive, Bernard Looney, has said that a windfall tax "would challenge investment in home-grown energy."

Centrica boss Chris O'Shea said it would hit investment and push up costs in the long term.

Dierdre Michie, chief executive of OEUK, warns that we risk heaping a supply crisis on top of an existing price crisis if the UK were to pursue such a policy.

The view of the industry is clear; a windfall tax will divert investment, which, perversely, has the potential drive-up energy bills in the long term.

Tax paid by companies on the UKCS

Oil and gas companies pay tax on profits from production in the UKCS at a rate of 40%, comprising both Ring Fence Corporation Tax plus a Supplementary Charge (RFCT/SC).

It is estimated that the North Sea tax yield for 2022/23 alone may well be more than the £8.1billion forecast by the Office for Budget Responsibility (OBR) and perhaps closer to £10billion.

If it reached £10billion, then that would be a £7.2billion increase from the 2020 forecast and sufficient incremental tax revenues to fund the support for consumers that some opposition parties have called for.

This endorses the industry view that the current tax regime, with a combined corporate tax rate of 40%, is the appropriate level of taxation for a mature oil and gas province, ensuring that HMT gets a fair share of incremental profits arising from higher commodity prices.

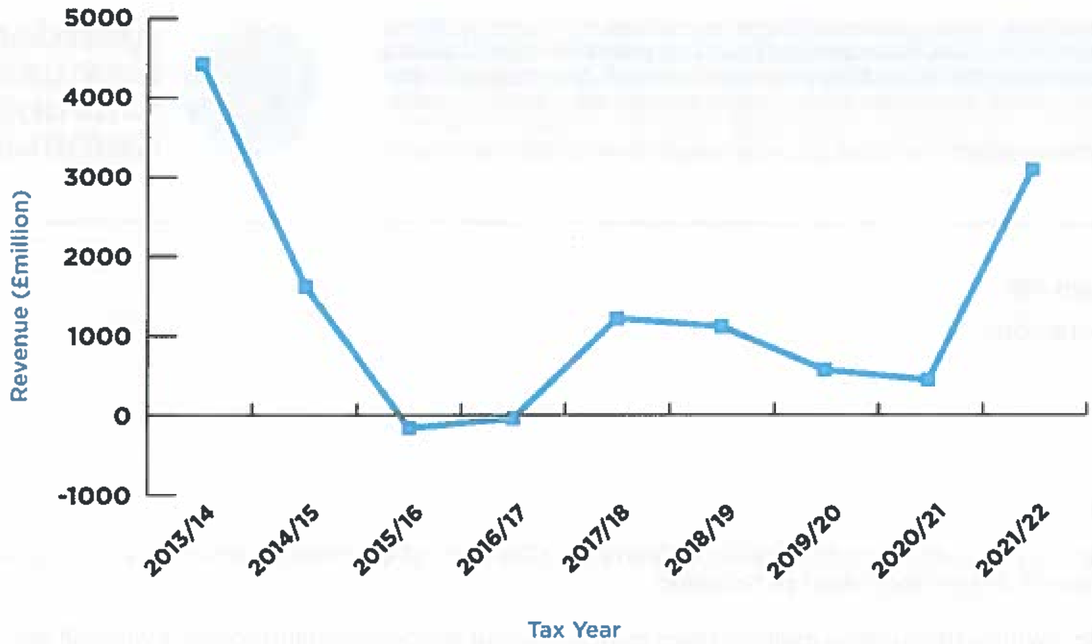
To tinker with the regime where the past few years have seen such volatile commodity prices is unwise - particularly when the UK is more conscious of energy security and balance of trade issues, and where some of the companies active in the North Sea are making significant investments in the energy transition.

Labour estimates its windfall tax would raise £1.2billion over the year ahead to provide targeted support to households and businesses.

However, our research shows that the Treasury has already banked £1.5billion more in the first three months of 2022 than it did over the same period in 2021.

According to the latest data from the Office for National Statistics (ONS), the industry paid £1.7billon in tax in just 90 days between January and March this year, up 670% on the same time last year.

Looking at the last 12 months in full, between April 2021 and March 2022 offshore companies paid just over



Tax Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Revenue (£million)	4428	1621	-152	-31	1225	1123	575	450	3088

Source: ONS

£3billion in tax, a 586% increase on the previous 12 months and the highest level of tax paid by the industry since 2013/14.

It is clear from these figures that a) these revenues are volatile, and b) the Treasury has benefited enormously already from higher energy prices. Therefore, offering targeted support to consumers and businesses to support the current crisis is already within its gift.

And why are we targeting a sector that already pays tax at a higher rate than any other? If rising international revenues is now the benchmark, then what about other sectors?

For example BP and Shell's Q1 2022 revenues were a fraction of Apple's ($97.3billion), Amazon's ($116billion) and significantly lower than Microsoft ($45.3billion), Meta ($27.9billion) and Samsung ($63billion).

Where is the clamour for a windfall tax on these companies?

Commitments to energy transition

Unlike these global tech giants, the North Sea's operators employ hundreds of thousands of people in the UK and have committed to investing billions of pounds in the UK's energy transition.

Shell is spending £25billion on the UK's energy system over the next decade, BP is investing £2 for every £1 profit it makes in the UK and Neptune Energy has an ambitious target to extract more carbon that it emits within just eight years.

These projects are crucial to our future prosperity and we need our politicians to take a pragmatic view and be wary of the impact that a short-term smash-and-grab would have on investment and confidence in a sector that is of critical importance to our economy.

Yours sincerely,

Ryan Crighton
Policy Director
Aberdeen & Grampian Chamber of Commerce