Chemical Industries Association

Budget Submission

January 2024

Spring Budget Submission

The forthcoming Spring Budget is an opportunity for the United Kingdom to send a message to the world that we are 'open for business' to attract the investment we need to put our industrial base on a level that can compete across the globe. We believe that at the heart of such an approach has to be a chemical industry that provides the materials needed by sectors such as aerospace, automotive, food & drink and pharmaceuticals.

To enable that, we are calling for action in four areas:

1. **Net zero growth**
2. **Investment in people**
3. **Vital UK chemical regulation**
4. **Business taxation**

A recent journey

Following the 2023 Autumn Statement the Government published the Advanced Manufacturing Plan which contains 110 business support measures through targeted funding of key consumer sectors and clean energy. Even if chemicals were not one of the key targeted sectors, thanks to the supply chain implications of the funding, chemicals used to produce electric vehicles, life sciences, and aerospace can benefit from the introduced measures.

A combination of the permanent extension of Full Expensing, the Advance Manufacturing Plan and the Lord Harrington review, should encourage increased investment in the UK. Nevertheless, at the CIA we are concerned that a new Government's approach might affect the long-term certainty of these measures, creating further uncertainty for chemical businesses which are already facing less generous incentives and more policy instability than that enjoyed by their international competitors.

In Asia, the cheaper cost of labour, less strict regulation and the availability of competitive raw materials all result in higher competitiveness for energy intensive manufacturing. Similarly, the US's Inflation Reduction Act (IRA) grants $369bn over 10 years for green investment, which, coupled with the cheaper cost of energy/emissions, is creating an increasingly attractive environment for manufacturers. Despite tight regulations and high energy costs, the EU remains the biggest global trading block with highly distinctive countries and has responded to the IRA through initiatives such as Horizon Europe, the Green Deal and the Net-Zero Industry Act. Our own Advanced Manufacturing Plan goes some way, but the clear direction of industrial policy and a supporting financial framework is still absent.

Only a stable and realistic industrial strategy will allow our manufacturing sector to keep up with its international competitors. Data shows that, since 2016, the UK has fallen from second to fifteenth place in terms of the flow of inward foreign direct investment (FDI).

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 chemical industry is at the heart of manufacturing with its raw materials and innovative breakthrough essential for traditional manufacturing as well as the net zero transition.

For the manufacturing (and chemical) sectors to regain the presence and effect the contribution they once had, we need the Government to show the world that the UK is open for business and is the place to invest.

Who we are and why the chemical industry is important to the UK

The Chemical Industries Association (CIA) is the UK's trade association representing and advising chemical and pharmaceutical companies located across the UK. Our core membership is a diverse mix of chemical and pharmaceutical companies operating within the UK.

With a combined annal business investment and R&D spend of over £10 billion, £30 billion of value added for the economy, £60+ billion of exports, and the supporting of hundreds of thousands of high paying jobs in all regions of the country, the industry is pivotal to the Government's Levelling Up, Global Britain, Scientific Powerhouse and Net Zero ambitions.

No major economy functions without a manufacturing sector and at the foundation of manufacturing is a chemical industry. Chemicals are raw materials for over 90% of production and are an essential component to creating materials and innovations essential for the net zero transition.

Net zero for chemicals and chemicals for net zero

One of the great societal challenges before us is the achievement of_completely negating the amount of greenhouse gases produced by human activity, to be achieved by reducing emissions and implementing methods of absorbing carbon dioxide from the atmosphere – net zero.

As all other manufacturing sectors, chemical producers would vastly benefit from clarification and improvement to the framework surrounding the net zero transition, but they also play an important role in the transition to a low-carbon economy.

We provide the advanced materials used to make: batteries, wind turbine blades, and solar panels; clean fuels like hydrogen, ammonia, biofuel, e-fuel and sustainable aviation fuel; lightweight materials for transport; and insulation to keep our homes warm. Continued access to a diverse, innovative and prolific domestic chemical sector will enable the UK to compete in newly arising low-carbon industries, ensuring that the electric vehicles we drive are made here because batteries are made here. Without skilled, equipped and competitive chemistry assets, green growth industries will be wholesale importers.

Some specific examples of strategic tech that is reliant on chemicals:

Transport

Cars - biofuels (including E10), synthetic fuels (‘e-fuels’), hydrogen, batteries, lightweight materials low rolling resistant tyres

Power (other than previously mentioned batteries, solar panels, and wind turbines)

Electricity transmission / distribution cables – the insulation is all chemicals

Hydrogen – a manufactured chemical burnt

Buildings

Heat pumps – based on chemical heat exchange

Our budget proposals

1. Net zero growth

With the 2050 net zero target in mind, it is essential for governments to establish a strong framework and objectives for industries. The US introduced the Inflation Reduction Act (IRA) which sets aside $369 billion green subsidy packages over the course of 10 years. Since its introduction, it has already attracted the investment of several businesses across different sectors (including chemicals). Other countries, like Brazil, have opted for a regulatory-based approach; the EU has combined the two approaches by offering financial support and establishing a clear regulatory framework.

Whilst the UK also has policies and financial reliefs in place for companies that invest in green technologies, the existing framework is not comparable with our international competitors and the recent changes to the headline net zero policies may be interpreted by investors as lack of consistency and commitment. For this reason, to foster growth in the UK manufacturing sector and to attain our net zero target, the government needs to support businesses undertaking green investments and create stable conditions that attract foreign investors.

Another key issue closely related to the net zero target is the need for secure and competitive energy for all UK consumers. Energy is not only needed for running our factories but is a feedstock for chemical production, thus the availability and price of green energy strongly impacts our businesses. Due to how the UK energy market is structured and regulated, prices in the UK were significantly higher than in the European Union, North America, and Asia even before the energy cost crisis.

Thanks to price caps and part-subsidisation, the government has been mitigating the cost of wholesale energy for the past two years. Nevertheless, prices remain higher than in pre-pandemic times and are increasingly volatile – neither supporting the case for net zero investments. For this reason, industrial energy prices have been, and continue to be, a priority for the CIA as they pose a serious risk to the international competitiveness of the UK chemical industry.

The CIA is calling for:

1. The rebalancing of renewables policy cost, from electricity to gas bills, that does not negatively impact large gas consumers that cannot immediately reduce gas consumption i.e., because the infrastructure for fuel switching to electricity, hydrogen or for capturing carbon, is unavailable at site.
2. The making use of provisions in the Energy Act to reduce the electricity price differential between the UK and other competing countries, which is currently putting UK manufacturing at a competitive disadvantage.
3. The setting out of a plan to ensure electricity networks have the capacity to meet increased demand from domestic and non-domestic consumers.
4. The implementation of the CCC's recommendation, in their latest progress report, to provide greater levels of funding for industrial electrification consistent with the support available for hydrogen and CCS.
5. Withdrawal of the UK-only carbon price support mechanism which has now delivered on pushing coal-based electricity generation off the grid but the cost of which is still being passed through to all electricity bill payers.
6. The establishment of the promised UK ETS innovation fund from its auctioning revenue to support low carbon manufacturing in the UK.
7. The support of net zero transformation projects by ensuring key planning and permitting bodies are well resourced and policies are modernised (e.g. the establishment of regulatory sandboxes for innovative technologies.
8. Confirming the details of, and then implementing, an effective UK carbon leakage mitigation policy, ensuring decisions on free allocation do not outpace a carbon border adjustment scheme for the chemicals sector and a vital export adjustment is included for products for overseas market where no carbon price exists. Clarity is required by business on future cost and competitive position, to justify new investment.
9. Working with business on the creation of a UK Green Taxonomy providing clarity on what can - and what cannot - be classified as 'sustainable'.

10. Making better use of the Plastic Packaging Tax income and providing subsidies to drive down the cost of recycled material, encouraging demand and attracting investment in UK's recycling infrastructure.

2. Investment in people

Recent CIA business surveys of its membership highlighted that labour supply issues are becoming increasingly impactful to the industry due to rises in the cost of labour and difficulties recruiting skilled workers.

After BREXIT and COVID-19 the number of early retirements and those economically inactive due to health reasons have reached historic highs and tightened the labour market. These tight conditions coupled with inflation increased the cost of labour's impact on businesses, and there is anecdotal evidence of skilled chemical workers moving to the financial sector which typically offers higher remuneration.

The combinations of these factors has induced skills shortages of graduates and experienced workers. As a sector highly reliant on innovation, the UK Government needs to ensure adequate support for companies that engage with universities, aim to bring in international talent and invest in the specialisation of their employees.

The CIA is calling for:

1. Evolving 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 apprenticeship.

2. Investing more in training provision to raise the standard and consistency of delivery in all parts of the country.

3. Delivering 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.

3. Vital UK chemical regulation

Almost seven years after the BREXIT vote we are still waiting for regulations over the registration, evaluation and authorisation of chemicals.

We appreciate it is the Department for Environment, Food and Rural Affairs in the lead on this but it is the Treasury who will sign off on the fees.

The duplication of the existing EU REACH legislation is estimated to cost the UK chemical industry and many of its key UK customer industries between £1 - 3 billion, according to Government estimates. This cost does not improve operations, increase productivity or strengthen health and environmental protection. It is instead a cost for companies to simply duplicate data previously submitted to the EU and largely available on public databases. This cost reduces the competitiveness of the UK chemical industry and restricts much-needed funding for business investment and research and development.

UK businesses looking to place a new or indeed an existing chemical on the market are subject to UK REACH fees of up to £29,000 per substance for a much smaller market size. In the EU that same £29,000 give access to 30 markets (inclusion of EEA countries). Looking to the other countries who have a more comparative market size to the UK, the maximum fees under similar regulations are £1,500.

Like EU REACH, UK companies have similar concerns around the proposed HSE charging scheme for active substances for Biocidal Products, with EU costs again being duplicated for a significantly smaller market size than the EU27.

The CIA is calling for:

1. Government to deliver on the long-awaited post Brexit UK REACH regulation and fee regime that is workable with UK fees needing to reflect the smaller market size companies will be paying for.

4. Business taxes

R&D

Most recent data from the OECD shows that the UK invests less than Germany, the US and Japan as a percentage of GDP in R&D. With R&D at the core of the transition to a sustainable and renewable economy it is vital that the Government increases the percentage of government spending on R&D grants, tax reliefs, fundings and general support.

The CIA is calling for:

1. Simplification of the bureaucratic application and monitoring procedures when applying for Government funded R&D investment.
2. Delivering long term certainty over policies to attract foreign investment.
3. Guaranteeing long term support for the Patent Box

Business rates

Prior to the pandemic and subsequent energy crisis, business rates was consistently reported as one of the biggest issues for the industry by CIA members.

The CIA appreciates the Government's fundamental review of business rates. It does however call on the authorities to go further. Business rates are still a tax that disincentivises investment. The UK government collects the equivalent of 1.5% of GDP in recurring tax on non-residential property. This is significantly higher than the G7, EU and OECD averages, with France posting 0.6%, Germany 0.2% and the US levying no equivalent tax. .

The CIA is calling for:

1. A reduction in the multiplier so that the total tax burden on non-residential property is aligned with international averages.
2. The multiplier to rise annually by a local property index and not by inflation.
3. More frequent valuations and a smaller gap between the valuation year and year of implementation.
4. A consultation into the logistics and feasibility of moving to a land tax rather than a property linked tax.
5. Appointment of a Department for Business and Trade Minister who is responsible and accountable for delivery and reporting on the continuing progress of the Industrial Strategy and creation of an independent office for Industrial Strategy in charge of scrutiny, monitoring and measurement.

The CIA is realistic in its belief that the measures called for in this Budget representation are not a silver bullet and will not solve all the challenges currently facing the UK chemical industry. However, they represent a major step in the right direction and would constitute an important signal from Government that it listens to UK business concerns and acts accordingly. .

Moreover, the CIA is not calling for an unprecedented spending boom and bonfire of regulation; indeed, it is quite the opposite. We appreciate the difficult financial position that the country faces and, in reflecting that fact, we are calling for important yet fiscally deliverable measures. The requests set out above pose a minimal cost to the Exchequer, but fundamentally have the potential to deliver stability and growth in an industry that is the foundation of UK manufacturing, providing economic, social and environmental solutions for today and tomorrow.

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