# Windfall tax pressures North Sea oil industry, risking UK energy security and jobs



Britain's energy profits levy, introduced in May 2022 as a response to surging energy prices following the geopolitical tensions stemming from Russia's invasion of Ukraine, is increasingly viewed as a threat to the viability of the North Sea oil industry. Analysts have sounded the alarm, suggesting that the 38 per cent tax—on top of existing levies—brings the total tax burden for oil and gas producers to a daunting 78 per cent. This significant taxation not only jeopardises energy security but also risks undermining the broader economy.

The steep levies have led to a dramatic downturn in investment in the North Sea, as evidenced by insights from analysts at Stifel. They anticipate that the windfall tax will significantly reduce the Treasury’s revenue by an estimated £3 billion between 2025 and 2030. The notion that the tax would facilitate additional revenue has proven illusory; analysts argue there has not been a true windfall to capitalise on, with overall oil prices plummeting by roughly 50 per cent since the initial surge. Concurrently, gas prices have dropped by almost 80 per cent from their peak, leading to further headwinds for the industry.

Furthermore, the repercussions of these policies extend beyond mere financial metrics. The reliance on external energy imports is intensifying, prompting concerns about national security. Should the North Sea operations decline further, the UK would face increased carbon emissions from overseas, as energy needs would shift to imports from countries like Norway and the US. Stifel remarked, "Without the UK North Sea, total CO2 emissions from the UK's energy mix would be higher," highlighting an uncomfortable irony wherein the shift of energy production offshore could offer a façade of improved national emissions figures, all the while exacerbating global environmental challenges.

According to various sources, including recent reports, numerous North Sea operators are redirecting their focus to international markets in pursuit of more favourable conditions. Major players like Shell and Chevron have begun to explore investments beyond the UK's ageing oil fields, leaving smaller firms to contend with a challenging landscape defined by regulatory uncertainty and rising taxation. This shift was further emphasised by the struggles of companies like Harbour Energy, which reported a drastic decline in profitability due to the windfall tax. Harbour has faced substantial operational cutbacks, including job losses and reduced investment in domestic production.

The consolidation of firms within the sector is also a growing trend, perceived as a necessary survival strategy amid the taxing climate. Many smaller independent operators are facing unprecedented challenges, even as the windfall tax continues to impact their bottom line and overall market health. Some estimates suggest that nearly 40,000 jobs could be at risk by 2030 should these trends continue unchecked, jeopardising the livelihoods of many workers in the North Sea.

Critics of the windfall tax argue for its removal, positing that such a shift could revitalise investment in the UK’s oil fields, thereby boosting tax receipts in the long term. The sentiment, as echoed by Stifel, is that "it's time for Energy Pragmatism," suggesting a call for policies that balance immediate revenue needs against the sustainable health of a critical sector.

As the UK seeks to navigate the complexities of energy reform and climate commitments, these discussions highlight the intricate interplay between fiscal policy, energy security, and environmental stewardship—a balance that will require careful consideration in the face of rising global uncertainties and an evolving energy landscape.

**Reference Map**

1. Paragraphs 1, 2, 3, 4
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Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.dailymail.co.uk/money/markets/article-14731299/Windfall-tax-destroying-North-Sea-oil-threatening-growth-analysts-warn.html?ns_mchannel=rss&ns_campaign=1490&ito=1490> - Please view link - unable to able to access data
2. <https://www.ft.com/content/23156681-ad20-4edb-a36d-7db3b2d90f3d> - This article discusses the UK's increasing reliance on electricity imports from neighboring countries via undersea interconnector cables as it phases out coal and ramps up renewable energy. It highlights instances where the UK imported high-cost electricity from Denmark, which sourced it from Germany. The piece emphasizes the UK's dependence on international power amid efforts to decarbonize its grid by 2030 and the challenges posed by rising protectionism and political instability in exporting countries like Norway. The article also mentions the UK's departure from the EU's energy market, complicating electricity trading and increasing costs.
3. <https://www.reuters.com/business/energy/north-sea-energy-firms-look-beyond-uk-after-tax-squeeze-2024-05-20/> - This article reports on how recent tax hikes in the UK have prompted North Sea oil and gas producers to merge and explore overseas markets, potentially hastening the decline in domestic production. It mentions that major firms like Shell, Chevron, and Exxon have shifted focus away from the aging basin, leaving smaller companies like Harbour Energy, Ithaca Energy, and Serica Energy to navigate the challenging environment. The piece also discusses the impact of the 2022 Energy Profit Levy, increased to 35% and extended to 2029, on profits, leading to cuts in investment and job losses.
4. <https://www.ft.com/content/ceb1d4af-c1c5-4909-aba4-f967aaaba1c3> - This article examines the impact of the UK's windfall tax on the North Sea oil and gas sector, noting that the 'energy profits levy,' introduced in May 2022 and extended till 2029, taxes industry profits at 75%. It highlights that this tax has disproportionately affected smaller independent operators, leading to a decrease in North Sea production and risking up to 40,000 jobs by 2030. The piece also discusses how the sector's consolidation, seen as necessary for survival, is hampered by tax uncertainties and how the unstable fiscal regime deters investment, with an estimated £16bn in potential investment loss.
5. <https://apnews.com/article/850e02d38fdbe43e1a48d9666654b412> - This article reports on British energy firm BP's record profits of $27.7 billion for 2022, up from $12.8 billion in 2021, driven by high oil and gas prices following Russia's invasion of Ukraine. It discusses the company's increased dividend and share buyback plans, which faced backlash in the UK due to high energy costs leading to double-digit inflation and increased food bank demand. The piece also mentions BP's commitment to investing an additional $8 billion in renewable energy, hydrogen, and electric vehicle charging, alongside oil and gas, and its plan to reduce oil and gas production by 25% from 2019 levels by 2030.
6. <https://www.ft.com/content/ba599bb2-dd8e-4289-a80e-8a4d40ae6395> - This article reports that Ithaca Energy is in exclusive discussions to acquire Eni's UK upstream assets, including the operations of Neptune Energy, which Eni agreed to purchase for $4.9 billion last year. The potential $1.1 billion deal could make Ithaca one of the largest independent oil producers in the North Sea, significantly boosting its production and leading to further consolidation within the sector. The piece also notes that Ithaca, majority-owned by Israel's Delek Group, would achieve production levels over 100,000 barrels of oil equivalent per day and become the second-largest independent operator in the UK continental shelf.
7. <https://www.reuters.com/business/energy/harbour-energys-32-mln-annual-profit-curbed-by-britains-windfall-tax-2024-03-07/> - This article reports that Harbour Energy, the largest oil and gas producer in the British North Sea, reported a net profit of $32 million for 2023, significantly down from its $597 million pretax profit. The sharp decrease is attributed to the UK's windfall tax (EPL) impacting energy companies, which resulted in Harbour setting aside $1.5 billion for the tax, and lower natural gas prices and output. The piece also discusses how the EPL pressured Harbour to cut headcount, reduce North Sea investments, and explore international expansion, including acquiring Wintershall Dea's non-Russian assets in an $11.2 billion deal.