Written evidence submitted by The Chemical Industries Association (CIA) (FRE0139)

Introduction

CIA is the trade association representing and advising chemical and pharmaceutical businesses across the UK. A significant contributor to the UK economy[1] (£17 billion of Gross Value Added on a turnover of £55.5billion), the chemical industry is at the heart of UK manufacturing with chemistry and chemicals helping to ensure clean water, sufficient food, clean energy and many other essentials to everyday life - simply put 96% of all UK manufactured goods have chemical industry content.

Aside from supporting half a million well paid jobs across the country, our sector continues to make a strong contribution – both directly and indirectly – to tackling climate change and decarbonisation. For every tonne of CO2 we emit, the products and solutions we provide deliver a saving of 2.5 tonnes for our customers. Looking ahead, it is chemistry and chemicals that are crucial to enabling a future hydrogen economy and to further increasing resource efficiency in customer industries through the creation of novel materials. We therefore support and have a strong contribution to make both to rebalancing and greening the economy.

UK:EU Future relationship

Our industry continues to work in supporting Government as we fight the COVID-19 pandemic. Through the supply of hand sanitiser and the production of materials to make PPE as well as the manufacture of essential equipment, chemical businesses have taken every opportunity to repurpose production lines to help. This response would not have been possible without the integrated nature of our supply chains across Europe and in some cases beyond. We are the UK's biggest manufacturing exporter, with Europe being our biggest market and trade flows amounting to £46 billion between the two jurisdictions. Whilst the majority of businesses within the sector have continued to operate throughout the pandemic, the next 6 months brings new challenges from potential disruption whether that be the impact of rising infection rates and remaining operational, the speed and duration of both supply and demand recovery in some key industrial markets as well as outcomes of the UK/EU trade negotiations. Therefore, a tariff-free, frictionless free trade agreement that enables regulatory consistency and access to skilled people are key priorities for the European industry. With this in mind, the European chemicals industry – with CIA and its European counterpart, Cefic have been working closely together and is supportive of the Government's approach to securing an agreement that includes a chemicals annex, with a commitment to zero tariffs and minimal delays at border in order to facilitate future trade in goods between the UK and EU. Such an agreement would help secure jobs and growth across the UK, with most of our industry being based across the north of England, central Scotland and South Wales.

Tariffs/trade points

Our industry relies on tariff and quota free trade with the EU. 60% of UK chemical exports are to the EU and our companies rely on EU partners to provide 75% of imported materials. We are not just connected to the European chemical industry we are intertwined, a key element of sophisticated value chains.

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[1] *https://www.cia.org.uk/About-us/Our-industry*

UK Companies have started to assess the potential tariff wedge that will exist when importing from and exporting to the EU in the absence of a free trade agreement. Tariffs are usually payable by the importer, but a number of UK companies have offered to cover the EU's Common External Tariff in addition to absorbing the UK Global Tariff. But with narrow margins on many products the £450 million annual "tax" on business will be impossible to absorb. The UK is a net importer of chemical products in bilateral trade with the EU and so import tariffs are higher than those incurred by EU companies. We know of national chemicals associations advising member companies to review how embedded UK production is within processes and to consider alternative sources of supply. Rules of Origin (RoO) will also impact on business decisions regarding suppliers and it is imperative that a flexible and inclusive definition on RoO is secured.

Regulation – building on our existing progress

Good, effective regulation is essential not only for a successful economy but for a highly regulated sector such as ours to give confidence to our workforce, local communities, consumers and society at large.

REACH

In leaving the European Union we recognise the need to transpose EU law into the UK in particular to avoid a 'cliff edge.' However, given the integrated nature of our industry and our customer industries, UK businesses are in need of a UK chemicals regime (REACH) that avoids duplicating submission of costly data and delivers no additional environmental benefit. The EU REACH regulation has seen businesses across Europe working collaboratively to develop one of the world's largest and most comprehensive database on chemicals. Over 10,000 of these registrations have been submitted by the UK making UK companies the second highest contributor. The cost of duplicating to business alone under the current UK REACH regime is estimated to exceed £1 billion in addition to the £500 million already invested by UK businesses. In order to protect this investment, the UK REACH regime should look to build rather than duplicate existing compliance efforts. It is encouraging that the UK's proposal for a Free Trade Agreement proposes a sectoral chemicals annex, underpinned by data and information sharing mechanisms. Together with our European counterparts we have stressed to negotiators the importance of securing an agreement on chemicals that would allow:

- A data sharing mechanism between the UK and EU allowing the UK to assess chemicals without the need to duplicate costly data submission requirements;
- A cooperation agreement and MoU that is closer than existing agreements the EU has with other third countries given UK's contribution in implementing EU REACH to date. This includes the potential for joint UK-EU collaborations to assess chemicals from a comparable and consistent dataset.

The main benefits to such an approach would be:

- Allowing the UK to regulate chemicals from a more comprehensive dataset and minimise unnecessary divergence in managing chemicals across Europe.
- Prevent UK and EU27 businesses across all sectors from duplicating costly data submissions.
- Assisting the UK's ability to negotiate trade deals globally.

[1] https://www.cia.org.uk/About-us/Our-industry

In the absence of an agreed shared database mechanism between the UK and EU, UK REACH should acknowledge the level of work and expense already made with respect to EU-REACH and focus on prioritising and addressing chemicals of most concern. In addition, UK REACH fees should also be amended to reflects UK's market size for any new registrations made that will be made to the HSE particularly at a time when this can be least afforded by businesses.

Energy
The chemical industry is no different to other users of energy – from household to transport – all needing access to reliable and affordable clean heat and power in order to further progress on its decarbonisation journey. Our sector has already made significant improvements to the energy efficiency of our existing production assets, and we are now dependent on access to secure and competitive zero carbon energy supplies in order to reach the country's net zero target. Access to competitively priced clean energy is essential, because energy is our greatest operational cost and we compete for market share in a global market.

In particular we need a level playing field with the EU on energy and carbon pricing and at the moment, we can expect neither. The UK has published its proposals for a UK Emissions Trading System and Carbon Emissions Tax, to replace the EU Emissions Trading System from the start of next year. The government's proposals for both schemes are more arduous and punitive than the EU Emissions Trading System we are leaving. All of this means we are now facing an uncompetitive investment environment as we head for trade disruption and a historic recession. Multinational chemical companies which own assets all over the world will invest in their EU assets as they run down their UK assets. The UK government does not seem to recognise the cumulative impact of its energy and climate policy on domestic industry, despite consistent representations by trade associations and our members.

The following could go some way to mitigating the impact of high and rising energy and climate cost on our domestic manufacturers, helping to put us on a more level playing field with our EU competitors:

1. **Draft state aid guidelines on carbon pricing, to replace EU guidelines:** Indirect cost and Carbon Price Support compensation is a vital lifeline to industry - worth £33.8m in 2019 to our sector alone - and is set to become invalid in the UK from 1 January 2021. The EU is in the process of updating their state aid guidelines for greenhouse gas trading for Phase 4 of the EU Emissions Trading System, but the UK has not announced its intentions. We need the government to act to ensure that we have a state aid regime in place for 2021, so that we may continue to operate on a level playing field with the EU.
2. **Remove the UK-only Carbon Price Support:** A UK-only Carbon Price Support (CPS) was brought in 2013, to supplement the prevailing low price in the EU Emissions Trading System. It sought to create a more meaningful price signal, that would drive coal off the grid. However, the price of carbon allowances under the EU Emissions Trading System have since increased by 5-6 times and are now effective without additional support. Coal is well on its way off the grid (it represented about 2.1% of power demand in 2019) and this additional cost burden on UK generators is simply

[1] *https://www.cia.org.uk/About-us/Our-industry*

passed through to heavy industry in their energy bill.

Implementing the above measures will provide foundation industries such as ours with certainty and stability, allowing us to remain competitive through the immediate Brexit transition and as we move into a more ambitious UK ETS scheme. It will also go some way to insulating cleaner UK manufacturers from the wider cost of decarbonisation, helping our sector to stay in business whilst we invest in our longer-term projects to reach net zero before 2050.

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[1] *https://www.cia.org.uk/About-us/Our-industry*