

# EPL extension: 'As disappointing as it was unwise'

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am Transition Institute



The Chancellor Jeremy Hunt walks outside Downing Street with the Budget box. Supplied by Zara Farrar / HM Treasury

The UK Spring Budget took place in the House of Commons on March 6, despite most fiscal budget changes already appearing in the media well in advance.

However, the decision to extend the Energy Profit Levy (EPL or windfall tax) on the oil and gas industry by another year until 2029 was as disappointing as it was unwise, and it could be one of the final knock-out blows to investor confidence in the UK's offshore energy sector.

A windfall tax is typically a one-off tax levied by governments on industries when economic conditions allow those sectors to experience above average or supernormal profits, which haven't resulted from business improvements per se.

With oil and gas prices now back at pre-Russian invasion into Ukraine levels, the windfall rationale is no longer valid and politics seems to be trumping economics. With the **windfall tax now likely to be in place for over seven years (until 2029)**, it is becoming increasingly hard to argue that this is anything other than just another tax on the oil and gas sector.

The **one-year extension to the windfall tax announced in the Spring Budget** is also the fourth tax change for the UK's oil and gas sector in two years, making the UK one of the most unstable and unpredictable tax regimes for oil and gas anywhere in the world.

So where does this leave this sector in the UK? As highlighted in a recent survey by the trade body **OEUK**, most UK operators are now looking to reduce their investments in the UK oil and gas sector over the coming years, because of diminishing investment returns, increased taxation, greater political risk and overall basin decline.

As a result, we are likely to see the decline in the sector accelerating at a time where renewable energy sources are not yet ready to fill the gap in meeting the nation's energy demand.

Inevitably, the UK will then need to increase fossil fuel imports to bridge this gap, often at higher cost and higher environmental impact.

The famous quote by the former President of France – Charles de Gaulle – that 'politics are too serious a matter to be left to the politicians' is starting to ring true for the UK's current energy policy.

With recent global events shaping world's energy markets and with 2024 being an election year in the UK, it is no surprise that energy policy is firmly in the spotlight. However, it is not helpful to play politics with the industry for political gains.

Going forward we need to take a more a-political and collaborative approach to the question of how the country can best deliver its short and long-term energy ambition, while addressing the cost-of-living crisis, managing energy security, and delivering on the net zero agenda.

In this way, we would be able to address the short-term priorities of improving the UK electricity grid, simplifying grid access, streamlining and speeding-up planning and consenting, while improving energy efficiency (including home insulation), reducing demand, and accelerating the UK's renewables agenda.

We would also need to come together to ensure that the longer-term needs are addressed in a way that would enable the UK to deliver on its ambition to get to net zero by 2050 (2045 in Scotland).

To this end, the country should consider creating an independent body, which can truly balance energy security, sustainability, and affordability to deliver the best long-term outcome for the UK and the home nations.

The UK has done this successfully in the past when for example, the Bank of England became operationally independent in terms of setting UK interest rates and when the Office for Budget Responsibility (OBR) was established to provide independent and authoritative analysis of the UK's public finances.

Our country's history has been defined by fossil fuels, but our future is already being shaped by how we are responding to the climate emergency. Therefore, all of us, including politicians, must work together to align on – and commit to – a long-term, net zero vision, underpinned by an integrated energy policy and an agreed route map. Such an approach would certainly get my vote.

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