

# **PAPER FOR THE ENTERPRISE AND BUSINESS COMMITTEE ON THE PRESSURES FACING THE STEEL INDUSTRY**

## **Introduction**

1. This paper has been prepared to support a discussion item on the pressures facing the steel industry in Wales.

## **Situation regarding the Steel Industry**

2. The steel industry is a cornerstone of our manufacturing sector. The primary steel plants drive significant direct and indirect employment, diverse supply chains, as well as research and development and innovation.
3. However, it is clear that the UK steel industry is at one of the most critical points in its history. This current crisis has been growing over a number of years and follows continued falls in the European steel price caused by cheap imports, particularly from China but also now others including Russia. Strip steel products imported into the EU from China have increased by almost 50% in the last year.
4. Cheap foreign imports are not the only factor adversely affecting the UK steel industry and it is also suffering as a result of demand being significantly lower than pre recession levels; high energy costs; business rates at levels significantly higher than mainland Europe; and over capacity in the market. The result is that the price of steel is now less than half of what it was in 2011 and substantially lower than the previous low of 2009.
5. On 18th January Tata Steel UK Limited announced cost-saving proposals with the potential loss of 1,050 jobs, with 750 jobs at its Port Talbot-based Strip Products UK business. Trostre and Llanwern are also identified by the Company as facing smaller job losses. Tata currently employ circa 6,500 employees in Wales.
6. In addition to Tata Steel and Celsa other notable companies involved in steel processing in Wales include Liberty Steel, Capital Coated Steel and Caparo Wire.
7. In October 2015, UK Steel, the trade association for the UK steel industry made five key asks of Government to combat the current crisis facing UK steel producers and secure the future of the steel industry in the UK:
  - EU-level action on anti-dumping measures: UK Steel argue that recent actions by the EU Commission go directly against the conclusions reached after the Emergency Competiveness Council last year. They are urging the UK Government to push the Commission to take action.
  - EU-level action on Market Economy Status (MES) for China: the EU is currently considering whether to formally recognise China as a market

economy. UK Steel argues that if China receives MES the anti-dumping measures that safeguard hundreds of thousands of EU jobs against China's unfair competition across a range of strategic EU industries would become ineffective.

- Bring Business Rates for capital intensive firms in line with their competitors in France and Germany, by removing plant and machinery from business rate calculations.
- Support local content in major construction projects
- Direct funding assistance for the sector on R&D and environmental improvements.

### **Welsh Government support**

8. We have been working closely with the steel industry for many years and are very aware of the challenges facing the industry. We have been developing support based around our own levers which range from R&D, skills and training, aid for environmental protection and exploring options on business rates.
9. The steel sector is considered to be a restricted sector by the European Commission and, therefore, cannot benefit from receiving all types of state aid including rescue and restructuring aid for companies in difficulty or regional aid for capital investment projects in assisted areas. However, the steel sector is eligible to receive other types of state aid such as support for environmental protection and research and development measures.
10. Along with EPSRC (Engineering & Physical Sciences Research Council ) and Innovate UK, we have supported the development of SPECIFC (Sustainable Product Engineering Centre for Innovation in Functional Coatings) to ensure that research undertaken at SPECIFC is commercialised into new products and services. Tata is one of the lead industrial partners in this centre along with, BASF, Pilkington and companies from a broad cross section of industry.
11. We have also supported both Tata and Celsa with bespoke support including training and skills interventions that are recognised by industry and unions at UK scale as being best practice.
12. We are also considering the creation of an additional Enterprise Zone in Wales, covering Port Talbot. This would not only send an important signal to the industry, it would also create a growth environment within which other business and industry could flourish. For maximum impact, such an Enterprise Zone would need the full package of policy levers including Enhanced Capital Allowances (ECAs) and we are in discussion with the UK Government on our proposals.
13. On business rates we have been proactive in examining a range of options and in particular the valuation of plant and machinery as this affects many sectors. We

have focussed on whether changes can be made to discount new investments in plant and machinery from the rateable value (RV) of a property (hereditament).

14. This is a highly technical area, as recognised by the Business Rates Panel I established, involving valuation methodology, financial implications and other guideline but it presents a real opportunity to bring about change. Our Officials are working with the Valuation Office Agency to see what would be technically possible to introduce and over what period.

### **Tata Task Force**

15. In response to the immediate problems facing Tata steel in Port Talbot and their announcement to make over 1050 redundancies, we immediately convened a Tata Task Force and held its first meeting on 20th January.
16. The primary focus of the Task Force is to do all that we can to support the affected employees. However, the impacts are likely to be wider than just the employees who may be displaced. There are likely to be businesses affected in the main supply chains, as well as smaller businesses that provide local goods and services. So the Task Force will also consider what can be done to support them as well. This work will be taken forward immediately and in parallel to our work to support displaced employees.
17. The Task Force has established four work streams to consider action that we can take in response to the announcement.
  - Training and Skills
  - Business Support and supply chains
  - Health
  - Procurement
18. The procurement work stream will examine what can be done to drive up the number of contracts won by UK Steel manufacturers in fair and open competition.
19. The Wales Procurement Policy Statement published in 2012 is fully supportive of the principles of the British Steel Charter. Our progressive procurement policies which are already in place, complement the aims of the Charter. As an example, we are currently reviewing the model contract documents for the delivery of major transport projects to ensure the standard is considered. The work stream will explore options to use levers such as grant funding routes to drive delivery of procurement policy. It will also agree an approach to ascertain steel requirements in known future projects.

### **UK and EU issues**

20. The most significant issues impacting on the current crisis faced by the industry are at a UK and EU level.

21. In addition to the dumping of cheap foreign imports steel producers in the UK are also affected by the current exchange rate and strong pound as well as higher energy costs than other EU countries.
22. We have been raising concerns about the impact of energy prices on the most energy intensive businesses since 2011. The UK Government has now secured state aid clearance to pay compensation to energy intensive industries including steel producers for renewable energy costs. Energy Intensive Industries will be exempt from the policy costs of the Renewable Obligation and Feed in Tariffs.
23. We have also raised with UK Government the concerns about the volume and, in some cases, the quality of certain imported steel products. We have additionally raised the potential of the European Globalisation Adjustment Fund that might provide appropriate assistance to any workers being made redundant.
24. At a stakeholder conference Energy Intensive Industries held on 15 February in Brussels, the steel industry called on the EU to strengthen trade defence measures. Higher energy costs were also cited as a major barrier to their competitiveness.
25. Actions to support the industry through procurement policy will require action at both UK and Wales level.
26. The above points have been echoed by the Tata Task Force and the Council for Economic Renewal. The most recent Council meeting on 1<sup>st</sup> February was attended by business organisations such as CBI Wales, Institute of Directors, Federation of Small Business alongside the Wales TUC, Unite and Community Unions. I attach the Council's communiqué following the meeting for the Committee's information.

## **COUNCIL FOR ECONOMIC RENEWAL COMMUNIQUÉ – 01 FEBRUARY 2016**

The Council for Economic Renewal met today (1st February) and its primary discussion was on the steel industry in Wales.

The Council was attended by the full range of social partners. The Wales TUC attended, accompanied by representatives from Unite and Community Unions. The business representatives included the CBI, FSB, IoD, the Chair of Commerce Cymru, ICAEW, the South Wales Chamber of Commerce, RICS and the Law Society. Social enterprises were represented by the Wales Co-operative Centre Ltd.

The Council received an update on the Tata Task Force, which had met for the first time, two days following the announcement. The second meeting of the Task Force is taking place this afternoon.

The swift and proactive action by the Welsh Government in taking early action and setting up the Task Force was acknowledged by the Council. The Council agreed that the priorities were to ensure that support was provided for those affected as well as addressing the impact on the local economy and supply chains.

However, the Council stressed that the critical issues affecting the steel industry were far wider than the Welsh Government's levers and immediate and visible action was needed from the UK Government on a range of critical issues, including the need for a longer term strategy to support the steel industry.

Specifically, the Council urged the UK Government to make an urgent application to the European Globalisation Fund to provide much needed assistance to those at risk of losing their jobs.

The current crisis follows continued pressure on the European steel process caused by cheap imports, particularly from China, but also now others including Russia, and the Council called for urgent anti-dumping measures on steel products.

The threat posed by China being formally recognised as a market economy was highlighted and the negative effect this would have on any anti-dumping measures. Procurement was underlined as one of the most powerful levers. The Welsh Government was already taking action but the UK Government needed to commit to tangible actions on all major infrastructure projects such as the Swansea Bay Tidal Lagoon. This was important not only in regard to the impact of the volume and price on the steel industry in Wales but on safety grounds in cases where lower quality or substandard steel products may be imported for use in UK construction projects.

The impact of high UK energy prices has been raised in the Council for Economic Renewal over a number of years. Repeated calls had been made on the UK Government to address this issue. The effect of these high prices on the international competitiveness on the steel industry in Wales was all too evident today.

The Council was united in calling for urgent and demonstrable action from the UK Government to support the steel sector, recognising that the industry is at one of the most critical points in its history. The sector makes a significant contribution to GDP and sustains thousands of jobs across Wales and the UK. The Council pointed to the serious consequences of losing steel making capacity in the UK and becoming reliant on imports for such a critical commodity. Moreover, the impact of further decline in the steel industry would not be limited to those directly affected but would also have a knock on effect on manufacturing right across Wales.