

The cost of doing business: Foundational Sector Snapshot Chemicals



Key messages

- The chemicals sector generated **£38.1bn in GVA in 2025** and around **£244,000 of output per job** – more than twice the UK average¹. It remains a critical foundation for UK manufacturing, supplying essential inputs to sectors including pharmaceuticals, construction and automotives, as well as underpinning the country's critical national infrastructure.
- The sector faces acute cost pressures driven by persistently high industrial energy prices, rising labour costs and elevated commodity prices. Electricity prices for industrial users have increased **between 88% and 109% since 2019**, while gas prices have risen by between **83% and 151%**, undermining international competitiveness and contributing to the closure of around 25 UK chemical sites since 2021².
- **Government can strengthen UK industrial competitiveness** by reducing industrial energy costs, ensuring decarbonisation policy supports investment rather than carbon leakage, and reforming UK REACH to remove unnecessary regulatory costs while maintaining high standards of environmental and human health protection.

Table 1: Key business tax contribution figures for the chemical industry³

	2024/25	2025/26	Difference
Business tax contribution	£2.42bn	£2.67bn	+10.3%
Tax contribution as a share of GVA	6.7%	6.9%	+0.2 ppt
Employers' NICs	£0.53bn	£0.74bn	+39.6%

Strategic importance

The chemicals sector underpins activity across the UK economy. Rather than producing goods primarily for final consumption, it provides the essential materials, compounds and specialist products that enable manufacturing, construction, healthcare, agriculture and consumer industries to operate. In 2023, the sector supplied almost £16bn of intermediate inputs to other industries, with more than 44% of chemical output purchased by UK manufacturing alone⁴.

The sector is also one of Britain's most productive industries, generating over £244,000 of output per employee – around 215% higher than the UK average and 154% higher than the manufacturing average⁵. This makes the sector an important contributor to improving national productivity, particularly as the UK seeks to address its longstanding productivity gap.

The industry's importance extends well beyond its direct economic contribution. Chemicals are essential to food production through fertilisers and crop protection products; to pharmaceuticals through active ingredients and specialist reagents; to construction through coatings, adhesives and insulation materials; to automotive and aerospace through plastics, composites and battery materials; to defence through chemical inputs used in the manufacture of energetic materials and high explosives; and to electronics through semiconductor chemicals and specialist gases. The sector therefore sits at the centre of multiple strategic supply chains that will underpin future economic growth, advanced manufacturing and the energy transition.

The industry also plays a significant regional role, supporting high-value manufacturing clusters across the North East, North West, Yorkshire and Humber, Wales and Scotland, where chemicals account for a substantial share of regional manufacturing output and provide highly skilled employment.

Growing cost pressures

Cost pressures within the chemicals sector are being driven primarily by energy, labour and raw materials. As one of the UK's most energy-intensive manufacturing sectors, chemicals have been disproportionately affected by sustained increases in industrial electricity and gas prices. Between 2019 and 2025, electricity prices for non-domestic users increased by between 88% and 109% across all consumption bands, while gas prices increased by between 83% and 151%. For very large industrial gas users, prices more than doubled over the period⁶. These costs continue to undermine the competitiveness of UK producers relative to international competitors benefiting from structurally lower industrial energy prices.

Labour costs have also increased materially. Average weekly earnings in the chemicals sector have risen by around 25–29% since 2019, while the increase in employer National Insurance Contributions (NICs) from April 2025 has further increased employment costs across the sector⁷. Businesses report that these additional labour costs are being absorbed alongside wider inflationary pressures at a time when margins remain under significant strain.

Commodity prices remain substantially above pre-pandemic levels. Producer Price Index data shows chemical input costs were approximately 30% higher in 2025 than in 2019 and reached new highs again during 2026⁸. Key industrial feedstocks including natural gas, naphtha and fertiliser inputs have all experienced significant price increases, with natural gas prices more than tripling compared with 2019 averages⁹. Although some businesses have attempted to pass these higher costs through supply chains, many continue to

absorb a significant proportion of increased input costs, limiting profitability and reducing available capital for investment.

The cumulative effect of these pressures is already affecting investment decisions. Higher borrowing costs, weaker international competitiveness and elevated operating costs have led some multinational businesses to prioritise investment outside the UK, while around 25 UK chemical sites have closed since 2021¹⁰. Chemical Industries Association (CIA) survey evidence suggests that nearly half of businesses expect employment to decline over the coming year, while one quarter expect to reduce business investment¹¹.

Improving the operating environment

As a foundational sector supporting manufacturing and industrial supply chains, the chemicals industry relies on a competitive operating environment to invest, innovate and grow. However, several structural challenges are limiting investment and weakening the UK's competitiveness.

1. Investment confidence and policy certainty

Chemical manufacturers require a stable and predictable policy environment to support long-term investment in production facilities, low-carbon manufacturing and sustainable feedstocks. Delays to the government's Circular Economy Strategy, alongside uncertainty over the future policy framework, are reducing business confidence and making it more difficult for firms to commit to major capital investment. Businesses report that existing measures, including the Plastic Packaging Tax, are increasing compliance costs but have yet to provide sufficiently strong incentives to accelerate the transition towards more sustainable feedstocks and a circular economy. Greater policy certainty would provide the confidence needed to invest in UK chemical manufacturing, strengthen domestic supply chains and support the sector's transition to more sustainable production methods.

2. Innovation and commercialisation

The UK has a strong chemicals research and innovation base but continues to face challenges in commercialising new technologies at scale. Businesses highlighted the need for greater support to move innovations from pilot projects to commercial deployment, particularly in areas such as green hydrogen, digital manufacturing, carbon capture and sustainable chemical feedstocks. A more joined-up innovation ecosystem, underpinned by clear market signals and coordinated government support, would help accelerate the deployment of low-carbon chemical technologies, improve productivity and strengthen the UK's competitiveness as a location for advanced manufacturing.

3. Business engagement and investment support

The chemicals sector would benefit from a more proactive and coordinated government approach to supporting existing investors, alongside attracting new investment. Businesses highlighted the importance of stronger relationships with major chemical manufacturers that already have a significant UK footprint, ensuring they have clear routes into government and support to expand existing operations. IDA Ireland is cited as an example of a more

proactive model, maintaining close engagement with existing investors and actively supporting them to retain and grow their operations, rather than focusing solely on attracting new investment. Adopting a similar approach would strengthen the UK's attractiveness as a location for chemicals manufacturing and encourage businesses to grow and invest in the UK.

Tackling the regulatory burden

Chemical manufacturers operate within a complex regulatory environment covering chemicals regulation, industrial emissions, environmental permitting and regulation, carbon pricing, product safety, waste management and energy policy. These regulations perform important functions in protecting human health, safety and the environment. However, businesses report that the cumulative burden of compliance is increasingly affecting competitiveness, investment decisions and productivity.

The chemicals sector's principal regulatory challenges stem less from operational administration and more from the interaction between industrial policy, environmental regulation and international competitiveness. Businesses report that regulatory costs increasingly influence decisions over where multinational firms invest, with higher UK compliance costs reducing the attractiveness of domestic production relative to other international locations.

Chemical businesses engage with a wide range of regulations and regulators across government, including:

Department for Environment, Food and Rural Affairs (DEFRA)	
Regulation	Regulator
UK REACH	Health and Safety Executive
Waste management and hazardous waste regulations (including Environmental Permitting)	Environment Agency / Scottish Environment Protection Agency / Natural Resources Wales
Uk Best Available Techniques	Environment Agency / Scottish Environment Protection Agency / Natural Resources Wales

Department for Energy Security and Net Zero (DESNZ)	
Regulation	Regulator
UK ETS	DESNZ
Windsor Framework requirements ('Not for EU' labelling and GB-NI movements)	UK Government / EU authorities

Within this wider regulatory landscape, the CIA has identified three regulatory burdens that are having a particularly significant impact on investment, operating costs and international competitiveness.

1. Industrial energy costs

Challenge: UK industrial energy costs remain significantly higher and more volatile than those of international competitors as a result of high energy and carbon costs, regulatory burdens and the way policy costs are recovered through industrial electricity bills. This undermines UK competitiveness, discourages long-term investment, weakens energy security and independence, increases the risk of carbon leakage and the offshoring of production, and ultimately reduces growth, employment and fiscal returns to HM Treasury.

CIA recommendation: Reducing the UK's uncompetitive industrial energy costs can be achieved by:

- Re-establishing confidence allowing businesses to make long-term capital investments in energy infrastructure, including the UKCS, strengthening domestic energy security, supporting UK jobs and delivering fiscal benefits to HM Treasury.
- Catalysing investment in renewable generation that delivers the lowest-cost electricity solutions, considering whole-system costs such as generation variability, transmission and distribution connection and constraint costs, and the availability of localised flexible demand.
- Removing levies fully from demand-side energy bills with immediate effect.
- Removing regulatory barriers and unnecessary regulatory burden, and realigning UK energy, carbon and environmental regulatory frameworks with the EU so that UK businesses can compete globally on a level playing field.

Expected impact: The outcome would be to stop and reverse the offshoring of carbon emissions and the decline of UK industry, helping to safeguard investment, skilled jobs and domestic supply chains. This would deliver wider fiscal, economic and societal benefits across the UK, particularly for industrial regions and the communities that depend on them.

2. Industrial decarbonisation policy

Challenge: Ensure that industrial decarbonisation policies support rather than undermine UK industrial competitiveness. Poorly designed carbon pricing and border adjustment mechanisms risk increasing costs for UK manufacturers, discouraging investment in low-carbon technologies, accelerating carbon leakage and shifting production and emissions overseas without delivering meaningful global emissions reductions.

CIA recommendation: The UK's industrial decarbonisation policy can be improved by:

- Reforming the UK ETS and Carbon Border Adjustment Mechanism (CBAM) so that they support, rather than weaken, the transition to net zero. This includes delivering

UK ETS free allocation at an appropriate level alongside a well-designed CBAM that protects UK industry from unfair international competition.

- Reforming the UK ETS to ensure that decarbonisation options such as electrification, biogas and carbon capture, utilisation and storage (CCUS) become commercially viable and attractive for investment.
- Re-establishing financial incentives to encourage the deployment of low carbon technology, mirroring the support made available at the EU level.

Expected impact: A policy framework that enables industry to decarbonise while remaining internationally competitive would encourage investment in low-carbon technologies, reduce the risk of carbon leakage, protect skilled manufacturing jobs and strengthen the UK's position as a competitive location for clean industrial growth and would deliver long-term economic and fiscal benefits.

3. UK REACH

Challenge: Duplicative UK REACH registration requirements impose significant costs on industry without delivering proportionate additional benefits, reducing competitiveness and diverting investment away from innovation and growth. Businesses are now concluding that it makes little commercial sense to re-register low return and volume products under UK REACH, given the costs associated with the additional administrative burden.

CIA recommendation: Address the estimated £2 billion cost of UK REACH registrations required to keep existing products on the UK market by adopting a more proportionate, risk-based approach that avoids unnecessary duplication of data¹².

Expected impact: Reforming UK REACH would improve the competitiveness of UK chemical businesses, free up investment for innovation, growth and decarbonisation, support the continued supply of essential chemicals to UK industries and consumers, and maintain strong environmental and safety protections through a more efficient regulatory framework.

Endnotes

¹ ONS (2026), *GDP output approach – low-level aggregates*, available from: [GDP output approach – low-level aggregates - Office for National Statistics](#) and ONS (2026), *Output per job by division, UK*, available from: [Output per job by division, UK - Office for National Statistics](#)

² Department for Energy Security and Net Zero (DESNZ) (2026), *Gas and electricity prices in the non-domestic sector*, available from: [Gas and electricity prices in the non-domestic sector - GOV.UK](#)

³ The CBI used its business tax contribution analysis in which we break down taxes by industry on a 2-digit SIC level. For employers' NICS we used the latest [ASHE](#) and [BRES datasets](#) to distribute ER NICs by industry. To estimate the contribution as a share of GVA, we used the latest [ONS GVA estimates by industry](#) to estimate the sectoral business tax contribution. Where it was not possible to assign the sector firmly to one or multiple 2-digit SICs, we asked TAs to provide data which we used and scaled accordingly. It should be noted that for some sectors there is a larger margin of error in the contribution statistics given 2-digit SICs do not necessarily fully align with the specific activities progressed in certain sectors. For the chemicals sector, we used SIC 20 and 21.

⁴ ONS (2026), *UK input-output analytical tables: industry by industry*, available from: [UK input-output analytical tables: industry by industry - Office for National Statistics](#)

⁵ ONS (2026), *Output per job, UK*, available from: [Output per job, UK - Office for National Statistics](#)

⁶ Department for Energy Security and Net Zero (DESNZ) (2026), *Gas and electricity prices in the non-domestic sector*, available from: [Gas and electricity prices in the non-domestic sector - GOV.UK](#)

⁷ ONS (2025), *EARN03: Average weekly earnings by industry*, available from: [EARN03: Average weekly earnings by industry - Office for National Statistics](#)

⁸ ONS (2026), *PPI INDEX INPUT GROUP - C20TC22 Inputs of Chemicals 2015=100*, available from: [PPI INDEX INPUT GROUP - C20TC22 Inputs of Chemicals 2015=100 - Office for National Statistics](#)

⁹ ONS (2026), *PPI INDEX INPUT GROUP - C20TC22 Inputs of Chemicals 2015=100*, available from: [PPI INDEX INPUT GROUP - C20TC22 Inputs of Chemicals 2015=100 - Office for National Statistics](#) and Business Insider (2026), *Naphtha*, available from: [Naphtha PRICE Today | Naphtha Spot Price Chart | Live Price of Naphtha per Ounce | Markets Insider](#)

¹⁰ CIA (2026), *CIA issues urgent warning to Prime Minister*, available from: [CIA issues urgent warning to Prime Minister | News | Chemical Industries Association](#)

¹¹ CIA (2026), *Q1 Business Survey*

¹² Hansard (2026), *REACH (Amendment) (No.2) Regulations 2026*, available from: [REACH \(Amendment\) \(No. 2\) Regulations 2026 - Hansard - UK Parliament](#)



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