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William Graham AM
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The National Assembly for Wales
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25th February 2016

Dear William,

Thank you for your invitation (13 January) to attend the Enterprise & Business Committee on 3 March to discuss the impact in Wales of the challenging conditions faced by the UK steel industry.

My Ministerial colleagues and I have been in regular contact with Tata and the Welsh Government, actively supporting Edwina Hart's Welsh Steel Taskforce. In our continued effort to engage with Tata, the Secretary of State for Business, Innovation and Skills and I visited Port Talbot on the 12th February. Issues affecting the company were communicated to us both by the management and the unions.

We recognise that Steel is a vital economic issue for Wales, and will continue to work to ensure that Port Talbot has a commercial and sustainable future.

As you are already aware, unfortunately I cannot attend the meeting of the Enterprise & Business Committee on 3 March. However, please find attached my written contribution to the evidence session.

Kind regards, Steve

Rt. Hon. Stephen Crabb MP
Secretary of State for Wales

THE STEEL INDUSTRY IN WALES

Written Evidence submitted to the Enterprise & Business Committee of the National Assembly for Wales by the Secretary of State for Wales

1. I welcome this opportunity to submit written evidence on the impact in Wales of the challenging conditions faced by the UK steel industry in advance of the Committee on 3 March 2016.

Overview

2. The steel industry in Wales and across the UK is facing challenging global conditions. Global steel production is outstripping demand by 35% worldwide and the price of steel has halved since 2014. Across Europe, the number of workers in steel manufacturing has fallen by about 70,000 between 2008 and 2014.

3. The increasing presence of Chinese steel on the global market has had a significant impact on the Welsh Steel industry. For some products, specifically reinforcing bar, cheap Chinese imports have gone from accounting for 0% of UK market in 2013 to 37% of the market at the end of 2014. More generally, Chinese steel exports roughly doubled between 2011 and 2014.

4. These difficult times have resulted in a number of companies having to take tough commercial decisions. These include the significant redundancies at plants operated by Tata in South Wales, Scunthorpe and Scotland.

5. Steel industry is pivotal to the industrial base in Wales and the community it serves. The impacts of recent announcements by Tata are severe and will be felt by the local communities and supply chains across UK.

6. We are working in partnership with the industry, unions and the Welsh Government with a view to ensuring that Steel continues to be a vital part of the future of Wales.

7. In the longer term we want to preserve as many jobs as possible while supporting companies to put themselves onto sustainable footing.

8. At Ministerial level, the UK Government, continues to engage with the Steel industry in Wales and across the UK to understand the challenges it is facing and how we can best support the industry. On 12th February, Secretary of State for Business, Innovation and Skills and I visited Tata Port Talbot to continue our ongoing engagement with the industry.

9. On 16 October 2015 the Government hosted a Steel Summit to discuss the steel crisis with key Government and industry participants as well as affected constituency MPs, recognising the significant part steel industry play in local communities.

10. Following the Summit, the steel industry made five key asks of government to help level the playing field, they were:

- i. Procurement: Procurement processes to be more competitive to avoid UK steel companies losing out on major procurement projects.

- ii. Business rates: A reduction of business rates. Industry suggests that business rates in the UK are up to ten times higher than those paid by competitors in France and Germany.
- iii. Dealing with lower energy costs: Full implementation of the Energy Intensive Industries package which contains measures aimed at offsetting the costs of environmental levies on high energy users.
- iv. Flexibility over EU Industrial Emissions Directives: Derogation from implementing the EU Industrial Emissions Directive which threatens further pressure on costs. The Directive places requirements on industry in relation to emissions and the use of technology to reduce them. Member states are able to designate specific plants to be given more time to meet the new requirements.
- v. Anti-dumping: Measures taken at EU level to prevent dumping of Chinese steel products into EU markets.

11. On 18 January, EEF and UK steel made two additional asks of government – EU level action on Market Economy Status for China and direct funding assistance for the sector on R&D and environmental improvements.

Procurement

12. We are supporting sustainable steel sourcing in our procurement guidance for all UK Government departments which applies to all firms bidding for public sector work. We are the first country in the EU to implement new flexibilities which allow wider considerations, such as social impacts, job impacts and staff safety in procurement decisions, so that the true competitive value of UK steel is recognised. This will provide the much needed competitive edge to the industry and support steel companies in competing for contracts. The Welsh Government has the power to implement Procurement Guidance to cover Welsh Government authorities.

13. The British Standards Institute (BSI) has revised and updated the voluntary British Standard BS4449 which applies to steel reinforcement bar.

14. We have shared a pipeline of UK Government projects with the industry, allowing British steel producers to plan ahead to meet the demand. Officials have mapped rough estimates of steel that could be needed for major projects including HS2, new nuclear and offshore wind. Devolved Administrations will manage their own pipeline analysis for devolved sectors, but we will work together to ensure as full a picture as possible is presented.

15. We are supportive of the work being undertaken by the Procurement work-stream of the recently set up Welsh Taskforce which will examine work needed to drive the number of contracts won by Welsh Steel manufacturers in Wales. The work-stream is also aiming to identify priority projects in Wales.

16. Across all of UK Government's major procurements we are working hard to make sure that wherever possible, British steel makers have the best chance of competing for, and winning, contracts.

Business rates

17. UK Government is not responsible for business rates policy and legislation in Wales, so options to support businesses in Wales via business rates policy is a matter for the Welsh Government.

18. The steel sector has asked for plant and machinery to be removed from business rate calculations. In England, we are working with the sector to ensure their views are taken into account in the current Rates Review being undertaken by HM Treasury.

Energy Intensive Industries package

19. We have paid almost £60 million in compensation to the Steel Industry for the indirect costs of the EU Emissions Trading System and Carbon Price Support on electricity prices (relief for around 65% of the cost passed through electricity bills).

20. At Budget 2014 the Government announced additional reliefs from the costs of renewables electricity policies. These relief regimes for the Renewable Obligation, small-scale Feed-in-Tariffs (RO/FiT) similarly required State Aid approval by the European Commission. On 14 December 2015, the European Commission approved relief for EIs that meet certain criteria.

21. The Government published guidance on claiming compensation for the indirect costs of the RO/FiT for eligible EIs on 19 January 2016. For the current financial year, eligible EIs may submit applications for compensation for the costs of the RO/FiT in their electricity bills up to 31 March 2016. The compensation amounts will be calculated from the date of the State Aid decision (14 December 2015). Thereafter, such payments will be made quarterly in arrears.

22. In December 2015 we secured state aid approval to pay further compensation to electricity-intensive industries, including steel, to include Renewables policy costs. On 19th January we issued the guidance and compensation claimant forms, enabling steel and other electricity-intensive industries to apply. Compensation to eligible companies will be paid as soon as eligible applications are received and backdated to 14 December.

23. This will save the steel industry about £100 million over the financial year - roughly 30% of its electricity bills. This relief from electricity costs will give the UK Steel Industry greater certainty around electricity costs.

24. At Autumn Statement 2015 the UK Government went further and announced that we intend to move from compensation to exempt electricity intensive industries from renewable policy costs. UK Government officials are working to make this transition and it is expected to be in place by start of 2017-18.

25. Government is acting to keep business and household electricity bills as low as possible through cost control measures in the short term for example by closing the Renewables Obligation to large scale solar now and to onshore wind earlier than planned) and investment in new energy infrastructure in the medium to long term for example new nuclear and interconnection with neighbouring nations.

26. Industrial sectors subject to the EU Emissions Trading System receive free allowances to reduce their direct carbon costs

27. A full exemption from the Climate Change Levy for mineralogical and metallurgical processes (including iron and steel), and up to 90% relief for EITs that sign up to Climate Change agreements.

28. We are also working closely with the eight most energy intensive sectors, including Steel, on how they can remain competitive amid increasing global carbon constraints. Decarbonisation and energy efficiency roadmaps for each sector were published in March 2015, and we are now beginning to develop an action plans jointly with the industry for agreement by the end of 2016.

Flexibility over EU Emissions Regulations

29. Both of Tata Steel's major power plants have been included in the UK transitional plan that the UK has submitted to the European Union.

30. We have already provided the industry with longer lead-in time for compliance with EU Regulations. Derogations for Port Talbot have already been agreed by Natural Resources Wales. This will save companies millions of pounds.

31. This gives the industry until June 2020 - a further 4 years - to meet the emission requirements.

Anti Dumping

32. The UK Government is in favour of effective trade defences and we believe that the level of duties should be proportionate to the injury caused by unfair trade. We have lobbied the EU in support of the industry, voted in favour of anti-dumping duties and are working with the EU to speed up anti-dumping investigations.

33. On Friday 12 February the European Commission announced new investigations on hot rolled coil as requested by Tata at Port Talbot. This is an exceptional step, in that it is a 'threat of injury' case. This means that, if the cases are proven, protection against unfairly trade can be introduced earlier than would otherwise be possible. The EU now has 37 trade defence measures in place on imports of steel products, while nine investigations are still ongoing.

34. And it is also welcome that the Commission has decided to apply provisional duties on both reinforcing bar from China and cold-rolled flat products from China and Russia. We share industry disappointment that the duties aren't higher in these cases. We have raised industry concerns with the Commission and been assured that it will reconsider if industry can provide the necessary evidence.

35. These are welcome actions, which show the Commission is taking industries concerns seriously. The Hot Rolled Coil case is an important step towards securing production at Port Talbot. The speed with which this case has been processed is evidence that the Commission is taking the steel crisis seriously.

36. At High Level Stakeholders' Conference, held in Brussels on 15th February, Anna Soubry, together with European partners, industry and trade unions, stressed to the European Commission the need for swift action to support the UK and EU steel industries. At the Conference, we strongly made the case for faster trade

defence investigations and for ensuring tariffs are set at the appropriate rate. We will continue to work with the Commission to ensure that the UK steel industry has the support it needs to compete effectively.

37. We are organising a 'Trade and State Aid Seminar' in Cardiff. The Seminar will be a great opportunity to get practical advice from policy experts in trade and state aid policy. We intend that the Wales, UK and EU angles will all be covered and are exploring the possibility of representatives from UK Steel, Eurofur and the European Commission participating. We are opening up the invitation to the UK Steel sector, all Unions, and to officials from the Devolved Administrations.

38. There have been allegations from the industry of Chinese imports of steel plates and sections that have been unlawfully CE marked and/or with non-compliant technical documentation. In December, officials from DCLG, BIS and Trading Standards initiated a surveillance project to target these non-compliant imports from China. This project is now operational and data on imports is starting to be received by Trading Standards.

Market Economy Status

39. The Government has also noted concerns about the forthcoming proposal to grant China Market Economy Status (MES). On 10 February, the Commission launched a consultation on the methods the EU should use in anti-dumping procedures concerning China after December 2016. This consultation, which will be open for ten weeks, invites stakeholders to give their opinion on the various options being considered by the Commission. This will give producers, users and consumers the opportunity to make their views known and have them taken into account. The Government welcomes the Commission's initiative, and urges UK business and consumers to engage in this exercise.

R&D Tax Credits

40. The industry maintains that, if Government recognises the strategic importance of the steel industry and manufacturing in the UK, then it needs to invest in industry to keep vital skills that will otherwise be lost.

41. Working in partnership with UK Steel, BIS has commissioned external independent advice on the competitiveness of the UK steel sector. This analysis is looking at the cost competitiveness of UK steel (primary) production, drivers of the UK steel industries overall competitiveness, as well the factors consumers take into account when purchasing steel, and proposing some scenarios for the future of UK steel. We will use these findings to focus discussions with the sector, and all key stakeholders, to explore actions which can improve the competitiveness of the UK steel sector.

Short term support for Welsh steel producers

42. The Welsh Government has set up a taskforce, just as we have seen in other areas that have been affected by large redundancies relating to steel. Lord Bourne and UK Government officials have been attending and actively supporting the task force.

43. Given responsibility for economic development lies with the Welsh Government, there is a significant role for them to play. However, it is important that both governments continue to work together to ensure long term sustainability of the Port Talbot site and associated jobs.

Welsh Government action

44. In addition to economic development and therefore the short term support to Welsh steel producers and local supply chain companies, the Welsh Government has devolved powers over redundancy support, skills and training and business rates.

45. Welsh Government has setup a Procurement work-stream as a subgroup of the Taskforce. The subgroup will examine works needed to drive the number of contracts won by Steel manufacturers in Wales. The work-stream is also aiming to identify priority projects in Wales and align capacity and capability with demand.

46. Given the devolution settlement, much of the support that can be offered both to workers and local supply chain companies would be provided by the Welsh Government.

47. Welsh Government have indicated that Port Talbot is to be designated as Enterprise Zone to promote investment and jobs more generally in the area, and have requested that Enhanced Capital Allowances (ECAs) be made available to the area. The Chancellor has welcomed plans to examine options and is clear he wants to work quickly to consider any proposals received from Welsh Government to determine whether ECAs could be offered.

48. Tata have made considerable asks of both Governments that span the devolution boundaries and require careful consideration. The future of Port Talbot must be commercially led but we will help where we can within the parameters of state aid rules.

Action from other EU Member States

49. The International Comparisons Working Group set up in response to the Steel Summit and in which Welsh Government officials participated, conducted a review of other countries' activities with respect to three areas where schemes are found: supporting energy costs; energy efficiency and R&D&I. The review concluded that the UK was doing all it could with respect to energy costs, but that it could do more with respect to energy efficiency.

50. The trend within other EU Member States appears to be for general schemes to promote the use of electricity from renewable sources, to improve energy efficiency, or to encourage take-up of cogeneration (using waste heat) techniques. One notable exception has been aid granted for steel manufacturing specific projects in Germany, which was authorised by the European Commission in 2010 using the framework for Environmental Protection. This is a relatively under-developed area in the UK and we should look to exploit all the opportunities afforded by the Energy and Environmental Aid Guidelines (EEAG).

Conclusion

51. The UK Government has taken significant action in response to industry asks and will continue to do all it can in the coming weeks and months to ensure a healthy and sustainable future for the industry.

52. There is clearly more to be done and I recognise this is a vital economic issue for Wales, and will continue to work closely with the Welsh Government.