

Subsidy Advice Unit Report on the proposed Critical Chemicals Resilience Fund subsidy scheme

**Referred by the Department for Business,
Innovation, Science and Trade**

21 October 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. The Referral

- 1.1 On 10 September 2026, the Department for Business, Innovation, Science and Trade (BIST) requested a report from the Subsidy Advice Unit (the SAU)¹ in relation to the proposed Critical Chemicals Resilience Fund subsidy scheme (the Fund) under section 52 of the Subsidy Control Act 2022 (the Act).²
- 1.2 This report evaluates BIST's assessment of compliance (the Assessment) of the Fund with the requirements of Chapters 1 and 2 of Part 2 of the Act.³ It is based on the information and evidence included in the Assessment.
- 1.3 This report is provided as non-binding advice to BIST. It does not consider whether the Fund should be implemented, or directly assess whether it complies with the subsidy control requirements.

Summary

- 1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance](#)) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance](#)).
- 1.5 In our view, BIST has considered in detail some aspects of the compliance of the Fund with the subsidy control principles. In particular, the Assessment clearly defines and evidences the specific policy objective of the Fund.
- 1.6 However, we have identified the following areas for improvement:
- (a) The Assessment should provide more evidence to demonstrate that the Fund is likely to result in additional investment (Principle D);
 - (b) The Assessment should extend its competition assessment to:
 - (i) consider and evidence in greater detail the relevant geographic markets and how these may vary by product;
 - (ii) explain the rationale for selecting the case studies presented and set out the competition assessment in more detail;

¹ The SAU is part of the Competition and Markets Authority.

² [Referral of the proposed Critical Chemicals Resilience Fund subsidy scheme by the Department for Business, Innovation, Science and Trade - GOV.UK.](#)

³ Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

- (iii) analyse competitive impacts for individual product markets either in the Assessment (ie before implementing the Fund) and/or as part of the appraisal process when assessing funding applications; and
 - (iv) consider the potential size of subsidies awarded through the Fund relative to estimates of market size (Principle F);
- (c) When conducting the balancing exercise, the Assessment should only consider the potential benefits of the Fund which directly relate to the specific policy objective, in particular considering whether decarbonisation is a relevant benefit of the Fund (Principle G).
- 1.7 We discuss these areas below, along with other issues, for consideration by BIST in finalising its assessment.

The referred scheme

- 1.8 BIST proposes to provide targeted, time-limited grant funding to a defined set of strategically important producers who supply critical chemicals,⁴ including chemicals which are used across interconnected industrial clusters⁵ and supply chains. The overall budget for the Fund is £350 million, which is proposed to be available from 2026 until March 2030.
- 1.9 Applicants can apply for grant funding of up to 50% of project costs. Support is expected to be directed predominantly towards capital projects which strengthen resilience, modernise assets, improve operational efficiency, increase adaptive capacity, or enhance long-term viability.
- 1.10 Eligibility has been determined using a strategic chemical analysis to identify and shortlist priority chemicals, a ‘make-versus-buy’ assessment to evaluate alternative resilience approaches, and network mapping of UK chemical production to identify cluster interdependencies and systemic risks. Eligibility may arise from product criticality, cluster criticality, or a combination of both.
- 1.11 The Assessment explains that eligible applicants must submit a detailed business case setting out the proposed investment, expected outcomes, level of support requested, private sector contribution, counterfactual position and evidence of need. Projects will be assessed through a detailed appraisal process against a set of criteria such as strategic importance, contribution to continuity and security of supply, expected resilience benefits, additionality, commercial viability,

⁴ Such as those used in critical national infrastructure sectors and key supply chains.

⁵ UK chemical production is concentrated within industrial clusters such as Grangemouth, Humberside, Runcorn, and Teesside where producers rely upon shared utilities, feedstock, pipelines, logistic systems, and infrastructure to help drive down costs, create significant efficiencies and improve the competitiveness of firms.

deliverability, value for money, and potential risks to competition, investment and trade.

- 1.12 BIST explained that the Fund is a Scheme of Particular Interest because it allows for the provision of one or more Subsidies of Particular Interest to be given.⁶ In particular, individual awards under the Fund may potentially exceed the £25 million threshold.

⁶ Within the meaning of regulation 3 of [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) Regulations 2022](#) which sets out the conditions under which a subsidy or scheme is considered to be of particular interest.

2. The SAU's Evaluation

- 2.1 This section sets out our evaluation of the Assessment, following the four-step structure used by BIST.

Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

- 2.2 Under Step 1, public authorities should consider compliance of a subsidy with:
- (a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and
 - (b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.⁷

Policy objectives

- 2.3 The Assessment states that the Fund's primary objective is to maintain the continuity of supply of strategically important chemicals and strengthen the resilience of the UK's chemicals production base. This is intended to address the risks associated with the potential loss of strategically important domestic capability, including disruption to critical supply chains, increased import dependence and greater exposure to future economic and fiscal risks.
- 2.4 The Fund will finance investments that improve the competitiveness, efficiency or sustainability of strategically important production assets, and support the continued manufacture and supply of strategically important chemicals. The Assessment states that this support will contribute to meeting the Fund's policy objective by strengthening the sustainability and long-term viability of strategically important chemical production, thereby strengthening resilience.
- 2.5 The Assessment sets out a number of expected benefits from delivery of the primary objective, including:
- (a) Improved resilience and viability of strategically important firms through investment in modernisation, efficiency improvements and asset renewal;

⁷ See [Statutory Guidance](#), paragraphs 3.33–3.59 and the [SAU Guidance](#), paragraphs 3.6–3.10 for further detail.

- (b) Prevention of system-wide disruption and reduced need for costly reactive government interventions;
- (c) Protection of employment, industrial capability and local economies;
- (d) Leveraged private investment in critical industrial capability, with co-investment requirements ensuring public funding unlocks additional private capital; and
- (e) Wider resilience benefits for downstream industries and essential services that rely on continued access to critical chemical inputs.

2.6 In our view, the Assessment clearly describes and evidences the specific policy objective of the Fund.

Market failure

2.7 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make decisions that are financially rational for themselves, but not socially desirable.⁸

2.8 The Assessment explains the primary market failure that the Fund is designed to address is positive externalities associated with resilience, continuity of supply and strategically important domestic production capability. The Assessment also identifies co-ordination failures as an additional market failure.

2.9 In discussing positive externalities, the Assessment explains that the resilience and continuity of supply of strategically important chemicals creates benefits that accrue to downstream businesses, consumers and the wider economy. The continued availability of these products supports critical national infrastructure, food production, healthcare, defence, water treatment, energy systems and a wide range of manufacturing activities. It states that as firms make investment, production and closure decisions primarily on the basis of private commercial returns, they are unlikely to fully account for the wider economic and societal costs of any loss in production capability and that this can lead to a lower level of investment in resilience than is optimal. It provides supporting examples, referencing survey evidence that 44% of Chemical Industries Association member firms have delayed, reduced or cancelled planned investment; it states that this demonstrates that existing commercial incentives are insufficient to maintain the desirable level of resilience investment.

2.10 The Assessment highlights that this is particularly relevant where supply is concentrated, noting that for some strategically important chemicals, UK

⁸ [Statutory Guidance](#), paragraphs 3.36–3.51.

production is concentrated amongst a small number of facilities or a single producer.

- 2.11 The Assessment explains the identified co-ordination failures, stating that chemical production tends to be concentrated in highly interconnected industrial clusters where firms rely on shared infrastructure, utilities, logistics, networks, feedstocks and customer-supplier relationships. The commercial viability of one operation can be closely linked to the continued operation of others. The closure, contraction or underinvestment of a single site may increase the operating costs of neighbouring facilities, reduce utilisation of shared infrastructure, undermine the viability of connected production processes, or weaken the resilience of the wider cluster. These effects can become more pronounced as clusters contract and fixed costs are shared across a smaller number of operators. In these circumstances, individual firms may make commercially rational decisions that do not account for wider impacts on other producers within the cluster.
- 2.12 In addition, while certain chemical production assets perform important functions within UK supply chains, individual businesses typically make investment decisions based on their own commercial incentives rather than wider system dependencies. The Assessment states that investments which would improve resilience across the wider production system⁹ therefore do not proceed because no single firm captures sufficient benefits to justify the full cost.
- 2.13 In our view, the Assessment describes and evidences the positive externalities market failure that the Fund seeks to remedy. However, the Assessment should consider whether the impacts of interconnected clusters identified as co-ordination failures would be better described as positive externalities for the firms involved.

Appropriateness

- 2.14 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.¹⁰
- 2.15 The Assessment states that BIST considered a range of alternative interventions before concluding that targeted grant subsidy is the most appropriate response.
- 2.16 The Assessment sets out the alternatives to a subsidy:
- (a) Trade and market interventions such as tariffs, quotas, and anti-dumping measures were considered but found to be insufficient as a standalone response. The Assessment notes that such measures are inherently product-specific and can only be applied where the relevant legal and evidential

⁹ Such as shared infrastructure, storage capacity, logistics systems, feedstock security or production capability.

¹⁰ [Statutory Guidance](#), paragraphs 3.57–3.59.

thresholds are met, which would not apply to the full range of identified market failures. Trade measures also require often lengthy investigation, consultation and implementation processes, reducing their ability to respond to the immediate resilience risks.

- (b) Legislative and regulatory reforms were considered but also rejected as a standalone alternative. The Assessment states that such measures are dependent on wider policy and legislative decisions, often requiring extensive consultation and implementation periods. This means that such reforms would be unlikely to deliver benefits within the timescales required to address the immediate resilience risks identified. Furthermore, regulatory reforms would operate across large parts of the sector and could not readily be targeted towards specific strategically important assets, chemicals and supply chains the Fund will target.
- (c) Innovation and circular economy measures intended to encourage investment in sustainability, resource efficiency and low-carbon production pathways were also considered but found to be insufficiently targeted. The Assessment explains that these measures are primarily designed to support innovation, decarbonisation and circular economy objectives rather than address the immediate resilience risks facing strategically important chemical production capability. Benefits would be expected to emerge gradually over time, and many interventions would be more relevant to speciality chemicals, recycling and emerging green markets than to strategically important production assets and supply chains.

2.17 The Assessment explains that while many of the alternative options could contribute to improving the competitiveness or wider operating environment of the chemicals sector over the medium to long term, they generally suffer from three common limitations:

- (a) Many are dependent on wider policy, legislative or international developments and would therefore require extended implementation periods before benefits are realised;
- (b) Most options would operate at a sector-wide level and are unable to target support towards strategically important chemicals, production assets and supply chains; and
- (c) While some options may improve competitiveness or reduce operating costs, they do not directly address the resilience risks, continuity of supply concerns and investment barriers underpinning the rationale for intervention.

2.18 The Assessment concludes that unlike the alternatives considered, the Fund directly addresses the identified market failures by supporting investments that

strengthen continuity and security of supply, improve resilience across interconnected production systems and supply chains, and enhance the long-term sustainability of strategically important production assets.

- 2.19 In our view, the Assessment demonstrates that BIST has considered other ways of achieving its policy objective and explains and evidences why a subsidy was the most appropriate option. However, the Assessment could also consider in more detail unsubsidised financing instruments, in particular equity.

Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change

- 2.20 Under Step 2, public authorities should consider compliance of a subsidy with:
- (a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and
 - (b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.¹¹

Counterfactual

- 2.21 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the ‘do nothing’ scenario).¹²
- 2.22 The Assessment sets out a counterfactual scenario where government makes no proactive intervention to strengthen domestic chemical production resilience; as a result, companies continue to make primarily commercial decisions against a backdrop of ‘sustained competitiveness pressures’.
- 2.23 The Assessment acknowledges the recent history of production withdrawals and closures in the UK. It then highlights the risk that this trend may continue in the counterfactual, where this could manifest as a continued drop in the level of UK chemicals output, lower levels of investment, additional site rationalisation and potentially the loss of strategically important production capability. Given the interconnected nature of UK chemical production, one facility closing or contracting could have a deleterious impact more widely, as it could reduce the utilisation of shared infrastructure, increase costs for neighbouring operators, weaken downstream supply chains and reduce incentives for future investment.

¹¹ See [Statutory Guidance](#), paragraphs 3.60–3.74 and the [SAU Guidance](#), paragraphs 3.11–3.13 for further detail.

¹² [Statutory Guidance](#), paragraphs 3.63–3.65.

Furthermore, a reduction or loss of capability in one part of the UK chemicals production system may increase risks elsewhere, thereby creating the potential for further contraction across clusters and supply chains over time.

- 2.24 The Assessment states that the impacts of losing capability would likely vary by chemical, but that under the counterfactual, the UK would likely see increased import dependence, longer and more complex supply chains, reduced continuity of supply and greater exposure to international market disruption. These impacts in turn could weaken the resilience of the sector as a whole. The Assessment describes the nature of a resilient sector as one which can withstand shocks, adapt to changing market conditions, recover from disruption and maintain continuity of supply during periods of stress; in the counterfactual, these domestic capabilities are likely to continue to be eroded.
- 2.25 The counterfactual acknowledges the risk that investment continues to be driven away from the UK, particularly as many companies operate within multinational groups and can redirect their planned investment elsewhere within the group. This in turn creates a negative feedback loop, as the lower levels of investment reduce competitiveness, productivity and adaptive capacity, which may lead to reduced investor confidence, further reducing incentive for future investment.
- 2.26 The counterfactual references BIST's economic case for this Fund, and forecasts the likely level of economic losses, while highlighting the inherent uncertainty of this nature of modelling. Given the wide-ranging, varied nature of the UK chemicals sector, the Assessment provides several illustrative scenarios of how the counterfactual might play out across different strategically important production areas; these scenarios help to demonstrate the types of resilience risks and outcomes that the Fund seeks to mitigate. It acknowledges that a 'no intervention' scenario is unlikely in reality, and in the absence of the Fund there would likely be continued reliance on reactive, case-by-case intervention in response to acute instances of company distress or key UK supply disruption.
- 2.27 In our view, the Assessment describes what would be likely to happen if the Fund was not implemented. It provides useful information, particularly in the form of the illustrative scenarios and considers what would happen under a counterfactual in which the Fund was not implemented and there was no other government intervention. However, the Assessment could better evidence its argument that under the counterfactual, investment could be driven away from the UK.

Changes in economic behaviour of the beneficiary and additionality

- 2.28 Subsidies must bring about something that would not have occurred without the subsidy.¹³ They should not be used to finance a project or activity that the

¹³ [Statutory Guidance](#), paragraph 3.67.

beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy ('additionality').¹⁴ For schemes, this means that public authorities should, where possible and reasonable, ensure the scheme's design can identify in advance and exclude those beneficiaries for which it can be reasonably determined would likely proceed without subsidy.¹⁵

- 2.29 The Assessment states that the purpose of the Fund is to change investment behaviour within strategically important parts of the UK chemical production sector. Specifically, the Fund encourages firms to bring forward and undertake projects that strengthen the resilience, sustainability and long-term viability of strategically important production assets, altering investment decisions where projects would generate significant wider economic and resilience benefits but are unable to proceed under prevailing market conditions.
- 2.30 The Assessment states that additionality is a core design principle of the Fund, noting that while firms undertake essential maintenance expenditure or investment required for safe operation, there is limited evidence of large-scale transformational investment in strategically important UK chemical assets. Multinational firms continue to allocate capital towards alternative jurisdictions, while a number of UK major production assets have closed or reduced operations. Where expected UK commercial returns are relatively weak, projects that would improve resilience, continuity of supply or long-term sustainability may not receive internal investment approval despite generating wider benefits for the UK economy.
- 2.31 The Assessment states that the Fund will generate additionality by:
- (a) enabling projects that would otherwise not proceed;
 - (b) bringing forward projects that would otherwise be significantly delayed;
 - (c) increasing the scale or ambition of investments;
 - (d) improving the resilience, efficiency or sustainability outcomes achieved; or
 - (e) influencing investment decisions in favour of UK assets that might otherwise lose out to competing international opportunities.
- 2.32 The Assessment explains that the Fund is intended to leverage private investment alongside Government support, with support of up to 50% of a project potentially available. The Fund will expect applicants to maximise private sector contribution and demonstrate why the level of support requested represents the minimum necessary. As part of the appraisal process, the Fund will consider whether the

¹⁴ [Statutory Guidance](#), paragraphs 3.66–3.70.

¹⁵ [Statutory Guidance](#), paragraphs 3.71–3.73.

proposed expenditure would occur in the absence of support and whether the subsidy is necessary to secure the desired behavioural change. Support from the Fund will be capped at £350 million across all projects, which the Assessment states has the potential to stimulate at least another £350 million from private sector contributions.

- 2.33 The Assessment states that the Fund is not intended to subsidise routine operating expenditure, and that any projects consisting solely of routine maintenance or ongoing operational activity would not satisfy the objectives of the Fund. However, it acknowledges that in limited and exceptional circumstances, some short-term operational support may be necessary, eg for a strategically important project or to prevent the loss of capability. It states that any such support would be considered only where it is demonstrably necessary, time-limited, proportionate and directly linked to the achievement of the Fund's objectives.
- 2.34 The Assessment acknowledges the possibility of beneficiaries being eligible for other sources of government funding;¹⁶ where operational support is being sought, the Fund will require applicants to demonstrate that the costs are not already supported through existing subsidy schemes and that there is no duplication of funding. It also confirms that the Fund will not operate as a rescue or restructuring scheme.
- 2.35 In our view, the Assessment explains the process by which the Fund would change the beneficiaries' economic behaviour. However, the Assessment should provide more evidence to demonstrate that the Fund is likely to result in additional investment. For example, the Assessment could:
- (a) better evidence the threshold at which projects are expected to become economically viable by reference to industry benchmark rates of return.
 - (b) more explicitly address the Statutory Guidance's section on 'additionality for schemes',¹⁷ in relation to the requirements for designing out non-additionality.
 - (c) notwithstanding the appraisal criteria, explain how the appraisal process will actively assess additionality for each application.

¹⁶ The Assessment states these are likely to include, but not limited to, the Energy Intensive Industries Supercharger, Energy Intensive Industries Relief scheme, Energy Intensive Industries Compensation scheme, British Industrial Competitiveness Scheme, the provision of Free Allowances under the Emissions Trading Scheme, and/or any overlap with CCUS/H₂ Schemes, and Innovate UK R&D support.

¹⁷ See [Statutory Guidance](#), paragraphs 3.71–3.73.

Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible

2.36 Under Step 3, public authorities should consider compliance of a subsidy with:

- (a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and
- (b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.¹⁸

Proportionality

2.37 The Assessment sets out elements of the Fund that are designed to limit funding to the minimum necessary to achieve the policy objective. These include:

- (a) Applicants will be required to submit a detailed business case. Bids will be appraised against a consistent set of criteria including expected resilience benefits, value for money and strategic importance of the production capability or supply chain supported by the project.
- (b) A supporting annex sets out that all funding requests will be assessed against the benefits proposed, including value for money. BIST intends for the Fund to support all eligible applicants (subject to this assessment), but the annex also sets out principles for prioritisation to be used if required. The financial model and related project information will undergo due diligence review by qualified forensic accountants and, if required, by external chemical sector specialists, to ensure that the awarded level of funding is the minimum necessary to enable the investment to proceed in the UK, and to ensure that private sector contribution is maximised. Applications requesting funding for operational expenditure will be subject to enhanced scrutiny to ensure subsidy funding is time-limited and proportionate (see paragraph 2.40(g)).
- (c) Subsidy funding will be capped at a 50% subsidy intensity rate. A supporting document provided with the Assessment provides indicative information on potential average grants for the Fund using information from comparable schemes.
- (d) The grant agreement will include specific KPIs and reserves the right for BIST to clawback or cease funding if objectives are not met. KPIs will be tailored to the project and may include: increase in plant capacity relative to

¹⁸ See [Statutory Guidance](#), paragraphs 3.75–3.112 and the [SAU Guidance](#), paragraphs 3.14–3.18 for further detail.

the counterfactual with routine reporting to BIST on active capacity and outputs; maintenance of increased plant capacity relative to the counterfactual in the longer-term (defined as the 'monitoring period' of the grant); safeguarding and creation of employment within the plant.

- 2.38 In our view, the Assessment sets out several features demonstrating how the Fund is proportionate and limited to the minimum necessary to achieve its specific policy objective, in line with the Statutory Guidance.
- 2.39 However, the Assessment could include more detail on the due diligence process, including whether projected returns, costs or other relevant financial metrics are compared with industry benchmark ranges, and how any material differences are investigated and taken into account when determining the award.

Design of subsidy to minimise negative effects on competition and investment

- 2.40 The Assessment sets out several aspects of scheme design that minimise the potential for distortion including the following:
- (a) Other subsidy instruments, such as loans, guarantees and electricity and gas price support were considered and discounted on the basis that these are unlikely to lead to businesses progressing investments within the short to medium term. Where projects could be financed through less distortive means than grant funding, these will be directed to other sources of funding outside the Fund (see paragraph 2.34).
 - (b) Eligibility for the Fund is not restricted to a single domestic producer in situations where multiple UK businesses produce the relevant product. The Assessment provides illustrative examples of chemical products in the UK where all of the current UK producers are eligible to apply for funding. The underlying analysis that informed the indicative list of chemicals and producers in scope was shared with a group of external sector experts for validation.
 - (c) The subsidy intensity rate will be capped at 50%. The Assessment states that BIST is aware that rates of up to 50% (and in some cases higher than 50%) would be required to change business behaviour and unblock resilience-enhancing investments however the decision to set the cap at this level 'reflects a deliberate choice to balance the need to achieve additionality with minimising the distortive effects of Government support'.
 - (d) The Fund does not cap the maximum level of subsidy per project on the basis that the companies in scope include both large and small businesses.

- (e) The detailed review of business cases submitted by applicants is designed to target funding towards the projects that best meet the policy objective based on objective criteria.
- (f) Funding is time-limited and grant payments will be made in arrears, after proven spending from private sources as per the project proposal.
- (g) Short-term operational expenditure funding, in response to externally-driven input price shocks such as energy or feedstock costs, may be considered in limited and exceptional circumstances (see paragraph 2.33) where this supports investment in resilience that is assessed to be strategically important and that contributes to a plant's long-term viability. BIST clarified that operational expenditure funding will only be available where there is capital expenditure (whether supported by the Fund or separately).

- 2.41 In our view, the Assessment demonstrates how some design features of the Fund contribute to minimising any negative effects on competition and investment within the United Kingdom.
- 2.42 However, to demonstrate and clearly evidence the process BIST took to satisfy itself that decisions on producer eligibility are based on relevant, objective and consistent criteria, the Assessment could explicitly define and explain which factors in relation to substitutability between chemical products will be considered and how this decision-making process minimises distortions. For example, it could detail how substitutability between chemical grades is considered alongside the make-versus-buy analysis and cluster analysis.
- 2.43 Furthermore, the Assessment could consider whether eligibility should be fixed for the period of the Fund or whether there might be circumstances in which it would be beneficial to review the set of producers eligible for funding.
- 2.44 Although the Assessment acknowledges that grant funding could be the most distortive aspect of the Fund, it could explain in more detail how the review of applications will avoid funding projects that could proceed using less distortive funding instruments.

Assessment of effects on competition or investment

- 2.45 The Assessment states that the Fund will support businesses operating in a number of chemical product markets and most businesses within scope of the Fund operate without major domestic competition. It sets out that competitive pressure in a number of these product markets is shaped primarily by rivalry with producers located overseas (which tend to benefit from lower production costs) rather than rivalry between UK producers. UK facilities owned by multinational

groups compete internally for investment against sites overseas which may have more favourable operating conditions.

- 2.46 The Assessment states that given the breadth of products and producers in scope it would not be proportionate to undertake a detailed competition assessment for each individual chemical covered by the Fund. Instead, it refers to market characteristics shared across individual product markets (set out below) along with two product-level case studies.
- 2.47 The Assessment acknowledges the potential for the Fund to distort competition and investment in individual chemical product markets where recipient businesses gain an advantage relative to unsupported businesses. However, the Assessment sets out that the Fund is unlikely to have a significant impact on competition in the UK due to several factors. In particular, the Assessment notes that:
- (a) the scope and value of the Fund is limited relative to the size of the markets concerned;
 - (b) chemical manufacturing exhibits significant economies of scale and large-scale facilities are required to compete effectively (UK production of products in scope for support tends to be concentrated within one or two major UK facilities operated by a single or limited number of businesses);
 - (c) many chemicals within scope are produced within established industrial clusters where businesses benefit from proximity to specialist feedstocks, dedicated infrastructure and specialist workforces. There are significant physical and regulatory barriers to establishing new facilities. Replicating these advantages elsewhere in the UK would require significant additional investment and may not be commercially viable. Entry is infrequent and would be a slow process.
 - (d) impacts on potential entrants are likely to be limited due to the high barriers to entry, presence of existing large competitors with economies of scale and established reputations, along with the historic lack of significant investment in new chemical facilities in the UK.
 - (e) there is growing international competitive pressure in several product markets from overseas producers with lower costs of production and substantially larger scale. The Assessment refers to examples of chemical products where a single or limited number of domestic incumbents face competitive pressure from low-cost imports.
- 2.48 The Assessment considers impacts on some input and related markets. It sets out that investments made under the Fund will have positive impacts on related markets due to the highly connected value and supply chains of chemical manufacturing. In particular, the Fund may support investment in and prevent

closures of UK production facilities. This will in turn maintain UK production and prevent cost increases for downstream manufacturers that use chemicals as inputs to production, and/or use shared infrastructure alongside the beneficiary on the industrial site.

2.49 In our view, the Assessment considers some effects of the Fund on competition and investment, in line with Annex 3 of the Statutory Guidance.

2.50 However, the Assessment should extend its competition assessment to:

- (a) consider and evidence in greater detail the definition of relevant geographic markets and how this may vary by product, drawing on available market information. For example, within one of the case studies presented, the Assessment should explicitly consider the geographic dimension, supporting its considerations with reference to market information on imports.
- (b) explain the rationale for selecting the case studies. For example, were the selected markets those in which subsidies were most likely to distort competition? Within the case studies, the Assessment should explain the competition assessment in more detail. In particular by: (i) considering production methods and chemical grades and how this frames the potential for supply and demand side substitution; and (ii) explicitly considering whether the subsidy could lower the beneficiary's costs or increase capacity, and the potential impact of this on displacing output or investment by competitors in different geographic areas or deterring potential entry in the long term.
- (c) analyse the competitive impacts for individual product markets (for products in scope for support) either in the Assessment (before implementing the Fund) and/or as part of the appraisal process when assessing funding applications.
- (d) consider the potential size of subsidies awarded through the Fund relative to estimates of market size, to inform its assessment of the likelihood of distortive impact, in line with the Statutory Guidance.¹⁹

Step 4: Carrying out the balancing exercise

2.51 Under step 4 (Principle G), public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.²⁰

¹⁹ See [Statutory Guidance](#), paragraphs 17.9 and 17.12.

²⁰ See [Statutory Guidance](#), paragraphs 3.113–3.121 and the [SAU Guidance](#), paragraphs 3.19–3.21 for further detail.

- 2.52 The Assessment lists the benefits of the Fund as including the resilience of essential services through continuity of supply for critical chemicals, prevention of system-wide disruption across industrial clusters, efficiency gains and decarbonisation through modernisation of assets, avoidance of costly reactive government interventions, and leveraging of private investment. It quantifies some of the potential benefits by reference to the counterfactual scenario of continued sector decline, outlining the level of government spending through reactive and costly interventions that the Fund could help to avoid, as well as the losses in terms of Gross Value Added (GVA) and jobs which the Fund could help to avoid.
- 2.53 The Assessment explains that the primary benefits of the Fund relate to the objective to safeguard the continuity and resilience of the domestic supply of critical chemicals, such as:
- (a) Increased robustness of strategically important production capability to continue operating during periods of stress, reducing vulnerability to future disruption and improving adaptive capacity;
 - (b) Reduced risk of cascading supply-chain and cluster impacts due to disruption to producers in interconnected supply chains and industrial systems; and
 - (c) Improved resilience of critical sectors and services which depend on essential inputs which the UK chemicals sector provides. These critical sectors include water treatment, food production, healthcare, energy systems and wider manufacturing.
- 2.54 The Assessment acknowledges that the Fund has the potential to generate negative effects on competition and trade in the UK by advantaging recipient firms relative to other businesses, influencing the allocation of production, investment and market share, and preserving production capability that may otherwise contract. It also states that there could be a chilling effect on private investment if businesses come to expect - and so hold out for - future Government intervention. However, the Assessment explains that the likelihood of negative impacts to competition and investment is minimised for the reasons set out at paragraph 2.47 above.
- 2.55 The Assessment considers the potential for the Fund to influence trade flows or investment decisions within international markets by improving the competitiveness of recipient firms relative to overseas competitors. It concludes that any negative effects on international trade and investment are likely to be limited, due to the Fund being small in scale and directed towards resilience and capability retention, rather than expansion, in the context of intense international competition.

- 2.56 The Assessment sets out the potential geographic and distributional impacts of the Fund. Whilst acknowledging that support may be geographically concentrated and direct economic benefits may accrue disproportionately to a relatively small number of industrial clusters, it explains that this reflects the structure of the UK chemicals sector and the location of strategically important production capability rather than any intention to favour specific regions, and that resilience and supply security benefits are distributed more widely across the UK economy.
- 2.57 The Assessment concludes that the benefits of maintaining security of supply and preserving strategically important chemicals and production capabilities substantially outweigh the negative effects. It states that the Fund is intended to avoid the negative consequences that would result from a potentially irreversible loss in domestic capability in products that support critical national infrastructure and other strategically important supply chains, while wider policy measures to improve the long-term competitiveness of the sector are pursued.
- 2.58 In our view, the Assessment clearly sets out the positive effects of the Fund, its geographic impacts, as well as potential negative impacts, and conducts a balancing exercise between them in line with the Statutory Guidance. However, the Assessment should only consider the potential benefits of the Fund which directly relate to the specific policy objective, in particular considering whether decarbonisation is a relevant benefit of the Fund.
- 2.59 In addition, to the extent that BIST revises or further develops the Assessment under Step 3 in response to the points raised in this report, those changes should also be reflected in the balancing exercise under Step 4.

Other Requirements of the Act

- 2.60 BIST confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Fund.

21 October 2026