To	*Secretary of State*
From	*S40(2), Materials & Resource Industries*
Date	30 October 2015

Meeting with *INEOS Chairman, Jim Ratcliffe, HoC or BIS 8th floor [TBC], 14:45-15:15, Wednesday 4 November 2015.*

Purpose

- INEOS is one of the largest chemical companies globally (Anglo-Swiss HQ) and one of our **Strategic Relationship Management** companies (Baroness Neville-Rolfe is the contact Minister). Your meeting with Chairman, Jim Ratcliffe, has been organised at your request following the concerns he raised in a meeting (16 Sept) with DECC SoS, Amber Rudd, about the UK's **decline in manufacturing** relative to Germany and the US, the **relationship between this and UK energy prices**, and his ambitions for shale gas in the UK. [N.B. Tom Crotty, Director UK operations, has recently met with Lord Maude (Sept) and Baroness Neville-Rolfe (Jul).]

Attendees

- Jim Ratcliffe, Chairman - INEOS
- Tom Crotty, Director UK Operations, INEOS
- Stuart Edwards, Deputy Director, Materials and Resource Industries – BIS

Our objective

- To **update** Jim Ratcliffe on the measures Government is taking to **address the UK's competitiveness for energy intensive industries** (EII) like INEOS, particularly in light of the ongoing steel crisis, and to take **his views** on these, and **how Government is tackling long-term energy policy**, particularly around shale extraction.

- INEOS has been a marked **success story of the Strategic Relationship Management** (SRM) Programme; this, combined with engagement through the sector-led Council, the Chemistry Growth Partnership (CGP), has significantly shifted the negative views Jim Ratcliffe voiced in 2010 about the UK business environment. INEOS has since made a number of substantial investments into the UK and has made clear its intention to make further strategic investments, most notably in the North Sea, in order to help its UK petrochemical assets to have ongoing access to competitive energy. Your meeting is a good opportunity to **welcome this investment activity** and ask **how we can support further investment going forward**.

Their objective

- To raise **concerns about the decline of UK manufacturing and the link to high energy prices**; this is part of Jim Ratcliffe's push for the UK to develop a viable shale gas industry. He believes shale gas could revolutionise UK manufacturing as it has done in the US and prevent the continued loss of manufacturing investment overseas. He wants INEOS to be the biggest player in the UK shale gas industry. INEOS has bought a number of shale licences and is proposing a generous community benefits scheme to secure local support for hydraulic fracturing ("fracking").

Issues or elephant traps

- You will be aware discussions are still ongoing with the EU Commission on finalising state aid clearance for planned EII compensation schemes.

CC list

- Soubry MPST, SpAds, Niall Mackenzie, S40(2), S40(2), DECC S40(2).

Briefing

- See overleaf

AGENDA FOR MEETING – ISSUES TO RAISE AND POINTS TO MAKE

Agenda Item:	Issue to raise and points to make:
1. UK Foundation Industries – manufacturing decline and competitiveness and energy prices	• You should **update JR** on developments in addressing high energy costs for the energy intensive industries (EII) in the light of the ongoing steel crisis and **invite his views** on these and more broadly on the UK's long-term energy policy. • Given their UK investment profile and the important role they are playing in developing a UK shale gas industry, including their efforts to bring the public along with them, we want to open a genuine **dialogue with JR** on how to address his concerns around the **business impact of energy prices**.
2. Developing a viable UK shale gas industry & INEOS UK shale gas strategy update	• You should **thank Tom Crotty** for the work he has been leading under the **Chemistry Growth Partnership (CGP**) to drive the development of alternatives to fossil fuel based energy and feedstocks and to support the **development of a viable shale gas economy in the UK**. You should invite him/JR to update you on progress, including **INEOS' strategy for UK licences**. • You should note that you are interested in their **views on the progress Government is making** to introduce **shale extraction** to the UK, and that you would like **to maintain this dialogue going forward** to engage their industry expertise in ensuring a good result for the UK and in helping to find solutions as problems arise. • **<u>Planning system</u>** – S43(2) • **<u>3D seismic survey access</u>** - we're aware of the increasing difficulty in accessing land to carry out geological (seismic) surveys. **You should welcome INEOS' leadership in proposing a solution** working through the British Geological Survey; a working group is <u>considering</u> this proposal. • **<u>14th licensing round</u>** - the considerations required and the **consultation process** which needs to be completed in accordance with the Habitats Directive are **still being taken forward**. DECC expects the second tranche of **licences to be announced this year**. • **<u>Sovereign Wealth Fund</u>** - as announced by the Chancellor in the 2014 Autumn Statement, and set out in our Manifesto, we are determined to ensure that local communities share more of the proceeds and feel more of the benefits, using a proportion of the tax revenues that are recouped from shale gas production. We will **present our proposals later this year for how we intend to design the sovereign wealth fund**.
3. INEOS update on recent move into North Sea oil and gas	• Listening mode, but **welcome INEOS' investments in the UK**. Interested to hear about INEOS' current investment strategy and **how we/UKTI can offer support and help further UK investments**. • S43 (2) • **<u>North Sea</u> -** Even with the challenges presented by lower oil prices, the North Sea still provides very good opportunities and remains fully open for business. **Government is absolutely committed to supporting new exploration and investment**. We need to continue with a **collaborative approach to realise the full potential of the UK's oil and gas resources**. • **<u>Taxation</u> –** the Chancellor introduced a £1.3bn package of reforms in the March Budget to make sure the North Sea continues to attract investment and safeguard the future of this vital national asset. • Among other measures, this included reducing the rate of Supplementary Charge from 30% to 20%, reducing the rate of Petroleum Revenue Tax from 50% to 35% from 1 January 2016 and introducing a new Investment Allowance to reward new investment.

ORGANISATION AND BIOGRAPHIES

Jim Ratcliffe, INEOS Chairman

Jim has been Chairman of INEOS since 1998. He has 38 years experience in the chemicals industry. In 1992 he led the successful buyout of Inspec Group plc, which he left in 1998 to lead the acquisition of INEOS plc (currently INEOS Oxide) from Inspec. Jim began his career with Exxon Chemicals where he completed his MBA at London Business School before moving to Courtaulds. From Courtaulds he joined Advent International and then Inspec.

Jim graduated from Birmingham University in 1974 with a Degree in Chemical Engineering. He also studied and qualified as an accountant. He then completed his M.B.A. at London Business School.

Tom Crotty, Director, INEOS GROUP

Tom is a Director of INEOS with responsibility for Corporate Affairs and Communications and the development of INEOS business in new territories. Following a 20 year career with ICI, he came into INEOS in January 2001 as CEO of INEOS Fluor. He subsequently became CEO of INEOS ChlorVinyls and then INEOS Olefins & Polymers Europe.

Tom is President of the Chemical Industries Association (CIA) (the largest UK chemicals sector trade association) and a Board member of CEFIC (the Europe-wide chemicals trade association). He is also President of the European Petrochemicals Association (EPCA), Vice President of Plastics Europe, Chairman of Cogent (the UK Sector Skills Council for the process industries) and sits on the CBI's Energy & Climate Change Board. Tom is the energy lead for the Chemistry Growth Partnership, the industry-led council for the chemicals and chemistry-using sectors.

INEOS

INEOS is the largest chemicals company operating in the UK, with a turnover of £18bn. It has been named as the largest private company in the UK in terms of sales revenue[1]. INEOS directly employs c. 3,500 people in its five UK sites (and estimates a further 17,500 indirect jobs from these operations). It operates Scotland's largest manufacturing complex at Grangemouth which is the only refining / petrochemicals complex directly attached to the North Sea.

INEOS is now estimated to be the 10th largest chemical company in the world. Assets in the US, which has benefitted from the shale gas revolution, are now far more profitable than those in Europe. It moved its headquarters to from the UK to Switzerland in 2010, citing UK taxation policy as the cause.

The chairman, founder and CEO of INEOS, Jim Ratcliffe, is the majority shareholder. He built INEOS up by buying under-managed assets from larger companies like ICI and BP, cutting running costs and extracting more value from them.

Recent updates

Imminent – S43(2). INEOS also operates the hydrocarbon "cracker" at Grangemouth, which forms the heart of the petrochemicals cluster. INEOS recently secured a grant from the Scottish Government as part of a billion-pound investment project to upgrade the cracker; this will use imported shale gas from the US as a feedstock, with first imports due to come into the UK in 2016.

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[1] Figures supplied by Ineos for the Sunday Times Top Track 100 companies 2015 www.fasttrack.co.uk/fasttrack/leagues/top100programme.html

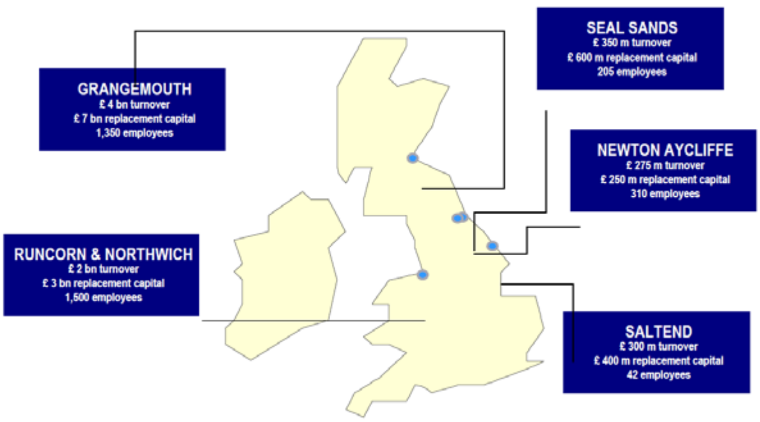
October 2015 – INEOS agreed a $750m deal to purchase (subject to competition clearance from the European Commission) all of the UK North Sea gas fields (12) owned by the DEA Group, the German-based oil and gas firm owned by the LetterOne Group. The fields provide up to 8% of the UK's gas, enough gas to warm 1 in 10 British homes, and are well positioned, close to INEOS' assets in the North East and Scotland. This new deal is a direct result of the Government's intervention in April to ensure the continued and safe production of the UK's petroleum resources in the North Sea. INEOS has been reported in the last week also to be in advanced talks with Fairfield Energy on acquiring a further stake in the Clipper South gasfield that would take its holding up to 75%.

September 2015 - INEOS is to develop its Grangemouth site into a manufacturing hub for central Scotland. It has commissioned a new £20m headquarters building for the site and is to demolish old buildings and decommissioned plant to make way a new manufacturing cluster at the site. Companies arriving on the site will be able to use common services and infrastructure including raw materials, power and steam.

July 2015 - INEOS is setting up a new HQ in London for its UK subsidiaries including the Grangemouth business, its new INOVYN joint venture in chlorvinyls with Solvay and some corporate functions. INEOS is apparently considering moving its marketing department to the UK but the overall corporate HQ will remain in Switzerland.

July 2015 - INEOS formed a 50:50 joint venture, INOVYN (London HQ), with Solvay, a major chemicals multinational (Belgium HQ). INOVYN combines operations of both companies in chlorvinyls and related chemicals. The deal received EC competition clearance after certain divestments by Ineos (including its ethylene dichloride units at Runcorn in UK). INOVYN will be the leading European supplier of vinyls, chlorine and caustic soda with annual sales around €3.5 bn and over 4,000 employees spread across 18 European sites. S43(2)

EBITDA Breakdown (2013) for Ineos Group 2013 (*Figures provided by Ineos)*	%
North America	46
Germany	30
Belgium	13
UK	5
France	4



[2]

Additional background

[2] Update: The Salt End (Hull) VAM plant was mothballed in October 2013, with a loss of 18 jobs. Hence this site now employs only 24 people. The Runcorn & Northwich site and elements of the Newton Aycliffe will become part of the new INEOS JV with Solvay, INOVYN.

Agenda item 1

Jim Ratcliffe (JR) wants to discuss what we can **learn from the issues in steel so that we avoid a similar issue in chemicals**, and linked to this, his views on long-term energy policy (there will be some overlap between agenda items 1 & 2).

Energy is typically 30% of chemicals production costs and therefore critical to chemical production economics. The **UK chemicals industry has a GVA of £200bn** and the **Chemistry Growth Partnership** (CGP), the sector Council for the chemicals and chemicals-using industries, is working to increase this by 50% by 2030; **securing competitive UK energy supplies** is critical to this (and to retaining this industry in the UK) - Tom Crotty leads this workstream.

Government has taken a range of actions (since 2010) to support energy intensive industries (EII) and help industry offset the costs of climate and energy policies including exemption from some measures and payment of compensation for others.

56 different businesses across the UK have received a total of £131m in compensation since August 2013 – £65.56m in respect of the EU Emissions Trading System and £66.04m in respect of the Carbon Price Support mechanism. (w/c 19 October 2015) - main sectors currently benefiting from relief – iron and steel, paper, organic and inorganic chemicals.

Why is the government not providing relief to more sectors/companies?

- State aid guidelines published by the European Commission specify which sectors are potentially eligible to receive guidance.
- (For EU ETS, CPS) The coalition government committed to seek a review of the European Commission's state aid guidelines, with a view to extending eligibility to a number of additional electricity intensive sectors. We are still waiting for some industries to provide the data necessary to make our case, and will take a decision at the appropriate time. The earliest we can lobby the Commission is 2016.
- (For RO/FiT, CfDs) The draft relief scheme on which we consulted last year included those sectors which data showed to be typically electricity intensive in the UK. Based on additional data and representations from industry bodies, we have published a revised list of sectors in DECC's consultation on the CfD supplier obligation. We will make our final decision on eligibility later in the year.

When will RO/FiT compensation/the CfDs exemption begin?

- We are pressing the Commission to approve our case before the end of the year.
- SoS has raised this directly with Competition Commissioner Verstager, emphasizing the urgency of securing clearance as soon as possible.
- All compensation will now be paid from the date approval is received, as announced by the PM.

Agenda item 2

INEOS intends to be the leading UK player in onshore and offshore gas development in the UK to feed its chemicals plants in Grangemouth, Teeside and Runcorn, and is at the forefront of efforts to develop a viable UK shale gas industry.

In the short term it has responded to the increasing cost of domestic gas by preparing to import ethane from the US (shipments beginning in 2016). However it **hopes to be producing domestic shale gas from 2019**.

As above, the **development of a UK shale gas energy and feedstock supply is vital for the long-term future of the UK chemicals sector**.

INEOS has welcomed Government's recent announcement on the planning system in England, but Jim Ratcliffe may be interested in whether a **national planning approach will be taken in future for the multi-site production** phase for UK shale. He may also assert that **more samples and 3D seismic data** are needed.

INEOS invested in a petroleum exploration license in the Midland Valley of Scotland (adjacent to Grangemouth) in August 2014. In March 2015 it announced a deal with the shale gas operator IGas to become the operator of three license areas near Runcorn, as well as investing in four further IGas licenses in northern England, at a cost of £30m, plus £138m funding for site development. They have made further applications in the current 14th licensing round – DECC will decide on these this year.

Community benefits scheme - INEOS has responded to the moratorium on fracking in Scotland by launching a promotional public engagement drive, including six "town hall" events held in potential production areas in April and newspaper supplements in June. INEOS intends to run further "drop-in" public information events in the autumn, along with plans to host learning events for regulators and mineral planning authorities. It has yet to comment on its strategy for its licenses in England.

The **Infrastructure Act 2015**, enacted on 12 February 2015, introduced provisions granting operators looking to explore petroleum or deep geothermal a right to use deep-level land (below 300m). The Act also introduced a number of safeguards related to hydraulic fracturing operations. The UK onshore industry has agreed to offer £100k per fracked well site during exploration and then 1 per cent of production revenue. Government has agreed that local authorities will retain 100% of business rates. The INEOS proposal is to give 6% of production revenues to landowners and communities and has also agreed to pay community benefits during the exploration phase.

Sovereign Wealth Fund - both the 2014 Autumn Statement and the Conservative Manifesto included a commitment to a Sovereign Wealth Fund linked to the north of England, without defining what that meant. DECC and HMT, with support from BIS and DCLG, are developing a policy which aims to enhance community benefits paid by shale operators to local communities with a proportion of production tax revenues from shale sites. There may also be uses not tied to communities, i.e. closer to a true sovereign wealth fund, but HMT Ministers have yet to give their views.

Planning system - DECC and DCLG are preparing advice on national planning, ahead of a decision to be taken this autumn as requested by the Chancellor. Two of the key considerations will be the potential impact on public consent, and the length of time applications have to take under the national planning system relative to the local system. Local planners might be less willing to approve exploration if subsequent larger-scale production is not subject to their approval, plus the impact of any reduced public consent on exploration sites proceeding.

3D seismic surveys - Geological surveys have been conducted for years for conventional oil and gas without difficulty. However, with the rise in controversy around fracking, access to land is increasingly being refused (even for non-fracking sites). Anecdotally, refusals are for two reasons. The first is on principle, which has increased with the rise in controversy around fracking. The second is on cost grounds.

Industry and INEOS in particular, had previously been pushing for government action to mitigate or resolve the issue. However, this month (October 2015) INEOS has proposed a national programme of geological surveys led by British Geological Survey using powers BGS already has, which BGS is prepared to consider. The industry/BGS working group will address questions of the coverage of the survey and the level of funding from the industry.

14th licensing round - INEOS have applied for licences in the latest (14th) Onshore Round and will be offered 3 blocks in the first tranche (announced on 18th August), and may win further onshore blocks in a second tranche of offers due to be announced later in the year. This 14th round licences will grant exclusive rights to onshore oil and gas operations, encompassing both conventional onshore oil and gas operations, as well as licences for shale gas. However, licences do not allow automatic rights to operations such as drilling, these will require further consent.

Agenda item 3

INEOS' recent investments have been of strategic importance to the UK, most notably a **£300m investment to its Grangemouth cracker facility**, confirmed in October 2014, to enable the import of shale based ethane gas from the US will reduce feedstock costs for the chemical cracker by 50%. The raw materials produced from the cracker are essential to the continued existence of the Grangemouth chemicals and processing industries cluster. Furthermore, the investment will help the UK gain **competitive advantage over the rest of Europe** in the bulk chemicals market with only 5 of the 44 crackers in Europe able to take advantage of cheap ethane feedstock, and the UK having 3 of them. This investment is supported by the Government through a £125m loan guarantee from the UK Guarantee Scheme as well as a £9m grant from the Scottish Government.

The site employs 1,350 people. In its 2014 annual accounts, the operating company for the Grangemouth refinery, Petroineos Manufacturing Scotland reported a £16.3m loss on turnover of £240m. But INEOS has just announced that it is **commissioning a new £20m headquarters facility** there as part of plans to create a "world class" petrochemical manufacturing hub. As **part of this investment, INEOS agreed to acquire a nearby Combined Heat and Power Plant (CHP) from Fortum for** S43(2). This natural gas fired CHP plant serves the Grangemouth site (including INEOS's own operations). They have also begun a large-scale project to renovate the site, demolishing defunct plans to clear space for new inward investors, and building a large office block to house staff from multiple INEOS businesses.

Grangemouth refinery upgrade investment – S43(2)

S43(2), INEOS is undertaking a suite of investments and is **actively looking to acquire UK oil and gas assets – onshore and offshore** – to further support its Grangemouth activities; in October it announced its **purchase of 12 North Sea gas fields** from LetterOne group, including the Breagh and Clipper South in the Southern North Sea. On completion of the deal, expected later this year, the platforms, infrastructure and the highly skilled team that runs them will transfer into INEOS Upstream, based in London. The deal is a significant development of INEOS business into the energy sector. The FT reported this as a bold step, making INEOS a fully-fledged offshore operator but suggested this deal "could mark the start of a wider reshaping of the UK's North Sea basin, one of the areas hardest hit by a collapse in oil prices since the summer of last year." INEOS will continue to explore opportunities in other North Sea oil and gas assets that have become uneconomic in the hands of existing North Sea operators.

OTHER RELEVANT BACKGROUND

S43(2)

READOUT OF DECC SOS MINISTER WITH JIM RATCLIFFE ON 16 SEPTEMBER 2015

Energy policy and gas

- JR opened the meeting by setting out his concerns around the decline in UK manufacturing (in comparison to Germany, for example) and commenting that he felt that the UK was disadvantaged in terms of energy costs. JR noted that this is especially true when compared to the US experience, where shale gas has resulted in a fall in energy costs and in raw material costs (especially in the chemicals industry).
- JR set out his reasoning for why gas is of central importance in the UK – specifically, that around 80% of homes in the UK are heated with gas, and that almost half of the electricity in the UK comes from gas, mostly North Sea gas, which is declining. AL commented that HMG is working on that.
- AL also made the point that interconnection is important to the UK.

Nuclear

- Commenting on the importance of nuclear in the energy mix, JR set out the situation that Ineos has in France, where a nuclear plant supplies them with electricity after they bought part of the plant (they pay €45/mwh, not index lined, for 35 years) – all agreed this was a very competitive deal.
- The SoS and AL explained that we would expect the costs of new nuclear plants in the UK to come down after HPC, and explained that nuclear is a very important part of our energy strategy.

Grangemouth

- JR set out the situation for their US operations – namely, that they are doing very well. JR explained their current plan to bring gas over to Europe, specifically to the gas crackers in the UK (e.g. Grangemouth). In his opinion, without a cheaper feedstock, the Grangemouth plant would have to close.
- S43(2)

Shale gas in the US

- JR told the Ministers that within 5 years, the Marcellus shale site is now producing more than the full UK demand for gas. The volumes in the US are highly significant.
- JR added that commentators in the US think that only 5% of the US's shale reserves have been exploited so far.
- The SoS asked about the impact of declining oil prices on shale production. JR responded that it is all about where the variable costs are – the least efficient and most expensive operations will close first. Indeed, it is interesting to see that there has not yet been a collapse or a decline – this is something that might be seen in a couple of years.
- In terms of cost per well, JR suggested that one would be looking at $7-10m/well (or less), which determines the cost for 2-3 years. These are being funded in the US by public companies and oil companies.
- JR discussed the Ineos experience with shale, comparing it to a manufacturing process (an area of expertise).

Shale gas in the UK

- JR commented that there are a great deal of hydrocarbons in the UK – shale naturally is a part of that picture.
- JR feels that more samples and 3D seismic data are needed.
- The SoS asked for JR's views on the summer's planning announcements – JR thought these were helpful, Ineos had been very encouraged. JR also commented on a specific issue that they have been having around getting permission to do seismic surveys on public roads (in Cheshire) – a newly encountered issue, but something that they feel makes a lot of sense and could hold them back. They 'don't want to run a planning business'.

- Ineos thinks that the community benefits piece is very important, which is why they have committed to a 6% rate (JR commented that in the US this could be 20% in some cases). The SoS noted that we will also have a Sovereign Wealth Fund set up in the UK.

North Sea

- JR commented that they are looking at the potential of buying existing assets in the North Sea. They have a lot of transferable experience in running plants and are actively looking at possibilities.

Attendees

- Secretary of State, Amber Rudd (accompanied by Private Secretary, S40(2)
- Minister of State, Andrea Leadsom
- Special Adviser, S40(2)
- Stephen Speed, Director EDU, DECC
- Jim Ratcliffe, Chairman and CEO, INEOS
- Tom Crotty, Director of Communications, INEOS

Actions

- **AL's office and** S40(2) **to note:** AL to consider a visit to Grangemouth (no particular time in mind) to see the scale of operations there.

Many thanks,

S40(2)

Department of Energy & Climate Change

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INEOS and Lord Maude meeting, 21 September 2015

Time & location	Monday 21st September, 2pm to 2:45pm, 1 Victoria Street
Who is the Meeting with?	Tom Crotty, Head of UK Operations, INEOS David Mitchell, Public Affairs, Burston-Marsteller
Which officials will attend?	Stuart Edwards, Deputy Director, Materials & Resource Industries, BIS / Senior Official for INEOS SRM S40(2), Iran Lead, International Unit, UKTI

S43(2)

INEOS and Baroness Neville-Rolfe Strategic Relationship Management Meeting

(22 July 2015)

Attendees
Baroness Neville-Rolfe
Charlie Merritt, Private Secretary
Tom Crotty, INEOS
David Mitchell, Burston-Marcellor
Stuart Edwards, BIS
S40(2), BIS

S43(2)