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SCOTLAND

DT/CY

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Dear Chair

I welcome the opportunity to supplement my recent contribution to the Scottish Affairs Select Committee on behalf Unite the union.

Regarding the forthcoming evidence session, there are several lines of enquiry members of the Committee may be interested in pursuing with PetroIneos', Ineos and EY representatives.

Project Willow estimates a Sustainable Aviation Fuel (SAF)/HEFA plant could be established in the investment region of £800m. Unite's Plan for a Just Transition at Grangemouth has identified that a conversion to SAF/HEFA could be running in just 1-3 years. It can be "co-processed" together with crude, to create an immediate and cheap transition step.

Therefore, why has Project Willow at the instruction of PetroIneos excluded assessing the viability of converting the plant's existing assets. Asset conversion is generally 30-70% cheaper than building a new facility. For example, P66's Rodeo refinery in California transitioned to HEFA in one year, with no job losses at a cost of £1 billion.

In this context, Unite has never received an answer as to why the terms of Project Willow never incorporated potential asset conversion. Therefore, will the company agree to an immediate review of these assets because it could save money, jobs, and skills.

The SAF market in the UK is currently non-existent which is why the UK Government must remove regulatory barriers and deliver commercial stability for investors, or they will take their business to other markets, or we will import it from foreign destinations. PetroChina, a co-owner of the refinery, also has a growing commercial interest in the industry.

Unite believes that SAF production at the Grangemouth complex is essential for energy and defence security reasons. It would aid in the prevention of Scotland and the wider UK being an energy hostage to hostile regimes in the future. The conflict in Ukraine has shown the dangers of import reliance in an international energy market.

Without a homegrown industry, the UK will need to import up to 9 million tonnes of SAF from our competitors abroad such as China at an additional cost of £3bn for the taxpayer according to industry experts, when it could be produced at Grangemouth.

Unite, therefore, believes that there has been insufficient attention on the energy supply insecurities stemming from the prospective refinery closure. We do not share the proposition advanced by the company that there will be no impact on energy supply and security due to the creation of an oil terminal because ultimately it will be dependent upon imports.

We have also vigorously challenged the narrative of Petroineos that Grangemouth is a 'loss-making' site. In the company's accounts over the 2014-22 period if what we describe as an 'anomaly year' in 2020 is discounted, then the refinery actually made a £49m net profit (see accompany financial notes).

From the accounts submitted for the year ending 2021 by Petroineos, which in fact update figures in the 2020-year accounts, there is a note explaining a £383m impairment of tangible assets valuation. To simplify this point for the Committee, the net loss was changed from £70.3m ending 2020 to a recorded loss of £344m.

Impairment costs aren't unusual in accounts but the scale in this case is a clear exception. The bulk of this attributed loss has come from the value under the "Plant and Machinery" section, which between 2019 and 2020, the assets of the company lost 80% of their value.

The basic point is that one-off re-valuation in the plant and machinery section completely distorts the profit picture. It is also important to emphasise that the company never invested allotted capital expenditure into assets to ensure they were fully maintained and operational. The primary example is the refinery's Hydrocracker which was taken offline by PetroIneos in April last year despite it being Unite's understanding that there is no intrinsic technical barrier to it being re-started thus further undermining the profit margins of the company.

We trust these comments and points are helpful for Committee members.

Yours sincerely

Derek Thomson
Scottish Secretary

PETROINEOS MANUFACTURING SCOTLAND FINANCES

Unite's position is that Petroineos is giving a grossly distorted picture of its finances. We do not share the narrative that this is a 'loss-making' site and where it has made losses – and not necessarily net losses – it is down to a number of factors.

We have researched the company's accounts over the 2014-22 time period and if the year 2020 is discounted, then the refinery actually made a £49m net profit. In fact, its last accounts showed a net profit of £80m for 2022.

There is in the company's accounts what we would describe as an **'anomaly year'** for 2020 which identifies a net loss of £344m. This net loss is primarily due to a revaluation of assets This one-off huge net loss then distorts the overall profit picture between 2014-2022.

Date	**Period covered**	**Operating profit/loss (£m)**	**Net profit/loss (£m)**
11th March 2024	31st December 2022	119	80
18th April 2023	31st December 2021	-42	-17
27th October 2021	31st December 2020	-418	-344
6th January 2021	31st December 2019	-17	-22
22nd October 2019	31st December 2018	5	-4
4th October 2018	31st December 2017	33	28
5th October 2017	31st December 2016	10	-2
2nd September 2016	31st December 2015	20	2
2nd September 2015	31st December 2014	-11	-16
		-301	**-295**

From the accounts submitted for the year ending 2021 by Petroineos, which are in fact updated from the figures in the actual 2020-year accounts, there is a note explaining a £383m impairment of tangible assets valuation after accounts submitted. To simplify this point for the Committee and myself, the net loss was changed from £70.3m ending 2020 to a recorded loss of £344m – just like that.

Now as I understand impairment costs aren't unusual in accounts but the scale in this case is a clear exception. The bulk of this so-called record net loss has come from the value under the

“Plant and Machinery” section, which between 2019 and 2020 has apparently lost 80% of its value, and in 2021 accounts is worth less than 10% of its value than in 2019.

So, the basic point is that a valuation of plant and machinery in this one-year completely distorts the profit picture.

Petroineos bosses from last week said the plant is losing £385,000 a day and if we take at face value that figure, which we do not, but if you do then if the hydrogen and hydrocracker units were operating at fully capacity that loss changes dramatically. But the company has taken a decision for reasons which I will come back to, to shut these vital profit-making units down claiming there are reliability issues which we do not believe to be the case.

Without looking to overcomplicate this matter for the Committee, the PetroIneos group structure is complicated to say the least. Petroineos Manufacturing processes petroleum products but it isn’t responsible for the sale of those products. It is PI Fuels Limited that is stated in their accounts as “responsible for the sale and marketing of materials from the Grangemouth refinery”

You can see that PI Fuels Limited has made massive cumulative and year-on-year operating and net profits – total for the period of $753m net.

Date	Period covered	Operating profit ($m)	Net profit ($m)
6th February 2024	31st December 2022	163.8	170.4
1st March 2023	31st December 2021	189.9	190
18th October 2021	31st December 2020	84.9	90.4
6th January 2021	31st December 2019	62.8	67.1
9th October 2019	31st December 2018	39.4	45.3
4th October 2018	31st December 2017	44.9	47
2nd October 2017	31st December 2016	52	52.5
15th August 2016	31st December 2015	49	58
2nd September 2015	31st December 2014	37.1	32.5
		723.8	**753.2**

So, I hope the Committee will note that the loss-making narrative is exactly that, a story sold by the company to justify its decision. It does not corroborate with any of the accounts of the company relating to the refinery or to the sale of fuels from the refinery.

The picture is one overall of a relatively profitable and financially healthy operation and where there are recorded losses such as the anomaly year in 2020 this is down to decisions by the company to mark down its assets, and thereafter a failure on their part to invest in maintenance works at these assets such as the hydrocracker and hydrogen units. To reiterate, there is not an underlying profit problem at the refinery, the problem lies with the decisions the company is making.

Unite is happy to share this financial research with the Committee as we have done with Scottish Government officials but what I would finish on with respect the finances of the company. I urge you on behalf of the workers and the families they support to interrogate the financial data. Don't believe everything the company is saying because the recorded accounts tell a completely different picture from the story PetroIneos is selling you and the Scottish people.