CIA

CHEMICAL INDUSTRIES ASSOCIATION

CIA First Quarter Economic Report 2021

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Executive summary

Official data from the Office for National Statistics (ONS) show that out of the 23 manufacturing industries in 2020, the **chemical industry was one of two to increase production** with output growth of 3.3%. This resilient performance was reiterated by international comparisons, as US and EU chemical production contracted 3.9% and 1.8% in 2020 respectively.

In the final quarter of 2020, **stockpiling ahead of the end of the transition period boosted UK chemical production** by 7.3% to levels which historically have never been maintained in the mid-term. ONS data for the first two months of 2021 display a slowdown in chemical production towards a more sustainable level, however at the end of February 2021 - excluding the prior two months - chemical production was still at its highest level since September 2008.

"85% of respondents felt logistical issues post-Brexit remain the largest issue for the industry

The **UK's trade deficit of chemicals shrank from £3 billion in 2019 to £49 million in 2020**, as exports rose 2.3%, while imports fell 6.6%. Monthly trade data was volatile for the first months of 2021 as the coronavirus exacerbated logistical issues post-Brexit. After rising 20.9% in December 2020, chemical exports to the EU fell 55.9% in January, which was followed by a partial recovery of 63.4% in February.

Chemical employment remained flat in 2020 while Gross Value Added (GVA) rose 3.4%, in line with production. Business investment in the chemical and pharmaceutical industry rose 14.8% in 2020 to £6 billion.

Key survey findings

- CIA survey respondents report their third successive quarter of growth since the lows of the second quarter of 2020.
- Comparing the first quarter of 2021 to the final quarter of 2020, more than 80% of companies reported that total sales volumes either increased or stayed the same. Whilst domestic sales largely stayed the same, non-EU exports saw an increase to offset what looks like a temporary fall in EU exports as companies grapple with the new trading arrangements and run-down pre-Brexit stockpiles.
- Continuing to focus on the first quarter of 2021, over 40% of respondents reported an increase in new orders whilst 34% saw an increase in production levels and 32% improvements in capacity utilisation. Employee numbers, R&D spend and capital expenditure largely stayed the same, however, more companies reported an increase than a decrease.
- Sentiment remained bullish when looking 3 and 12 months ahead, with growth expected both domestically and internationally.
- 85% of respondents felt logistical issues post-Brexit remain the largest issue for the industry.
- The Chancellor's Super Deduction will cause small amounts of new and brought forward investment while the majority of respondents will just enjoy the relief with no change.
- 62% of respondents are not currently planning to utilise the Freeports however many need to assess them in more detail before a final decision is made.
- 65% of respondents use the current R&D tax relief, however, it has a minimal impact on investment intentions. Clarity, simplicity and reduced admin are required moving forward.

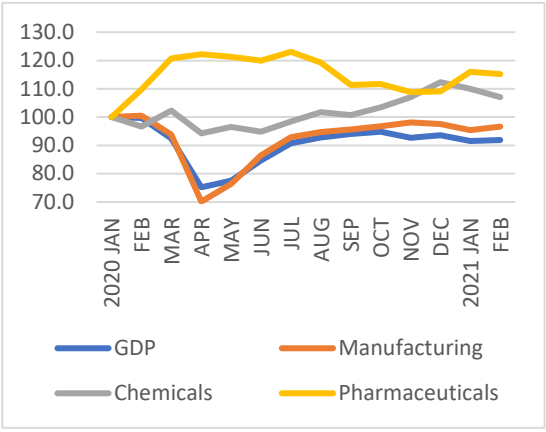
An Economic overview of the chemical industry

The data in this section is gathered from the ONS and other counties' statistical agencies. It is worth noting that monthly data - used for production and trade analysis - should be interpreted with caution and is likely to be revised by the ONS moving forward.

Production – Domestic comparison

As the UK's GDP contracted 9.2% in volume terms in 2020 and manufacturing output fell 9.4%, the chemical industry was one of only two manufacturing industries to increase production with annual growth of 3.3%. This resilience was driven by multiple factors, many of which are explained in the '*Explanation'* section on page 5 of this report. Chemical production contracted 4.4% in the second quarter of 2020, while companies got to grips with how to safely operate in lockdown, before rebounding 5.3% in the third quarter as the economy began to reopen. Stockpiling ahead of the end of the transition period drove chemical production up a further 7.3% in the final quarter of 2020 to levels that historically have never been maintained in the mid-term. In January 2021, chemical production is estimated by the ONS to have contracted by a relatively modest 2.1%, chemical production experienced a further fall in output in February of 2.4%. Despite this, excluding the months in the final quarter of 2020, chemical production in February 2021 was still at its highest level since September 2008. Therefore, it is expected that chemical production will continue this steady contraction in the coming months to a more historically sustainable level.

Graph 1 displays the monthly index of GDP and the monthly Index of Production for the manufacturing sector, chemical and pharmaceutical industry



Source: CIA analysis of ONS data

The UK has a world leading pharmaceutical industry that has been vital in managing the virus, for this reason the pharmaceutical industry was the only other manufacturing industry to increase production in 2020 with output growth of 13.6%. This strength continued into 2021 as output grew 6.3% in January before contracting 0.7% in February.

Production - International comparison

It is clear from the previous *'Production – Domestic comparison*' section that the UK chemical industry displayed a rare resilience in 2020 compared to the rest of manufacturing, but is this phenomenon exclusive to the UK or a trait of every chemical industry in 2020?

Table 1 displays the annual growth in chemical production in 2020 for the 9 countries that the UK exports the most chemicals to, as well as an EU27 aggregate

EU-27	-1.8%
US	-3.9%
Germany	-1.1%
Ireland	-0.8%
France	-8.2%
Netherlands	-0.2%
Belgium	-2.8%
Spain	-2.1%
Italy	-7.8%
Poland	1.8%

Source: CIA analysis of Eurostat & FRB data

Of the 10 regions, Poland was the only one to increase chemical output in 2020 with production growth of 1.8%, 1.5% lower than the expansion experienced in the UK. The US and EU27 chemical industries, the largest export markets for the UK, contracted by 3.9% and 1.8% respectively. It is therefore clear that the UK chemical industry displayed comparative resilience both domestically and internationally.

Trade

1 January 2021 marked the end of the transition period, only eight days after the post-Brexit trade deal was agreed. With a resurgence of the coronavirus causing the temporary shutting of borders, this ultimately led to volatile trade in the first couple months of 2021. This comes after stockpiling ahead of the end of the transition period, which had already boosted trade in the final months of 2020.

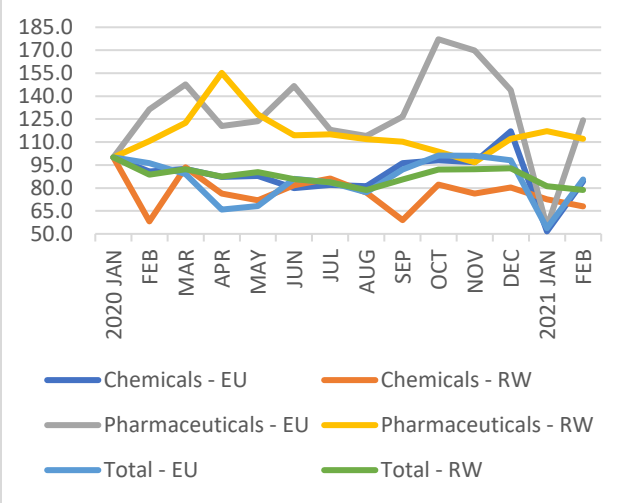
The total value of goods exported by the UK in 2020 fell 16.6%. When looking at export destination the fall was relatively evenly split between the EU and rest of the world with contractions of 15.2% and 17.9% respectively. Focusing on 2021, the value of exports to the EU fell 45.3% in January before partially rebounding 59.5% in February, exports to the rest of the world fell by a lesser 12.6% in January, although did not experience a recovery in February falling a further 3.1%.

The fall in imports was similar to that of exports in 2020, however, when focusing on 2021 movements, they have been less profound. The total value of imports fell 15.5% in 2020 with a relatively even split between the EU and rest of the world with contractions of 15.8% and 15.1% respectively. In 2021, imports from the EU fell 33.7% in January, while rest of the world imports rose 2.8%. In February, both EU and rest of the world imports rose by 13.3% and 15.5% respectively.

Turning our attention to the chemical industry, chemical exports rose 2.3% to £32.3 billion in 2020, this equates to a 1.0% rise in EU exports and a 3.9% rise in rest of the world exports. Focusing on 2021, after rising 20.9% in December 2020, chemical exports to the EU fell 55.9% in January which was followed by a partial recovery of 63.4% in February. Exports to the rest of the world were less volatile contracting 9.8% and 6.3% in January and February respectively.

Chemical imports contracted 6.6% in 2020 to £32.3 billion, solely driven by a fall in imports from the EU of 10.1%, while rest of the world imports rose 2.2%. Imports of chemicals from the EU fell 17.0% in January followed by a further 12.4% fall in February, this shortfall was made up for by rest of the world imports which, after contracting 1.8% in January, rose 30.6% in February.

Graph 2 displays the monthly index of total UK, chemical and pharmaceutical exports to the EU and rest of the world



Source: CIA analysis of ONS data

Finally, pharmaceutical exports contracted 9.5% in 2020 to £20.9 billion, solely driven by a fall in exports to the rest of the world of 17.5% while exports to the EU rose 2.4%. Exports to the EU fell 62.2% in January 2021 which was followed by a partial recovery of 128.1% in February. In the same period exports to the rest of the world were far less volatile growing by 4.5% before falling 4.3%, respectively.

Pharmaceutical imports fell 7.0% in 2020 to £23.7 billion, unlike with pharmaceutical exports, this was driven by a fall in imports from the EU of 10.7% while rest of the world imports rose 8.6%. EU imports fell 53.5% in January followed by a partial recovery of 32.2% in February, in the same period rest of the world imports rose 4.0% and 68.9% respectively.

Gross Value Added (GVA)

Aligned with production data, GVA, (which simply defined is income minus expenditure) within the overall UK economy contracted 9.2% in 2020 to £1.7 trillion, whilst manufacturing GVA contracted 9.5% to £170.8 billion. Chemical GVA increased 3.4% from £11.2 billion to £11.6 billion, whilst pharmaceutical GVA rose 13.6% from £13.7 billion to £15.6 billion. Chemical and pharmaceutical's combined share of manufacturing GVA rose from 13.2% in 2019 to 15.9% in 2020.

Employment

The chemical and pharmaceutical industry directly employs just under 150,000 people, and in spite of 870,000 people being removed from payroll between March and November 2020, and Make UK reporting a "*jobs bloodbath*" in mid-2020, chemical and pharmaceutical employment grew. In line with production, pharmaceutical employment grew 9.1% in 2020 whilst chemical employment remained largely flat, with technical growth of 1.0% - however this could be due to rounding errors in the data.

Investment

Business investment in the UK economy fell sharply by 21.3% in the second quarter of 2020 before experiencing two consecutive quarters of partial recovery with growth of 11.3% and 9.7% respectively. At the end of 2020, business investment in the UK economy was down 6.2% compared to the end of 2019, however on an annualised basis, it fell 10.3% in 2020. Business investment in the manufacturing sector contracted 3.4% in 2020, whilst in the same period chemical and pharmaceutical business investment - which accounts for 19.8% of manufacturing's figure - rose 14.8% to £6 billion.

Explanation

Setting out the facts in this section - provided by the ONS and other countries' statistical agencies - has highlighted the resilience of the UK chemical industry both domestically and internationally. However, misinterpreting this resilience and thinking the industry has been without challenges would be a mistake. Chemical companies worked tirelessly in 2020 to ensure they could operate safely under the Covid guidance and amid preparing for a new trading relationship with their biggest market, whilst the uncertainty surrounding UK REACH remained high. Despite the positive performance in 2020, when we look to the future, the industry is in a fragile state. In the near-term there are still a number of trade frictions with the EU27 which have the potential to cause a permanent loss of business. UK REACH is yet to be finalised and has the potential to be a billion-pound threat to the industry. In the mid-to-long-term, the transition to

net zero poses a huge challenge to the industry, which will be crucial in creating the innovations required for said transition. With that said, 2020's resilience was driven by five main factors:

1. The structure of the UK chemical industry – Every country's chemical industry is compiled of a different structure of subsectors. The UK chemical industry's largest subsector, accounting for 34% of production, is the *'manufacture of soap and detergents, cleaning and polishing preparations, perfumes and toilet preparations'.* Output in this subsector rose 11.8% in 2020 helping stimulate the other chemical subsectors.

2. The UK's world leading pharmaceutical industry – Every country's chemical and pharmaceutical industries are closely linked, with the latter being a key end market for the former. The UK boasts a world leading pharmaceutical industry that has risen to the challenge posed by Covid-19. In 2020, pharmaceutical production in the UK increased 13.6%, far outperforming the likes of the US and EU27 that experienced changes in output of 1.7% and 5.4% respectively. The strong performance of the UK pharmaceutical industry helped mitigate the damage linked to the closure of some of the other key end markets in the second quarter of 2020.

3. Partial rebound of key end markets in the third quarter of 2020 – For example, after a tough second quarter, the automotive industry and construction sector experienced partial rebounds of 168.9% and 41.3% respectively, helping drive demand for chemicals.

4. Stockpiling ahead of the end of the transition period – UK chemical production rose 7.3% in the final quarter of 2020, as chemical companies on both sides of the Channel stockpiled ahead of the end of the transition period.

5. Poor performance in 2019 – UK Chemical production contracted 1.3% in 2019, meaning there was a positive carryover effect to 2020.

Survey data

About the survey

The Chemical Industries Association (CIA) undertakes a quarterly business survey of its membership, with the goal of understanding the current performance of the industry, what issues are being faced by its members and where opportunities can be found. Responses to the CIA's Q1 2021 Business Survey were gathered between 15 and 26 March 2021. The survey was completed by around 45% of CIA membership, which whilst useful for improving the CIA's understanding of the challenges faced by its members, it should not be used to make fixed predictions about an industry that exports over £50 billion of goods each year. Instead, data should be used anecdotally to give a good impression of what is occurring in one of the UK's leading manufacturing industries.

The survey begins with a standard set of industry performance questions. Members are asked, regarding the 12 variables listed below, whether levels have increased, stayed the same or decreased compared to the previous quarter and what their expectations are looking forward three and 12 months. Members are also asked how the current level of the 12 variables compare to what they would expect to see on an 'average 'year. CIA members range from single manufacturing sites to multinationals with multiple UK manufacturing and research operations. With this in mind, it is important to note that CIA survey results are not weighted by company size, therefore they track member sentiment surrounding each variable rather than volume changes as every member has an equal voice. Often member sentiment and volume changes are correlated, however, this is not always the case, for example, if four small companies report a fall in sales, whilst one large one reports an increase, sentiment will be negative, whilst in volume terms sales may have increased.

Variables:

1. **Total sales**
2. **Domestic sales**
3. **Exports**
4. **EU exports**
5. **Rest of the world exports**
6. **New orders**
7. **Production levels**
8. **Capacity utilisation**
9. **Employee numbers**
10. **R&D spend**
11. **Capital expenditure**
12. **Business optimism**

Prior to the CIA's Q2 2020 Business Survey, the industry performance section only asked for data on variables 1,3,9,10 and 11, so historic data for the remaining variables is unavailable. When presenting the industry performance data, the CIA uses diffusion indexes. Diffusion indexes are an easy to interpret statistical tool, any figure above 50 indicates an expansion and below 50 indicates a contraction. In other words, if more members report an increase in a variable than they do a decrease then the figure will be above 50.

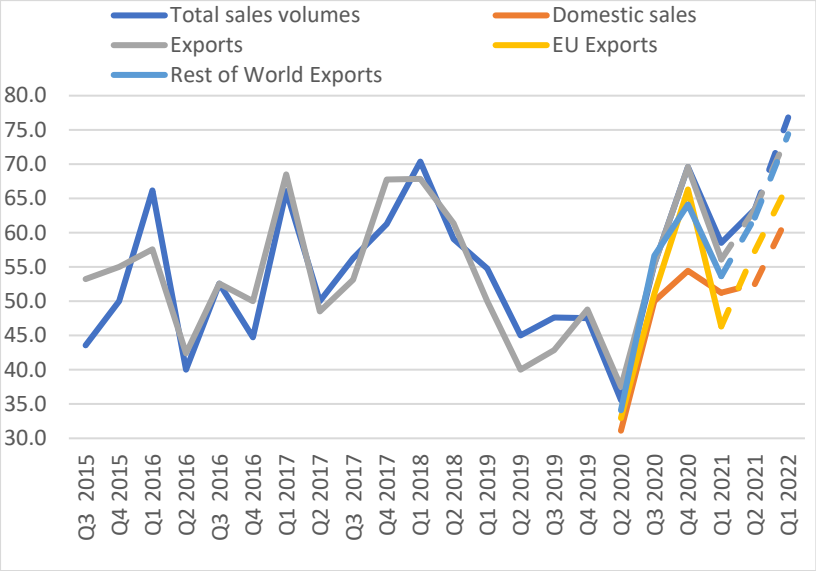
Total sales: Domestic vs Exports, EU vs Rest of the World

In the first section of this report, official data from the ONS indicated that stockpiling ahead of the end of the transition period, border friction, and closures in order to stop the spread of Covid-19, led to a sharp falloff in chemical trade in the start of 2021. This fall was spearheaded by reduced trade with the EU27. In spite of this, more respondents to the CIA's Q1 Business Survey experienced an increase in total sales volumes than a decrease in the first quarter of 2021 compared to the final quarter of 2020.

Graph 3 displays the timeseries of the diffusion indexes for total sales, domestic sales, exports, EU exports and rest of the world exports. It is important to remember that any figure above 50 indicates an

expansion (aka more respondents reported an increase than did a decrease), so a fall from 69.6 to 58.5, as was seen between the final quarter of 2020 and the first quarter of 2021 when looking at the total sales diffusion index, does not indicate that total sales contracted in the first quarter of 2021, rather that it grew at a lesser pace.

Graph 3 displays historic and forecasted diffusion indexes for total sales, domestic sales, exports, EU exports and rest of the world exports



Source: CIA Q1 2021 Business Survey

Understandably, due to the endogenous nature of these variables, all lines on the graph follow the same pattern. In line with the fall in chemical trade with the EU in January and February as reported by the ONS, EU exports were the only variable to have a contractionary figure in the first quarter of 2021 with a diffusion index of 46.3. Domestic sales continued the modest growth it experienced in the final quarter of 2020 with a diffusion index of 51.3, whilst the rest of the world exports continued to be the best performing region with a diffusion index of 53.7.

Focusing on the future, the dotted lines on the right of the graph display member expectations for the next quarter and 12 months' time. It is clear that the success of the vaccine rollout and increased clarity, following years of uncertainty post the EU referendum, have led to members being incredibly bullish for the future. EU exports are expected to return to growth in the second quarter of 2021 as stockpiles on both sides of the channel begin to be depleted. Domestic sales are expected to experience another modest quarter of growth, whilst exports to the rest of the world continue to be the largest driver of sales growth. Looking forward a year, expectations follow the same pattern as the second quarter of 2021, however to a more positive degree.

This survey displays the third successive quarter of sales growth since the lows in the second quarter of 2020. Although positive, growth is inevitable when recovering from a crisis, so it is important to ascertain how far along the recovery process the industry is. Despite ONS data displaying that chemical production rose 7.3% in the final quarter of 2020, to levels that historically have never been maintained in the midterm, when asked to compare the current level of the variables in graph 3 to what members would expect in an 'average' year, it is clear that members feel they are yet to recover to pre-pandemic sales levels.

Table 2 displays the diffusion indexes for the question "Compared to what you'd usually expect for this time of year, are the following variables above, on or below expectations?"

Variable	Diffusion Index
Total sales	46.3
Domestic sales	37.5
Exports	47.5
EU exports	39.0
Rest of the world exports	51.2

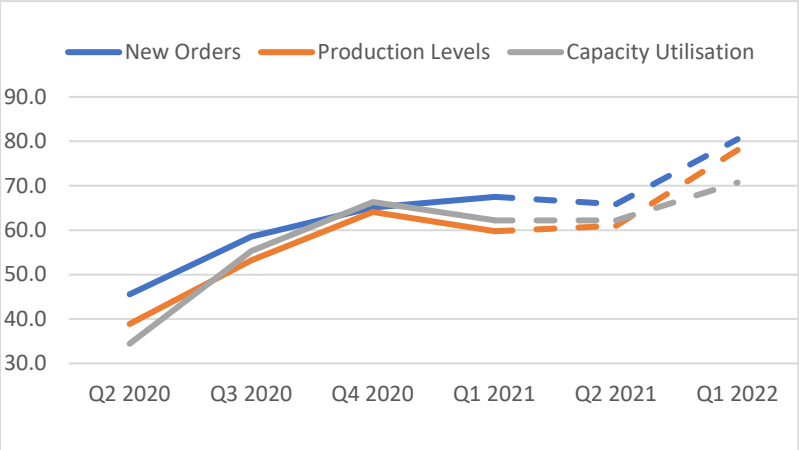
Source: CIA Q1 2021 Business Survey

Table 2 shows that the domestic and EU market are underperforming and are the largest contributors to the below expectation total sales figure of 46.3. Rest of the world exports were the only region that were performing better than expected.

New orders, production levels and capacity utilisation

As was the case with total sales, domestic sales and exports; new orders, production levels and capacity utilisation tend to be correlated. New orders lead to increased production levels, which in turn leads to improved capacity utilisation. New orders, production levels and capacity utilisation are three of the new variables that the CIA collects data on and for that reason graph 4 only displays figures back to the second quarter of 2020.

Graph 4 displays the historic and forecasted diffusion indexes for new orders, production levels and capacity utilisation



Source: CIA Q1 2021 Business Survey

Since the lows of the second quarter of 2020, members have reported three successive quarters of growth for each of the variables, with the rate of growth beginning to stabilise in the first quarter of 2021, which is expected to continue through the second quarter. Looking forward 12 months, members are optimistic that all three variables will be in a far better position than current levels.

Comparing current levels to expectation:

Table 3 displays the diffusion indexes for the question "Compared to what you'd usually expect for this time of year, are the following variables above, on or below expectations?":

Variable	Diffusion Index
New orders	48.8
Production levels	43.9
Capacity utilisation	47.6

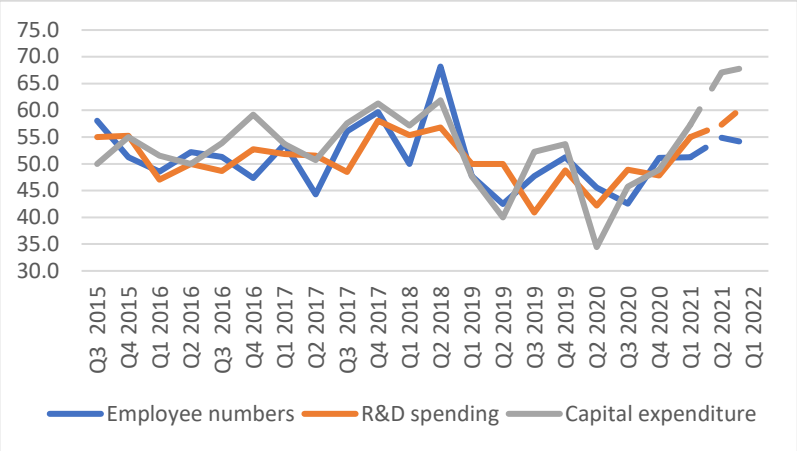
Source: CIA Q1 2021 Business Survey

Similar to what was witnessed with sales volumes, the three variables are below expectation, with production levels faring relatively worse after experiencing a strong end to 2020.

Employee numbers, R&D and Capital expenditure

The employee numbers, R&D spend, and capital expenditure diffusion indexes tend to have a time lag compared to the other variables, as investment plans are often multi-year and there is a limit on the amount they can be changed quarter on quarter. For this reason, these three variables were the most resilient during the crisis in the second quarter of 2020, but on the flip side, were some of the worst performing through the third and final quarter of 2020.

Graph 5 displays the historic and forecasted diffusion indexes for employee numbers, R&D spend and capital expenditure



Source: CIA Q1 2021 Business Survey

Although the second quarter of 2020 provided the lowest value for all these diffusion indexes, the chemical industry has not experienced the "*jobs bloodbath*" reported in mid-2020 by Make UK and looking forward, employment is expected to experience modest growth in the second quarter of 2021 and beyond. Capital expenditure, the worst performing of these slow-moving diffusion indexes, in turn experienced the strongest rebound in the start of 2021 and focusing on the future, in part due to the Chancellor's tax super deduction, is expected to grow sharply in the coming year compared to historic growth standards. R&D's diffusion index returned expansionary in the first quarter of 2021 after 5 quarters of contraction and is expected to continue growing on a path between the employee numbers and capital expenditure diffusion indexes.

Table 4 displays the diffusion indexes for the question "Compared to what you'd usually expect for this time of year, are the following variables above, on or below expectations?"

Variable	Diffusion Index
Employee numbers	50.0
R&D spend	50.0
Capital expenditure / Business investment	52.4

Source: CIA Q1 2021 Business Survey

Despite the relatively weak and volatile two years for each of these variables in the run up to the first quarter of 2021, members feel that current levels are in line with expectations, with capital expenditure being slightly above. This bodes well for the future as large capital and R&D investments will be required to create the innovations for the economies transition to net zero.

Topical questions: Post Brexit logistical issues, Inflation and the Budget

The second half of the survey focused on topical issues which in this edition largely focused on Budget policies, with a little on inflation and post-Brexit logistical issues.

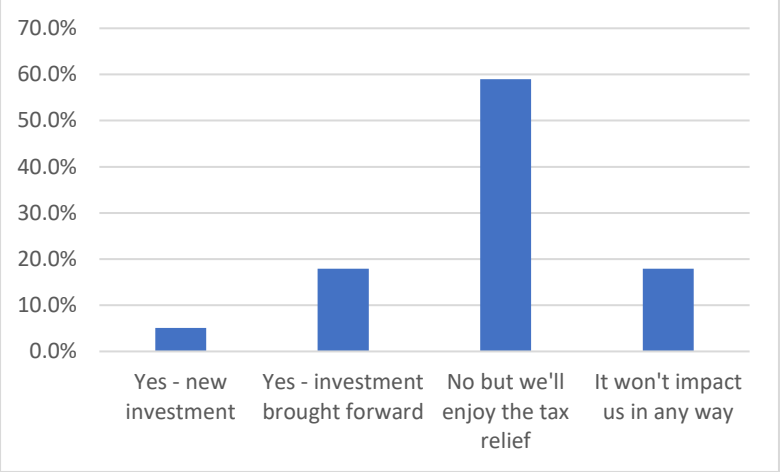
In last quarter's survey, respondents made it clear that at the time, the single biggest issue for the industry was logistical issues post the Brexit transition period. The first question in the second section asked, *"In last quarter's survey it was decided that logistical issues were the biggest threat post the transition period, is this still the case?"*. Unfortunately, these logistical issues remain with just under 85% of respondents replying yes to this question. The specific logistical issues vary from company to company with the most reported issues surrounding haulage and an increased administrative burden and cost.

The abundance of fiscal stimulus and success of the vaccine rollout have led to talk in the markets of a return of inflation. When asked *"There is growing talk in the economy about the return of inflation, is this a worry for your business?"* 47.5% of respondents said they were worried with a further 45% reporting it was a slight concern. Inflation

increases the cost for business to borrow and drives up the cost of inputs which weighs on margins. This has the potential to have a profound 'invisible 'effect on a high-volume low margin industry such as the chemical industry.

The final questions focused on various elements of the Chancellor's Budget that had the largest direct impact on the chemical industry, the most obvious of which is being the tax super deduction.

Graph 6 displays the answers to the question "Is the Chancellor's Super Deduction going to increase your level of investment in the next two years compared to current plans?"



Source: CIA Q1 2021 Business Survey

The forecasts published alongside the budget by the Office for Budget Responsibility, expect that the super deduction will increase business investment - which accounts for around 18% of GDP - by 10% in the two-year period. The CIA's member survey goes some way to supporting this claim as 5% of respondents plan to increase business investment due to the super deduction, whilst a further 18% plan to bring investment forward. However, the majority of respondents (62%), plan to keep business investment unchanged whilst enjoying the relief.

The chemical industry relies on a highly skilled workforce, therefore supports any measures that make it easier to employ and utilise apprenticeship schemes. In the Budget, the Chancellor doubled the Government's incentive for businesses to take on apprentices and announced funding for the flexi-job programme. Just under 18% of respondents felt these measures would lead to them increasing their number of apprentices, whilst 72.5% will keep levels constant.

The Chancellor is an open and long-time supporter of freeports, co-authoring a paper on the topic in 2016. In his most recent Budget, he set out the locations of the eight freeport regions to be established in England. When asked *"Is your company planning to use the freeport regions? If so will this lead to an increase in operations or a redistribution?"* no respondents reported that it will lead to an increase in operations, 13% plan to do some amount of redistribution, whilst just under 26% already have operations inside. The majority of respondents (62%), were outside and have no immediate plans to move, however, many said they needed to analyse the detail before coming to a final decision.

The UK had an unofficial 'Tax Day 'on 23 March, where the Government published a number of tax consultations including one on R&D tax reliefs. In 2019, UK businesses spent over £5.7 billion on chemical and pharmaceutical R&D, equivalent to 0.3% of national income. Understandably the CIA is keen to engage with members before contributing to this consultation. 65% of respondents use either the R&D expenditure credit (RDEC) or SME tax relief schemes, however 72% of all respondents said these schemes have little to no impact on investment decisions. When asked what could be improved, clarity and advice of how the system works was the most requested improvement followed by reducing the administrative burden and increasing the scope.

Conclusion

Removing health from the conversation and focusing on business, 2020 was a universally tough year, although the challenges were not experienced uniformly across the economy. The UK chemical industry displayed its resilience by being one of two manufacturing industries to increase production in 2020. Stockpiling on both sides of the channel ahead of the end of the transition period boosted chemical production 7.3% in the final quarter of 2020 to levels that historically have never been maintained in the midterm. It is therefore understandable that in the first two months of 2021, chemical production contracted 2.1% and 2.6% respectively and the gradual contraction is expected to continue into the second quarter of 2021. Despite this - excluding January and December - chemical production at the end of February 2021 was still at its highest level since September 2021.

In a similar vein to what was seen in production; trade - both chemical and total UK - was boosted in the final quarter of 2020 due to stockpiling, and in turn experienced a sharp falloff in January 2021, where boarder frictions caused by Brexit were exacerbated by Covid. There was a partial recovery in trade with the EU in February 2021, however monthly trade levels were still below their 2020 average.

The '*jobs bloodbath',* an expression coined by Make UK, the trade association for UK manufacturing, never materialised in the chemical industry as employment remained largely flat in 2020. Chemical Gross Value Added (GVA) rose in line with production, whilst chemical and pharmaceutical business investment rose 14.8% to £6 billion.

It is important to not mistake the resilience displayed by the chemical industry in 2020 to mean that the industry has been without challenges, because this certainly was not the case. Chemical companies worked tirelessly in 2020 to make sure they could operate safely under the Covid guidance amid preparing for a new trading relationship with their largest export market while clarity around the future of UK-EU REACH is lacking.

Looking ahead, the industry is in a delicate state. In the near-term there are still multiple causes of trade friction with the EU27 which have the potential to cause a permanent loss of business. UK REACH is yet to be finalised and has the potential to cost the industry over £1 billion. In the mid-to-long-term, the transition to net zero poses a huge, but understandably important, challenge to the very industry that will be crucial in creating the innovations required for said transition.

"It is important to not mistake the resilience displayed by the chemical industry in 2020 to mean that the industry has been without challenges.

In the CIA's Q1 2021 Business Survey, respondents reported their third successive quarter of sales growth since the lows of the second quarter of 2020, however, levels are still slightly below where they would be expected to be on an 'average' year. Respondents reported that both domestic and rest of the world sales were expansionary in the first quarter of 2021, whilst EU exports fell - a phenomenon that was mirrored in the official ONS data.

New orders, production levels and capacity utilisation all improved in the first quarter of 2021, so too did employee numbers, R&D spend and capital expenditure. Sentiment remains bullish when looking 3 and 12 months ahead, with sales growth expected both domestically and internationally while all 12 variables recorded expansionary figures.

Currently, logistical issues post the Brexit transition period are the biggest challenge for the industry. The Chancellor's Super Deduction is expected to cause a small amount of new and brought forward investment, whilst the majority of respondents will just enjoy the relief with no change. 62% of respondents are not currently planning to utilise the Freeports, however, many need to assess them in more detail before a final decision is made. When asked about R&D, 65% of respondents use the current R&D tax relief, however, it has a minimal impact on investment intentions. Clarity, simplicity and reduced admin are required moving forward.

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