

## What is a windfall?

Windfall taxes make the things taxed dearer. They reduce investment and output in the items taxed, cutting supply.

We were told that the very high prices of gas and oil that resulted from Putin's invasion of Ukraine and from the West's decision to stop buying Russian energy were generating windfall profits, both by the fossil fuel companies and by the renewable generators whose prices of electricity reflected the gas price. Gas remains the largest fuel source used in UK generation.

It is true there were such windfall profits as the gas price soared. Today the wholesale gas price is 85% lower than the peak it reached at the worst point after the outbreak of war. The oil price is also down by a third from Ukraine highs. If you impose a windfall tax based on a one off shift in prices that gives companies a bonus, shouldn't you remove the tax when that price change disappears? It was a weakness of the windfall tax that it did not describe the nature of the windfall or seek to fairly reflect its size and duration going forward.

Few will be sympathetic to large energy companies who have recently been making large profits. However, if the UK perseveres with a level of taxation that is materially higher than elsewhere for energy, and demonstrates an unwillingness to remove windfall taxes after the windfall has gone, we will find it more difficult to attract the investment and jobs we need to produce more domestic energy. Customers end up paying the higher taxes and business will migrate to lower taxed countries.