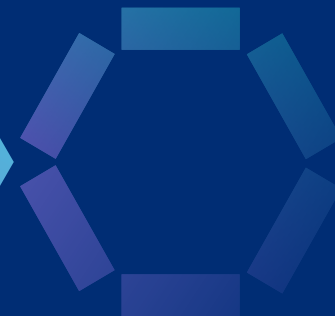


Britain's chemical industry fuelling UK growth – a plan for the next Government



“ Having policies in place to grow a country’s economy is a fundamental responsibility of any government. The proposals in this manifesto will be a step on the road to making that happen.

Jakob Sigurdsson,
Chief Executive of Victrex



Foreword

The next government of the United Kingdom faces a huge challenge in delivering prosperity for all parts of the country. It will be judged over many issues but its performance with regard to economic growth, environmental progress and social inclusion will ultimately determine success or failure. The good news, in addressing that three-pillared agenda, is that any new government will not be alone in facing up to the challenge. Partnership with business and, in our view, partnership with a vibrant advanced manufacturing sector, delivering innovative clean technology solutions and jobs, will be essential for a resilient, sustainable and inclusive economic future.

As a key building block of the economy, we also believe that the UK chemical industry should be at the heart of that economic, environmental and social ambition. Our starting point is a strong one – the sector is the country’s largest manufacturing exporter; it has already reduced emissions by 80% over the past 30 years and thousands of highly skilled and well-rewarded jobs are located in parts of the country that really need them. Chemical businesses have also demonstrated their criticality to the country and society at times of national need – providing essential solutions such as hand sanitisers and COVID vaccine ingredients to help tackle the pandemic. In short, it is our view that every modern economy needs a chemical industry.

However, the clock is ticking if the UK is to secure its place as an attractive and competitive location for the investments and jobs of the future. The past five years has seen a significant fall in the nation’s year to year “flow” of inward investment, and other parts of the world – most notably the US, the EU and China – are moving decisively, through funding and policy stability around clean technology and infrastructure, to win that international capital. There is still time, and the autumn 2023 package of support to incentivise advanced manufacturing is a very welcome development, but so much more needs to be done – and urgently – if we are to arrest that fall down the investment league table.

To help inform and support the next government’s agenda for growth and prosperity, we are proposing a number of recommendations. Chief amongst these are a commitment to a long-term industrial strategy, with chemical businesses at its heart, and a stable UK policy environment. That long-term partnership and predictability of policy will help boost investor confidence, as will a focus on our other priorities, including the need for us to bridge the gap between innovation and manufacture and to finally address the long-standing lack of competitiveness of UK industrial energy costs. The cost of energy – both current and future sources – will be a critical factor in the country’s ability to meet its net zero commitments, so we urge the next government to provide a policy and funding climate that will ensure a challenging but achievable net zero transition. As UK manufacturing’s leading exporter, the chemical sector has a keen interest in informing the country’s free trade agreement negotiations and, as we move to address those more ambitious deals such as India, the US and, of course further progress opposite the EU, we simply ask that we are able to play as early and as full a part as possible in those negotiations. Finally, there isn’t an organisation in the land that isn’t struggling to meet its skills and labour challenges. With that in mind, our final proposal is that we commit to a UK education and visa system that provides people for industry – both in the short and long-term.

Whoever wins the next general election will find an engaged and committed UK chemicals sector. Beyond the fine words, that government will also find that chemical businesses throughout the land stand ready to provide those much-needed economic, environmental and social solutions. It’s what we do, and we can do so much more given the right policy and funding landscape.



Steve Elliott
Chief Executive

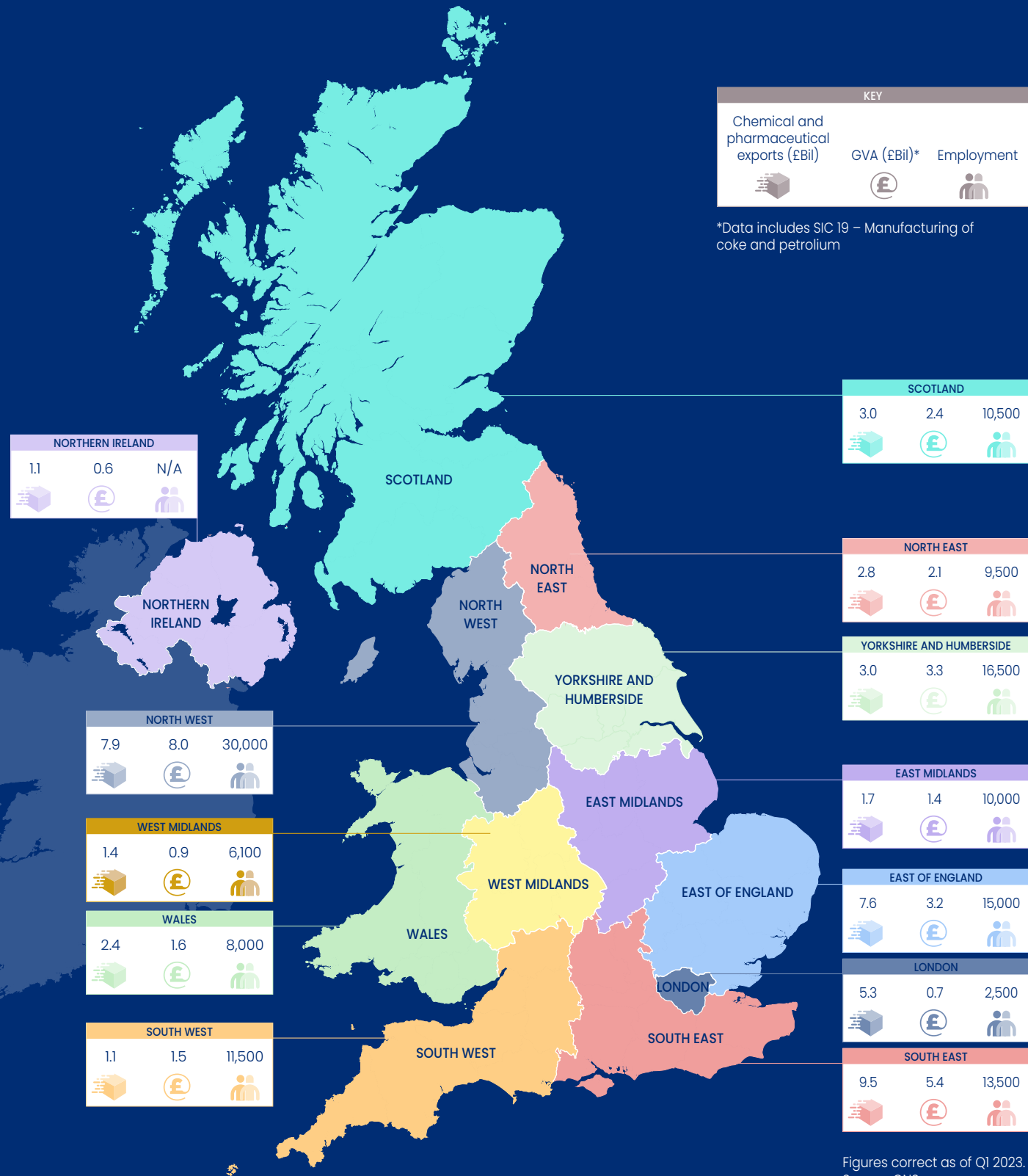
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Made in the UK, sold across the world – Our chemical industry



Figures correct as of Q1 2023. Source: ONS

2023 UK chemical industry in numbers

4,415 businesses directly employing **151,000** people while supporting over **500,000** jobs in the economy

17.5% of total UK business R&D spend



Highly productive sector with **£203,000** GVA* per employee, **280%** higher than whole economy average, **148%** higher than manufacturing

* Gross Value Added

Salaries over **33%** higher than manufacturing and **45%** higher than the whole economy average

One of the UK's largest exporters of manufactured goods with annual exports of over **£54bn**

"The UK chemical industry underpins the country's economy. By working with Government and all our stakeholders we can build a strong industrial future"

Vicky Reed, Managing Director of Gower Chemicals



Our asks

- A UK industrial strategy with chemical businesses at its heart.
- A stable UK policy environment.
- Innovation incentivised to lead to UK manufacture.
- Secure and competitive energy for all.
- A net zero transition that creates UK business opportunities.
- Trade agreements that deliver for businesses in the UK.
- A UK education and visa system that provides talent for industry.

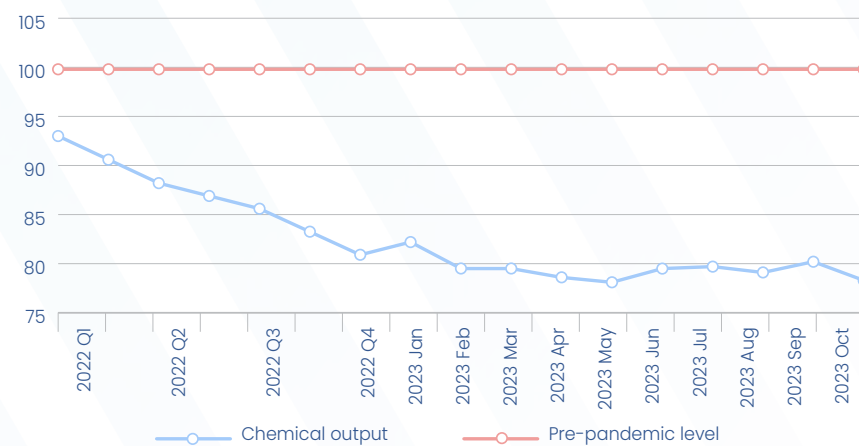
The chemical industry in 2023

Data from a recent CIA quarterly business survey, together with official statistical data, has identified the present time as the most challenging for the sector with several UK sites temporarily shutting down production to limit costs. Conditions remain tough as survey data shows five consecutive quarters of contracting sales, production levels and margins.

Forecasts remain pessimistic as UK chemical production is expected to contract by 8.5% in 2023 and grow by 0.2% in 2024 and by 3.5% in 2025. The main driver of the UK chemical contraction is weak demand from industries that use chemicals as inputs. Whilst energy costs will stabilise in 2024, they will be higher than the pre-energy crisis as LNG is more expensive than Russian Pipeline gas.

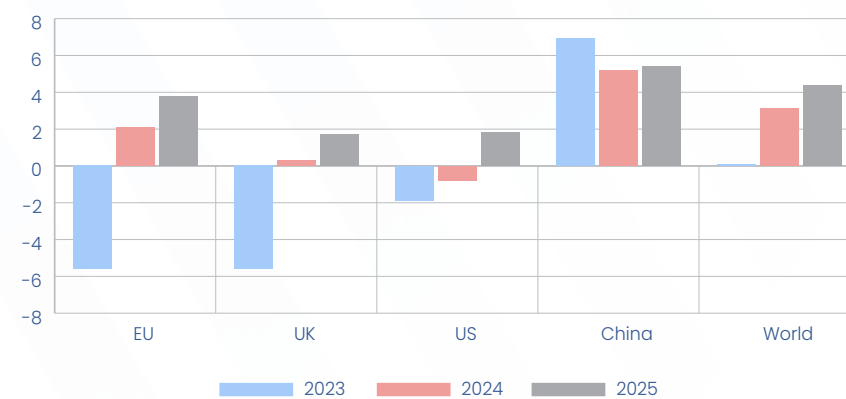
With UK chemical businesses struggling and the EU market remaining subdued, it is essential that we work with the new government on how to turbo-charge the UK's industrial manufacturing base and help deliver the green economy transition.

Monthly and quarterly chemical output compared to Q4 2019 output levels (last full quarter before the pandemic)



Source: CIA/ONS

Global forecasts for chemical sector growth



Source: Oxford Economics

What our industry can achieve for our country

- Help the UK become a global leader in the technology and supply of EV batteries.
- Help reduce our reliance on fossil fuels for power and heating through the development of efficient technology for green and blue hydrogen and associated carbon capture, storage and utilisation.
- Help alleviate the problem of plastic waste through development of chemical recycling processes.
- Produce new pharmaceutical products to help keep society healthy.
- Develop new lighter, stronger materials to boost other sectors including automotive, aerospace and healthcare.
- Help other sectors achieve net zero through the development and production of, for example, more efficient insulation, improved recyclable or biodegradable packaging, non-fossil based cleaning and personal care products.
- Significantly contribute to GDP and provide well paid jobs in key areas highlighted by the levelling up agenda.

“Our country needs a manufacturing and science renaissance. Chemical and pharmaceutical businesses are delivering this. The industry wants to work with Government and all politicians to build a strong future.”

Steve Foots, Chief Executive of Croda International plc

The economic environment

Since the last election we have witnessed some of the most unexpected developments in recent history: COVID-19, Brexit and the Russian-Ukrainian and Israeli-Hamas conflicts.

COVID-19 altered global and social dynamics as the high number of deaths forced governments to take unprecedented decisions. Domestic lockdowns and closed borders hindered economic activity as global GDP contracted by 3.0% between 2020 and 2019 and the UK's by 9.9%. UK GDP has recovered and in 2022 was 1.9% above 2019's levels but forecasters expect slow growth for the upcoming years. The International Monetary Fund (IMF) forecasts real GDP growth of 0.5% in 2023 and 0.6% in 2024. These growth rates are considerably below the world average (3.0%) and lower than the advanced economies average (1.3%).

The reopening of local and global economies coupled with the energy crisis exacerbated by the Russian-Ukrainian conflict, resulted in the highest inflationary hikes in the G7 since the 1980s. In the UK in 2022 prices increased by 9.1%. Despite the fact that in December 2023 inflation decelerated to 4.0% and is expected to meet the 2.0% target level in Q2, over two years' of inflationary hikes will result in higher prices.

On top of the COVID-19-induced economic slowdown and three years of inflation over 2.0%, Brexit has posed to the UK the additional challenge of defining itself outside of the EU. In January 2020 the UK officially left the £13 trillion market represented by the EU and in July 2023 it entered another partnership with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) opening itself up to non-EU trade. Nevertheless, the EU remains the UK's biggest trading partner and the slow process of Brexit – with numerous regulations and legislations that are still to be decided seven years after the vote – has hindered UK competitiveness by creating uncertainty over British international partners, opportunities, intentions and investment strategies.

These three main developments have impacted investment in the UK as we have fallen from 12th to 20th in seven years by Foreign Direct Investment Flow (FDI Flow). With Brexit and energy prices impacting our international competitiveness and forecasts for GDP growth and inflation indicating a slow recovery, our country needs high investment into our people and businesses. Whilst the government has put in place policies to attract investment, they are uncompetitive by international standards and uncertainty over the future of policies due to political instability are unattractive for investors.

Europe as a whole is becoming increasingly uncompetitive opposite advantaged regions who have either their own natural fuel supply or are using imported Russian fuel. There is now an opportunity to grow a domestic manufacturing base to help the country weather storms in the future.

“ There are no large economies in the world without a strong chemical industry because chemicals are so basic in all the products that we use. We have seen many closures in the last 10 years in the UK and few new builds. The UK must value its chemical industry and strive to reverse this decline.

Sir Jim Ratcliffe, Chairman of Ineos



An agenda for the next government of our country

We believe by taking the actions we propose our country will have the best route to achieving and retaining economic, social and environmental growth.



A UK industrial strategy with chemical businesses at its heart

Actions

No major economy functions without a manufacturing sector. Data from the World Bank shows that the manufacturing sector makes up an average of 13.1% of the G7 economies, 14.7% of European Union member economies, 27.4% of the Chinese economy however just 8.8% of the UK economy. The UK government needs to decide now if it wants a manufacturing sector, at the heart of which is the chemical industry, providing vital raw materials and innovative breakthroughs crucial for the net zero transition.

There is clearly one answer to the question posed above, and to deliver it we need the Government to show the world that the UK is open for business and the place to invest. To this end, we need stability: stability on energy prices, stability on industrial action, stability of regulation and stability of the political machine.

The best way of doing this is to have a clear industrial strategy.

- Establish a team from Government, industry, the trade unions, academia and other stakeholders to develop an industrial strategy.
- Create an independent Office for Industrial Strategy, responsible for scrutiny, monitoring and measurement of the Industrial Strategy.
- Ensure different Government Departments that impact business are joined-up in the development of policy.
- Government to work more closely with devolved administrations and the regions including metro mayors so that there is one single UK approach to business growth.
- Double the UK's manufacturing contribution to GDP by 2040.
- Appoint a Department for Business and Trade Minister who is responsible and accountable for delivery and reporting on the continuing progress of the Industrial Strategy.



A stable UK policy environment

Despite facing significant global disruptions, the chemical industry is transforming both the products and solutions it provides to society. In turn, the chemical sector contributes to improving quality of life and protecting our planet. The chemical industry's crucial role in the recent pandemic – producing essential components for medicines, vaccines and hand sanitisers – is just one illustration of the sector's capacity to tackle the problems our world may encounter, whether it be a global emergency or an everyday inconvenience. With chemicals featuring in almost all manufactured products, delivering innovative solutions and technologies is at the heart of what the industry does. This goes hand in hand with promoting sustainability and effective product stewardship to avoid harm to our planet and people. An innovation journey can be long and often complex, with many facets and trade-offs to consider in the process. Therefore, a clear and coherent policy framework and regulatory certainty are both essential enablers to allow existing and novel chemistries to be brought and taken up by the UK market, whilst giving confidence to our customers, local communities and employees.

Actions

- Engrain and make use of best available science to drive risk-based actions and decisions across policy and regulation to support a 'create' and 'make' environment in the UK.
- Deliver on the long-awaited post-Brexit GB REACH regulation through a workable, protective and cost-effective alternative to the current regime to ensure UK manufacturers across supply chains are not at a disadvantage in a global marketplace.
- Implement a UK Chemicals Strategy that enables and supports innovation and accelerates circular, low carbon solutions for planet and people.
- Ensure our regulators are sufficiently well resourced with the ability to keep pace with transition and support inward investment.
- Streamline Environmental Social Governance (ESG) reporting processes to remove the administrative burden on companies, enabling them to focus on transition progress.



Innovation incentivised to lead to UK manufacture

The UK chemical industry invests nearly £6 billion each year on R&D, one of the largest of any industrial sector. Through continued investment in R&D and ensuring this investment is commercialised in the UK, the sector can play a leading role in solving many of today's issues, for example helping other sectors achieve net zero, such as through modern battery technology, cost effective green hydrogen production and insulation for homes, providing medicines to keep people healthy and helping prevent pollution, e.g. through chemical recycling of plastics. Although the industry and related academic institutions have a proud record of successful R&D, the UK has been less good at commercialising these inventions in the UK, in what is a truly global industry. For this, we need an even playing field and the Government to ensure that regulatory and innovation investment is comparable with our major competitors in the US, Europe, China and the Middle East.

We welcome a number of recent announcements by the Government, including the Advanced Manufacturing Plan. We particularly welcome re-joining Horizon Europe; making the full expensing of capital allowances scheme permanent; reforms to the R&D tax reliefs to simplify and improve the system and increased funding for UKRI, particularly Innovate UK and the EPSRC. We also welcome the focus on key areas where the chemical industry can play a vital role as a solution provider including battery technology, hydrogen and carbon capture and utilisation. However, it is still hard for companies to compete globally with recently announced packages such as the Inflation Reduction Act in the US and the more recent EU response, the Green Deal Industrial Plan.

Actions

- At least match OECD levels of R&D funding, to maintain quality and attract the best scientists and engineers.
- Look to simplify bureaucratic application and monitoring procedures when applying for Government funded R&D investment.
- Strengthen innovation ecosystems such as Catapult Networks and centres of excellence such as the Centre for Process Innovation (CPI).
- Improve incentives for inventions made in the UK to be commercialised in the UK.
- Continue to invest in AI and digital technology at world-leading levels and encourage uptake by industry, through de-risking implementation.
- Deliver long-term certainty for existing and prospective investors on the business taxation and incentives environment.
- Guarantee long-term support for the Patent Box.
- Provide greater recognition of the chemical industry as a leading solution provider, with similar direct support to other key sectors such as automotive and aerospace. As a vital supplier to key industries we need to be able to access funding allocated to the growth of other customer sectors.



Secure and competitive energy for all

Recent events have only emphasised the importance of delivering secure and competitive energy for all UK consumers, all whilst we transition to net zero – the task is huge. Chemistry is by default energy intensive, and even in a net zero world chemical processes and production require significant amounts of energy. Where that energy comes from hugely dictates the ability to decarbonise and ultimate exposure to high energy and carbon prices for both the chemical sector and many of the supply chains it underpins. Not only does this risk the competitiveness of existing assets in the UK, but it also jeopardises the much-needed private investments to secure jobs and the essential building blocks of existing and emerging technologies transforming UK manufacturing.

Actions

- Put into action the UK's long-standing commitment to delivering the lowest cost energy bills for all UK consumers and, beyond Europe, cost competitive prices for energy and trade intensive industries.
- Implement effective regulator duties in the energy transition to protect all consumers (including those sitting in industrial and commercial sectors).
- As a minimum, retain existing relief schemes for trade and energy intensive industries and look to build a wider level playing field opposite competitor energy prices.
- Abolish the UK-only Carbon Price Support (CPS), which inflates UK industrial electricity prices with no environmental or economic benefit.
- Ensure those consumers that are constrained in transitioning away from gas in the short term are not inadvertently penalised with higher or disproportionate energy prices.

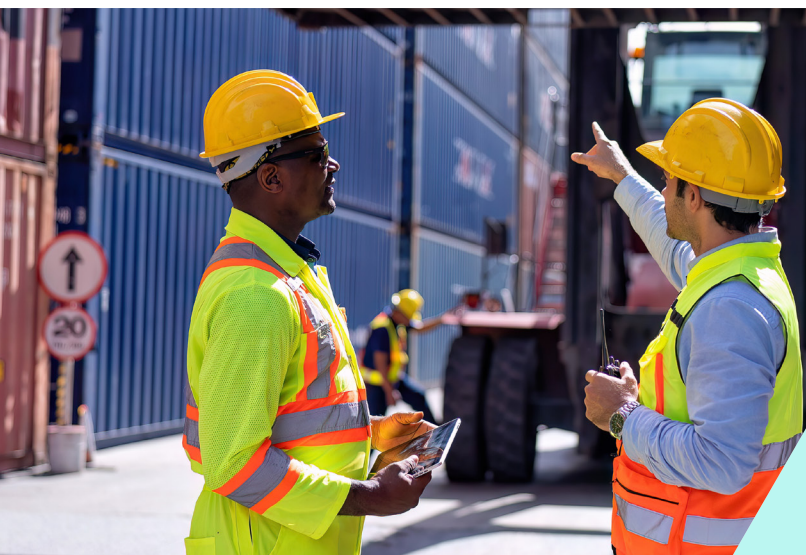


A net zero transition that creates UK business opportunities

The industry is not just a contributor but is a vital part of advanced manufacturing supplying the advanced materials used in clean energy generation and storage, life sciences, the future of mobility and AI and the data economy. However, the barriers to transition must be overcome jointly, particularly for energy intensive, trade exposed sectors like chemicals that compete internationally for inward investment. The past three decades have seen the UK chemical industry reduce its greenhouse gas footprint by over 80%, predominantly through fuel-switching, emission abatement and energy efficiency, but also through loss of production. Now the task for the next three decades is transforming how we produce and what we produce, all whilst remaining globally competitive. Not only will we need access to plentiful and competitively priced alternative energy sources – such as low carbon electricity and hydrogen – we will also need carbon capture and storage infrastructure to remove the emissions that result from chemical reactions during production. On top of this, we will need to reduce the use of non-renewable resources as feedstocks and deliver materials that can be recycled.

Actions

- Commit to growing and simplifying programmes that enable net zero action, such as the Industrial Energy Transformation Fund (IETF). In particular there should be more stability in funding schemes with less tendency to regularly change methodology.
- Push forward with all cluster projects as and when they are ready to implement, along with a plan to support dispersed sites, so no part of Britain is left behind.
- Deliver a long-term and stable carbon market policy, coupled with effective carbon leakage mitigation measures to allow UK manufacturing to compete during the transition to net zero. Central to this will be a UK Emissions Trading Scheme and a Carbon Border Adjustment Mechanism that allow us to compete internationally.
- Create favourable policy conditions for advanced circular recycling technologies, including recognition of a viable mass balance model to drive investment and growth in a new green tech industry.
- Incentivise net zero investment projects through the prioritisation and acceleration of UK permitting and planning processes.



Trade agreements that deliver for businesses in the UK

The chemical sector in the UK fully supports free and fair trade. The consistent and reliable supply of raw materials is critical to an industry that supplies every other UK manufacturing sector. Our products must be traded fairly. From the point of production to regulatory regimes that must be observed, to fair market access and to consistent tariffs on our goods. The modern and comprehensive free trade agreements that the UK is pursuing must focus as much on access and regulatory consistency as they do on tariff liberalisation. CIA will continue to work with Government to ensure industry priorities are understood.

The chemical industry welcomes UK accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the open negotiations with India, Mexico, Canada, Switzerland and the six countries within the Gulf Cooperation Council. We encourage the Government to make every effort to secure a trade deal with the US which remains the largest single market for UK chemical and pharmaceutical exports. In the absence of any agreement what the UK needs is specific deals on materials including and similar to the Atlantic Declaration on critical minerals. FTAs are important but we will continue to work to ensure the sector benefits from Duty Suspensions, a strong Trade Remedy regime and an open and efficient UK border that makes trading from the UK as seamless as possible.

Actions

- Conduct a comprehensive review of the UK Global Tariff.
- Develop a new cross-departmental investment strategy with the full backing of No.10, which strengthens the role of the Office for Investment and establishes a genuine single front door for new and existing investors.
- Utilise UK trade policy to promote gold-standard UK intellectual property standards.
- Develop and deliver a world-leading border and customs regime.
- Provide financial support to SMEs to improve export performance. This could include finance to exhibit at international trade fairs but should include in-country assistance to help companies engage with new business partners.
- Retain and strengthen links with the European Union.



A UK education and visa system that provides people for industry

One million job vacancies across the UK economy – which is over 16% higher than pre-pandemic levels – shows how difficult it is for companies to find people. Specialist production and support roles in the chemical sector such as instrument technicians, engineers and quality control roles are increasingly hard to fill despite salaries at unprecedented levels. Additionally, from time to time chemical plants need major overhaul and production has to be ceased. At times many hundreds of contractors are utilised in overhaul duties. Finding such contractors has also become increasingly difficult and overhauls have had to be postponed.

Actions

- Evolve the Apprenticeship Levy into a more flexible apprenticeship and skills levy, enabling employers to invest their levy funds to support upskilling and reskilling through specific, shorter training interventions. Improve the apprenticeship system to increase and widen participation by removing the functional English and maths skills requirement which would be better supported by relevant training outside of apprenticeships. Make the apprenticeship levy transferable for use across the UK.
- Invest more in training provision to raise the standard and consistency of delivery in all parts of the country.
- Deliver a globally competitive immigration system that enables UK employers to attract international talent where key roles cannot be filled easily through domestic skills by reducing the administrative burden and costs of Skilled Worker visas, ensuring the UK is internationally competitive in both cost and processing time, reforming the operation of the Shortage Occupation List to ensure the immigration system can better respond to industry needs.
- Change is needed within education providers to ensure qualifications, standards and the curriculum are fit for purpose. This should be based on a strategic assessment of where and how skills are needed.

