



CHEMICAL INDUSTRIES
ASSOCIATION

Policy Priorities

for the UK chemical industry

- A supportive trading environment
- A flexible labour market and social system
- Effective safety, health and environmental regulation
- Better land use planning and appreciation of societal risk
- A secure supply of raw materials and utilities at competitive prices
- Appropriate interventions and instruments to tackle climate change
- A competitive tax regime
- Education and training regimes that support a knowledge-based industry
- A high quality science and engineering base
- Support for innovation
- A workable EU Chemicals Policy



CHEMICAL INDUSTRIES
ASSOCIATION

C1

Chemical Industries Association

Kings Buildings, Smith Square, London, SW1P 3JJ

Phone: 020 7834 3399 Fax: 020 7834 4469

e-mail: enquiries@cia.org.uk www.cia.org.uk

Policy Priorities

for the UK chemical industry

2005



The UK chemical industry lies at the heart of the European industrial economy, serving every branch of manufacturing industry and creating the wealth that makes our whole lifestyle sustainable.

We are an industry that continues to develop and adapt as the world around us changes. Increased globalisation and the heightened expectations of our stakeholders are key factors for us.

The year 2005 is important in political terms, notably in the UK and the European Union, with changes pending and new agendas being developed. Given this background, we wanted to highlight our efforts to achieve a truly sustainable industry, at the same time emphasising how the development of fit-for-purpose, coordinated public policy can support us in our aims.

The chemical industry believes that working as closely as possible with policymakers and other stakeholders is essential to the achievement of sustainability. Thus we welcome the opportunity to engage in further dialogue on any of the subjects in this booklet. We must have such partnerships if we are to continue to meet needs and expectations, now and in the future.

A handwritten signature in blue ink that reads "Judith Hackitt". The signature is written in a cursive, flowing style.

Judith Hackitt
Director General
Chemical Industries Association

March 2005

Did you know...?

- With a turnover of £50 billion, the UK chemical industry is one of the UK's largest manufacturing industries.
- Over the last decade the industry grew almost three times faster than the average for all industry.
- It is British manufacturing's number one exporter, with an annual trade surplus of £5.6 billion.
- It spends £2 billion a year on new capital investment.
- R&D expenditure is equivalent to 10 per cent of sales.

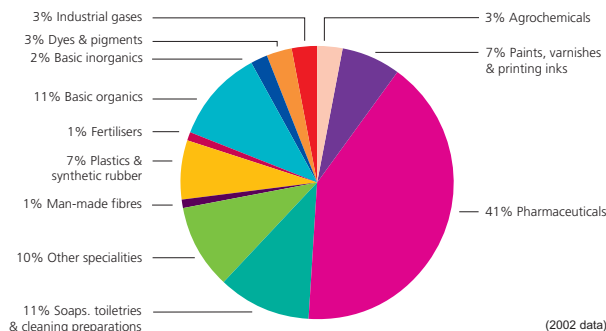
Chemicals are vital to society

Whether playing sport, doing our jobs, going on holiday, buying clothes, cooking, listening to music, taking medication, having a shower or just drinking a glass of water, products made from chemicals will be on hand, providing choice, reliability, efficiency and well-being. These products meet people's needs; they improve their lives.

Chemicals are vital to UK manufacturing

The chemical industry manufactures a diverse range of materials and products. Some materials are used as ingredients for chemical products such as pharmaceuticals, paints and personal hygiene goods, many of which are purchased by final consumers. However, about half of the chemical materials and products made are purchased directly by other industries and are vital inputs for the products and services they provide.

UK chemical industry sector shares of gross value added

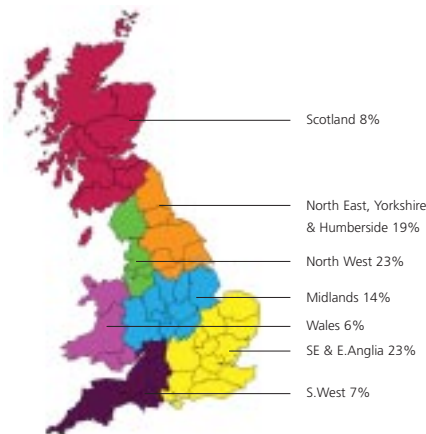


Chemicals are vital to UK employment

The UK chemical industry provides direct employment for 225,000 people and supports several hundred thousand additional jobs throughout the economy. It has a relatively higher proportion employed in medium size enterprises when compared to other European countries.

On average, full-time employee hourly earnings are 34 per cent higher than in manufacturing generally. This reflects high skill, productivity and training levels.

Chemical industry employment by region - % shares of GB total



Chemical industry and regulation

We are a highly regulated industry and rightly so, given the nature of our business. Regulation is essential if we are to improve our reputation and promote confidence in what we do. But it must be good, effective regulation, achieved through early consultation with stakeholders, aimed at meeting mutually agreed objectives. In this spirit, the chemical industry welcomes the European Commission's focus on better regulation, encouraged by the UK Government in the priorities it has set for its EU Presidency in the second half of 2005.

We need your help

There are many areas in which future policy decisions can assist us in meeting needs and expectations, realising our vast potential in achieving a sustainable industry and continuing to be productive and innovative - these are set out below:

● **A supportive trading environment**

The chemical industry operates in a global market and such markets operate most effectively in the absence of barriers. We support the EU's call for a broad-based multilateral trade negotiation incorporating removal of tariff and non-tariff barriers. We commend its intention to seek a timely and successful conclusion to the Doha Development Round, based on fairness and trade justice. In the expanding EU, we believe that new member states should be obliged to comply as soon as possible with state aid rules and with safety, health and environmental regulations.

● **A flexible labour market and social system**

In order to maintain and enhance our ability to compete the chemical industry needs the highest possible contribution from its workforce. Our challenge is to continue our drive for innovation and quality, in the way we conduct our employment relations. To do this we need to work in partnership both with regulators and our workforce. Workers and their representatives need to fully embrace all opportunities to learn new skills, work in a way that is continually changing and support the drive for sustainable development. Employment law created without any assessment of its impact on the overall employment relationship and business success will impede progress. Legislators, policymakers and regulators need to develop proposals that create a framework to support that relationship and its contribution to the sustainable development of the industry.

● **Effective safety, health and environmental regulation**

The regulations with which the industry complies, and their enforcement, should lead to the highest standards of safety, health and environmental protection, without compromising members' ability to run their businesses. CIA, HSE, the Environment Agency and SEPA have in partnership created a framework for ensuring proportionate and consistent regulatory enforcement, and are co-operating in a project to define criteria under which companies demonstrating exemplary risk management would qualify for reduced regulatory attention, allowing the regulators to focus on

businesses of most concern. Support would be welcome for both this and the recommendations of the Hampton regulatory review: *Reducing administrative burdens; effective inspection and enforcement*, launched in the UK's 2004 Budget Statement.

- **Better land use planning and appreciation of societal risk**

Tight demands on land in much of the UK often results in pressure for development close to major hazard sites, many of which are chemical plants. Planning decisions are affected by considerations of the safety of those using the developments, local employment and potential for land blight. A clear and appropriate Government policy, agreed by all relevant Departments, is vital, both to give companies the confidence needed to continue to operate and to innovate, and to provide reassurance that public safety is being fully taken into account.

- **A secure supply of raw materials and utilities at competitive prices**

After a year of rising energy prices, 2005 began with the introduction of a UK wide electricity market, the proposed sale of Gas Distribution Networks and the establishment of competition in water supplies. It is important to monitor amendments to market arrangements, wholesale prices and network access, transmission and other charges. We believe that market reform should only be approved where there are clear benefits to the consumer. The key now lies in appropriate levels of investment to ensure utilities can be supplied at competitive prices with adequate security of supply.

We remain concerned about the efficiency of the wholesale gas market, particularly the forward market, which threatens the competitiveness and viability of the entire chemical sector. The creation of a single liberalised market in

European energy is essential to guarantee the future of a competitive and efficient liberalised UK market. Flexible interconnectors with large import capacity, diversity of supplies and the appropriate onshore network for onward supply are vital. The new long-term investment regime that Ofgem has pioneered in the UK is encouraging, but it is too early to say whether this will deliver vital investment, secure supplies and competitive prices. Forecasts for winter 2005/06 predict a tight market and forward prices are showing a continuing decline in UK competitiveness.

- **Appropriate interventions and instruments for tackling climate change**

We have supported the principle of European Emissions Trading since the draft EU Directive in 2001, but have stressed throughout that its implementation must go hand-in-hand with a rationalisation of the UK's climate change policy mix. In order to keep administrative costs within reasonable bounds, it is essential that the number of economic instruments be kept to a minimum. Their power must strike a balance between economic and environmental goals. The present complex array of instruments, together with the tough EU Emissions Trading Scheme cap set by the UK Government ahead of other member states, is potentially damaging for competitiveness. Furthermore, the continuous slippage of the announcement of the UK's definitive National Allocation Plan has been detrimental to business.

It is essential that the UK Government adopts climate and energy policies that recognise business's need for a level playing field whilst continuing to address our present climate responsibilities as captured in the Kyoto Treaty, for example. A welcome start would be rationalisation of the UK's energy policy mix, with specific focus on the Climate Change Levy, a continuing push for EU energy market liberalisation - and more incentives for technical innovation, on the American model.

- **A competitive tax regime**

The overall level of tax, in all its variants, experienced by our companies should not exceed comparable levels in competing countries, to ensure a level playing field across the industry.

- **Education and training regimes that support a knowledge-based industry**

Europe has some of the best brains and the most innovative companies in the world. The chemical industry has always been knowledge-based. We are seeking more effort to improve the quality of education and training in science and technology. Within the EU, particular emphasis needs to be given to:

- ¥ improving practical scientific and engineering skills
- ¥ developing an appreciation of the role of science in society and encouraging science based careers
- ¥ helping facilitate industry's links with universities, especially in the field of technology transfer
- ¥ extolling greater use of European mobility schemes to help create a robust European Research Area and facilitate cross fertilisation of knowledge
- ¥ encouraging entrepreneurship with a view to catalysing innovation and growth, especially for the chemical sector.

- **A high quality science and engineering base** with increased funding for infrastructure support, manned by well trained, creative and motivated staff is essential at all levels. To compete in a global environment, it's essential that Europe has investment in basic research through collaboration between research establishments across the continent.

- **Support for innovation**

Unlike research, which is idea creation, innovation is the successful commercialisation of ideas. It is the means for delivering profitable, successful businesses for Europe's chemical industry, its suppliers and customers and is a vital element of sustainable development. The distinction between research and innovation is important and support mechanisms need to reflect the differing requirements for success in both. Without innovation, the chemical industry will not survive; the most successful companies need to innovate constantly.

- But all of the above is academic unless we work together to deliver **a workable EU Chemicals Policy**.

The CIA and its European counterparts fully support the goals of the European Commission's proposals; we believe that existing EU chemicals legislation is complex and unclear.

However, implementation of REACH in its current form will create a bureaucratic, costly and inefficient system in no-one's interests. Successful implementation of REACH depends upon resolving several issues crucial to its *workability*, whilst maintaining the sensible limitations to its *scope* that were agreed prior to adoption of the proposal by the Commission (in particular, the exemption of polymers and intermediates).

We believe that REACH must be applied pragmatically and proportionately, focused on those relatively few substances that may be of genuine concern, and with realistic deadlines. If this is not achieved then the adverse effect on international competitiveness will be excessive and unwarranted as REACH is a concern, not just for the chemicals sector, but for manufacturing industry as a whole.

The chemical industry must earn and retain its licence to operate

In July 2004, CIA launched an integrated set of economic, social and environmental goals for sustainable development. These are underpinned by the following guiding principles:

Safe products and operations

Safety is our highest priority. We will deliver products and services that provide benefits to society while ensuring that they are used safely in their intended applications. We will also manage our operations in a manner that ensures we aim for the highest possible health, safety and environmental performance.

The CIA has committed to develop the first database of chemical substances marketed by its members in the UK and will work to encourage others to extend this to the whole of the country.

Productivity and resource efficiency

We will strive continually to improve productivity and achieve sustainable profitability through the more efficient use of resources, taking account of the full product life cycle.

Innovation

We place a high priority on innovation and will continue to identify profitable new products, processes and business improvement opportunities as a means of satisfying customer needs.

Innovation is key to ensuring successful substitution programmes, which place better, more environmentally friendly products on the market.

Fairness

We will be fair and equitable in all our business relationships.

Respect for people

We will treat people with respect and dignity and will listen to and learn from the diverse views of our stakeholders.

"I welcome the development of the Guiding Principles and Goals as an important step in helping to put the chemical industry on the path to sustainable development"; Rt Hon Margaret Beckett MP, Secretary of State for Environment, Food and Rural Affairs, July 2004.

Working environment

We will create a working environment free from discrimination that encourages people to develop and contribute to the success and sustainability of the business.

Solid partnerships with trade unions yielding a range of joint statements, for example on worker protection.

Openness

We will report on performance and progress towards declared goals and adopt verification processes that meet stakeholders expectations. The industry will give its first progress report in October 2005.

"We want stakeholders to scrutinise our activities and behaviours over the coming years, monitor our progress and help us determine how we can meet society's needs and expectations ever more sustainably in the future"; Alistair Steel, CIA President, 6 July 2004.

Leadership

We will strengthen our individual and collective leadership and thereby accelerate delivery of our contribution to sustainable development.

Compliance

We will comply with legal requirements applying to our business operations and, in addition, adopt voluntary codes of practice where we believe these can help us achieve even higher standards.

Endorsement

We endorse these principles and will adopt appropriate management systems to assess our progress towards sustainable development.

The global perspective

The fact that chemical companies in the UK and Europe do not operate in a closed market but a global one must be considered at every stage of policy development.

This industry's globalisation continues apace with developing countries accounting for most growth. The present world chemicals market of about \$1.8 trillion will have expanded by the year 2010 to over \$2.4 trillion, but with a rather different geographical emphasis.

A transparent multilateral framework for free and sustainable trade is vital for an industry that serves consumers all over the world.

European Union Constitution implications

The CIA has to retain the strongest possible voice in Brussels, where the bulk of the legislation affecting our industry originates.

The benefits of membership of a large single market are well recognised throughout British business but are especially true for a global industry such as ours. Those benefits also bring a responsibility to engage with the EU's decision-making processes and help make them better. The chance to take a smarter approach to regulation - that does not adversely impact upon our competitiveness - is a high priority.

Whichever way the British electorate votes on the EU Constitution, it is vital for the industry that the UK remain a key player in Europe. We would be very concerned if the outcome of the national debate resulted in any diminution of the UK's role - and therefore, the British chemical industry's influence - in the EU.

International corporate imperatives

The companies most likely to be successful in the long-term will probably have one or more of the following characteristics:

- Global deployment based on cost-competitiveness

This will often involve strategic alliances with other companies. Global investors also need globally sized businesses; in the last decade the number of chemical companies in the FTSE 350 has halved.

- A high level of investment in the future

This includes training and development of staff; R&D, and other aspects of innovation; intellectual property protection; superb health, safety and environmental performance and full engagement with stakeholders.

- Adaptability and speed of response in meeting customers needs.

The Chemical Industries Association (CIA) is the predominant trade association and employers' federation for the chemical industry. Our membership is made up of 150 operating companies, based at 200 manufacturing sites nationwide. Our mission statement is:

*"To represent the UK chemical
and allied industries to all
external stakeholders and to
support our members in
achieving economic, social and
environmental sustainability."*

Further information

For more information about the contents of this booklet or the work of the CIA, please contact:

Vicky Forbes
Government Relations Manager

Chemical Industries Association
Kings Buildings
Smith Square
London
SW1P 3JJ

Tel: + 44 (0) 20 7963 6772
e-mail: ForbesV@cia.org.uk

Or log on to our website: www.cia.org.uk

