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30 June 2020

The Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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CIA | Chemical
Industries
Association

Working for chemical and
pharmaceutical businesses

From the Chief Executive
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Dear Chancellor

THE UK CHEMICAL AND PHARMACEUTICAL MANUFACTURING INDUSTRY: HELPING TO REBUILD AND LEVEL UP THE ECONOMY

I write to you in advance of your imminent announcement of a number of further recovery measures for the UK economy and with your subsequent autumn budget in mind.

The products and services of the chemical and pharmaceutical manufacturing industry are essential to everyday life – ensuring everything from clean water to sufficient food, effective medicines to safe travel. The solutions of many chemical companies have also been contributing directly towards the fight against COVID-19 – whether that is repurposing ethanol for hand sanitiser production; supplying key ingredients to ensure effective disinfectants or critical raw materials for paracetamol, insulin and other medications. The past four months have demonstrated our industry's criticality to the economy and broader society and I should like to thank you and the Treasury in particular, alongside Business Department ministers and officials, for all the support which has enabled us to continue operating through the pandemic.

We are also responsible for around half a million largely hi-tech, highly skilled and well-rewarded jobs right across the country, with many in locations that are critical to the Government's levelling-up agenda. The productivity of our industry is 90% higher than other manufacturing sectors and 113% higher than the average across the whole of the economy - with an even stronger performance in the northwest, northeast and Yorkshire and Humberside, in large part due to the important chemical clusters around Runcorn, Teesside and Hull.



Complementing that productivity performance, the chemical sector is also contributing – both directly and indirectly – to tackling climate change and decarbonisation. For every one tonne of CO₂ we emit, the products and solutions we produce deliver a saving of 2.5 tonnes for our customers and, directly, it is chemistry and chemicals that is crucial in enabling a future hydrogen economy and underpinning battery technology and related materials to drive electric vehicle production.

We believe therefore that we are an essential player in responding to the country's immediate challenges and its future ambition.

Looking ahead, however, whilst many chemical and pharmaceutical businesses in the UK have adapted well to the severe economic challenges of the pandemic, the industry is already planning for a prolonged period of reduced demand – especially with regard to key industrial markets such as automotive, aerospace and construction. That said, as you consider your forthcoming key announcement on the rebuilding of the UK economy, we would urge your Government to do all it can to consider implementing the attached immediate, medium and longer-term recovery plan measures that we have prioritised. Stimulating demand for the products and solutions of our industry's customers and their customers, alongside more targeted support for our industry, would, we believe, enhance our industry's ability to deliver more economic, social and environmental progress for the country.

As you know, many other competitor nations and key trading partners of the UK have recently committed to significant economic recovery support packages. With manufacturing in mind, we have seen Germany commit €11 billion to reduce electricity prices for consumers by reducing EEG, a levy on electricity prices to subsidize renewable energy sources wind and solar, €9 billion towards a Hydrogen Strategy: making Germany a "supplier of the world" in green hydrogen technologies and €2 billion to a CO₂ building refurbishment program to fund investments into energy-efficient buildings. In France there is an €8 billion plan to encourage a less carbon intensive automotive sector and a €15 billion aid package for its aerospace industry. The European Commission too is currently seeking to agree a multi-billion euro recovery package – focused on the green agenda – with all Member States.

The UK's own response has of course been extremely supportive – especially with regard to protecting the millions of jobs and related businesses that have been hit first and hardest by the impact of COVID-19 – but a key reason for alerting you to the above comparisons is to highlight that competitive clean energy and thriving manufacturing sectors will not only benefit the chemical industry but are in turn dependent on the solutions that we bring in terms of sustainable products and services. Similarly, the welcome investment in large infrastructure projects, announced this week by the Prime Minister and so crucial to a levelling up of opportunity and growth across the country, will require chemicals and chemistry for raw materials and effects.

To play our part most effectively, all that we additionally ask for is that Government recognises the need for a cost-effective transition to a decarbonised, more sustainable future – best delivered through competitive energy costs for key industrial consumers and long-term and predictable public/private partnerships to secure commercially attractive and

investment-attracting future energy solutions such as carbon capture use and storage and hydrogen.

Chemical and pharmaceutical manufacturing Chief Executives - and their teams across the country - are well placed to support the Government's clearly stated ambition to spread opportunity and prosperity to all UK citizens and they stand ready to help the economy and broader society in whatever way they can.

Good luck with the challenges ahead.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S Elliott', with a stylized flourish at the end.

Steve Elliott
Chief Executive

Immediate (0-3 months)

- Ensure Government adopts an internationally competitive recovery package to help restart the wider economy and stimulate demand (e.g. VAT reduction; car scrappage schemes)
- Secure the earliest possible removal of the 14-day UK quarantine period
- Work with the UK industry to confirm chemical sector capability and resilience, identifying priority reshoring and new investment opportunities
- Accelerate application of the “Chemistry Council” sector deal projects, focused on sustainability and decarbonisation
- Delay removal of the current gas short-haul transmission tariff (failure of which will hit the north east industry and wider economy hardest)
- Adopt climate policy mechanisms that do not undermine domestic manufacturers
- Urge UK and EU27 political leaders to make urgent progress on a UK/EU Free Trade Agreement

Medium-Term (0 – 6 months)

- Review the current Job Retention Scheme to enable Q3 and Q4 support for sectors/ companies facing a lag in demand fall
- Government, regional authorities and clusters to work with industry in agreeing and progressing co-invested resilience/reshoring opportunities (including sector deal projects)
- Secure a minimally disruptive UK/EU Free Trade Agreement (or ensure mitigation measures if WTO/“no deal” outcome)
- Deliver the energy white paper, signalling competitive energy markets
- Cease reallocating energy network costs exclusively to industry
- Ensure energy efficiency of new builds is immediately at net zero
- Reform the Apprenticeship Levy so it works better for business and develop mechanisms for a comprehensive skills programme for STEM-based sectors

0 - 2021 (and beyond)

- Deliver co-invested resilience/reshoring projects
- Secure pragmatic implementation period for new UK trade relationship with the EU
- Secure a comprehensive FTA with the US which offers tariff free access and greater regulatory cooperation
- Ensure an Innovation Principle is embraced across UK policymaking and regulatory system in supporting/enabling a low carbon, resource efficient economy
- Ensure Government’s new Chemicals Strategy is sensitive to economic recovery challenges and key resilience role played by chemical industry
- Government to commit to long-term funding of commercial scale hydrogen and carbon capture use and storage capability and other infrastructure projects
- Reform business rates that unfairly penalise companies with a large physical footprint