

07 March 2014

Open Letter to Mr José Manuel Barroso,

President European Commission
European Commission
Rue de la Loi 200
B-1049 Brussels

Dear President Barroso,

RE: Europe's Chemical Industry

I wish to express my deepest concerns about the future of the European chemical industry. Sadly, I predict that much of it will face closure within the next 10 years.

I recall the extinction of the European textile industry happening before my eyes as a young graduate at Courtaulds in the 1980's. Chemicals could go the same way. It could well be another European dinosaur.

Chemicals, however, is a rather larger species and arguably more important to the economies of Europe. There are a lot of jobs at stake. Over 1 million direct jobs and 5 million indirect jobs in total.

Worldwide, the chemicals sector has revenues of \$4.3 trillion. That's bigger than the GDP of Germany and considerably bigger than the automotive sector at \$2.6 trillion.

In Europe, chemicals and automotives share top billing with \$1 trillion each. Economically speaking, chemicals is one of Europe's jewels in the crown.

Chemicals literally find their way into all walks of life, they are omnipresent. Chemicals are required to make metals, to make fibres, to make pottery. They are in our watches, our deodorants, our iPhones, cars, clothes and Nike shoes. Without a chemical industry, all of the above manufacturers in Europe are potentially put at a disadvantage.

Strategically, and economically, no large economy should abandon its chemical industry. But Europe seems agnostic about the fate of European Chemicals. The European textile industry was wiped out because it could not compete with Asian labour rates. Slowly, each of Courtaulds 100 textile factories became loss making and shut down.

Chemicals depend upon competitive energy and feedstock costs. Whilst intensely technical as an industry, and one of the reasons historically that Europe has been so successful, technology alone will not save it.

Energy, in the form of gas, in Europe is three times higher than the USA today, whilst electricity is 50% higher. There are no cheap feedstocks in Europe. USA and Middle East feedstocks costs are in another league.

Shale gas in the United States has transformed both its competitiveness and its confidence. There are \$71 billion worth of announced petrochemical expansions on the back of shale gas flowing into chemicals. This is predicted to grow to over \$100 billion.

In contrast Europe announces closure after closure.

In the Middle East, they continue to build in Abu Dhabi, in Qatar, in Saudi and now we can add Iran with another 6 million tonnes of ethylene capacity re-joining planet earth. In the UK we have seen 22 chemical plant closures since 2009 and no new builds.

And then we have China. British universities no longer seem to have places for Brits wanting to do technical subjects as they are full of Chinese students. At my son's graduation in economics last year, I noticed the proud Power Engineering graduates. 100% of them were Chinese. Not one was British.

The Chinese are building relentlessly. Whilst in recent history, they have soaked up all the world's surplus chemicals, they will soon be self-sufficient. And beyond that they will start to reverse the flow. Remember they are set to become the world's largest economy by 2020.

So, in the face of this competitive onslaught, does Brussels, or the countries of Europe themselves, have a master plan? What defences do they have in mind?

I can see green taxes, I can see no shale gas, I can see closure of nuclear, I can see manufacturing being driven away. I can see the competition authorities in Brussels blissfully unaware of the tsunami of imported product heading this way and standing blindly in the way of sensible restructuring.

INEOS, one of the world's largest chemical companies, profits in Europe have halved in the last 3 years. Profits in the USA have tripled. BASF, the world's largest chemical company, **for the first time ever** have announced a strategic cutback in European investment citing stagnant markets, expensive energy and expensive labour.

It's not looking good for Europe, we are rabbits caught in the headlights, and we have got our trousers down.

I encourage you to take urgent steps to protect Europe's chemical industry.

I believe this is an important topic of discussion and so I am making this letter available to the media.

Yours faithfully,

Jim Ratcliffe

Chairman

INEOS