PHARMACHEMICAL IRELAND
Focused on a Healthy Future

James Mc Sherry
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

Date: 29 June 2010

Re: **Public Service Obligation (PSO) Levy 2010/2011 – Proposed Decision Paper (CER/10/086)**

Dear James

Pharmachemical Ireland (PCI), a business sector within IBEC, welcomes the opportunity to comment on the above proposal issued on the 11 June 2010. PCI members companies research, develop and manufacture pharmaceutical products, ingredients and general chemical material. In 2008 our members exported products to the value of €44.17 billion representing 51.2% of the national total. In addition the sector contributed more than €1 billion in corporation tax in 2008 and is responsible for approximately 50,000 jobs, directly and indirectly in this country.

Following consideration, PCI would like to make the following comments about the proposal and requests that the CER consider this response before making its final decision on the matter.

PCI is extremely concerned about the timing, level and competitive impact of the proposed charge for pharmaceutical/chemical sites from October 2010. The global pharmachemical sector is now entering challenging times with the impending expiration of patented drugs, a diminished volume in research pipelines, a rising cost base in addition to increasing competition and stringent regulatory requirements. From a purely Irish perspective, 60% of the products made in Ireland come off patent in the next 2-3 years and the industry finds itself having to compete with many different geographies to keep jobs in Ireland [once a drug comes off patent, revenues fall by up to 80% very quickly]. Any additional increase in costs will have a significantly negative effect on PCI member companies.

While it is acknowledged that companies benefitted from a 5% to 10% drop in electricity prices in 2009, the re-introduction of this levy, will immediately add between €80,000 and €160,000 per site to the annual electricity costs of PCI member companies. When one adds in the elimination of the LEU capacity rebate and the planned phase out of the LEU unit rebate over the next coupe of years, this will add an additional €600,000 to €700,000 when fully implemented. All of this will cost jobs. At this time, all of our member companies have had pay-freezes in place for up to the last 2 years. The rule of thumb in this industry is that the average job costs €100,000. **The re-introduction of this levy**, at a time when we are running to stand still **will lead to a loss of between 550 and 800 jobs** to our member companies (we have been informed by a number of our members that they will have to find between 9 and 13 redundancies to neutralise the cost of this levy for 2011).

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You will also be aware that all industry is contending with new energy costs in the form of carbon taxation since May 2010. Again this will have a significant negative impact on our cost of energy. Many members have commenced discussions with the Revenue, but early indications are that this will add another €100,000 to the energy costs for the average site.

Practically all of our member companies have made very significant investments over the last 10 years in energy efficient pant and equipment. Most have also introduced very effective energy management systems. Sustainability leading to growth is the primary objective of this industry in Ireland. Critical to this sustainability is the ability to attract new capital expenditure from head office. Unfortunately head office will not allocate new capital expenditure where costs are rising at a rate of up to 28%.

Corporately, all of our members are being presented with very challenging cost saving targets. Sites that fail to meet these targets will find it increasingly difficult to secure new projects coming out of their parent company headquarters. Indeed we have already seen job losses this year arising from the redirection of investment to other countries – countries such as Switzerland, England, Germany and Belgium. There is a myth that Ireland cannot compete against lower cost economies such as China and India. However most of the job losses in the pharmachemical industry in Ireland this year have been to other first world countries – but first world countries with a lower cost of energy.

The reintroduction of this levy couldn't come at a worse time. The very companies that are leading Ireland out of recession are now being hit with a levy to subsidise inefficiencies in our electricity supply. This will have an extremely damaging effect on the ability of pharmachemical companies to grow in a sustainable manner.

We hope that these comments prove constructive in reaching your decision and would welcome the opportunity to meet you. If you have any queries, please do not hesitate to contact me or my colleague, Michael Gillen, email: michael.gillen@ibec.ie

Kind regards

Matt Moran

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