eef UK Steel

EIS(5)-0'

Broadway House
Tothill St
London SW1H 9NQ

T +44 (0) 20 7222 7777
F +44 (0) 20 7222 2782
steel@eef.org.uk
www.eef.org.uk/uksteel

Written evidence submitted by UK Steel

National Assembly for Wales' Economy, Infrastructure and Skills Committee

Submitted: 5th October 2016

UK Steel is the trade association for the UK steel industry and represents the sector's interests to government and the public. Membership is open to all UK-based companies and organisations involved in the production of steel and our members include Tata, Liberty and Celsa.

Steel constitutes a fundamental component of most elements of everyday life. From buildings to cars, to the coins in your pocket, steel underpins a huge range of industries and processes. Each adult in the UK consumes around half a tonne of steel per year and it is the most pervasive material on the planet.

The UK steel industry crisis is an unfortunate example of where successive Governments have failed in this task; not adequately valuing the steel industry as a crucial foundation for manufacturing and the wider economy and have hit the industry with punitive costs time after time without a thought on how this would damage the sector and its competitive position both within the EU and globally.

UK Steel has played a central role in coordinating and focussing the stakeholder reaction, providing a coherent voice to achieve positive outcomes from government. The progress made in the UK and Europe, has largely been due to working together with unions and companies, who all share a common goal of saving a sector in crisis.

The steel crisis

The steel industry is still in crisis - battling global over-capacity, a reduction in demand and most notably uncompetitive policy costs. The scale of the crisis was clearly demonstrated by the liquidation of the SSI operation in Redcar last year and the subsequent job losses across the whole sector in early 2016.

In July, 2016, UK Steel presented a blueprint for government to ensure a long-term, successful and sustainable steel industry in the UK. The paper put forward a number of detailed recommendations to government setting out clearly what our vital sector needs to survive (short-term) and thrive (long-term)

Despite some good progress, we still face the real prospect of further reductions in steel jobs and steel production in the UK. We are not asking for handouts, but for Government to ensure a level playing field to all the steel industry to survive.

1. **Commitment to the Steel Council objective to close the electricity price disparity for steel producers**

The Steel Council, established in 2015, set up an electricity prices and energy efficiency working group in March 2016 in recognition of, and to address, the damage being caused to the competitiveness of steel producers by disproportionately high electricity prices in the UK. With the costs of electricity accounting for upwards of 20% of the conversion costs via an electric arc furnace[i], it is imperative that steel producers are able to access electricity at a competitive price.

The disparity in energy costs are widely seen to be at least £17/MWh (almost £1 million per week) compared to many EU competitors. We put our recommendations to government earlier this year and it is now imperative that government, regulators and others work to eliminate this identified price differential.

2. Provision of an 'energy efficiency fund' for the steel sector

In a meetings at the end of last year between government ministers, civil servants, industry and unions, there was a clear commitment to investigate how the sector and government can work together to reduce the impact of energy and environment costs to enhance company's competiveness.

Whilst there is a clear business case in the long term for steel plants to improve their energy efficiency, the severe challenges many energy intensive companies now face means securing capital funds for these improvements has become increasingly difficult, and in many instances virtually impossible.

In an increasingly carbon constrained world, with rising energy and carbon prices, and ever tighter regulation on emissions the continued health and viability of the steel sector relies upon being able to make these investments. One solution to overcoming these financial barriers would be the provision of an industrial energy efficiency fund for the most energy intensive sectors. Such a fund would aim to provide support for the more difficult projects, those with longer payback periods that simply would not happen in the absence of support from the Government. The provision of such a fund would represent an important 'down payment' on the Government's industrial strategy and the Emissions Reduction Plan anticipated next year and would help unlock the estimated 8 million tonnes of annual CO_2 reduction available from energy efficiency improvements in the steel sector.

Finance provided from this fund would need to be a mixture of grants and low cost loans in order to meet the requirement of current state aid guidelines in this area and further discussions will be required across governments to ensure a UK wide solution is found.

3. 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.

UK Steel calls on the Welsh Government to 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. At present the inclusion of plant and machinery represents a tax on investment with firms in the UK having large additional business rate costs from buying plant and machinery.

Removing both existing and future plant and machinery from the calculations of rateable values would:

i. Reduce costs for capital intensive firms helping to anchor investment in Wales
ii. Create an investment-friendly environment for those looking to invest
iii. Bring Welsh property tax in line with international practice, making it internationally competitive
iv. Modernise the system of business rates

Maintaining plant and machinery as part of site value assessments for business rates runs counter to the government's objective of boosting long-term investment to secure higher levels of productivity.

Plant and machinery as part of business rates makes the UK a less competitive location for capital investment – particularly for steel businesses in the UK who often have to compete with other sites around Europe for this investment.

As such, UK Steel calls for both existing and future plant and machinery to be permanently removed from all calculations of rateable values, excluding regulated industries currently on the central rating list (these are primarily infrastructure networks such as pipelines and railways). The desired effects of removing plant and machinery can be achieved by derating classes 1, 2 & 4 of the Plant & Machinery (Rating) Regulations 2000.

Rates are now fully devolved and as such should be a key area of focus. As in England, business rates are up to ten times higher than those paid by competitors in France and Germany. The Welsh Government can take a lead here, by removing plant and machinery from business rate calculations.

Support local content in major construction projects

It is imperative that steel manufactured in the UK has every opportunity to be at the heart of government procurement. The publication of guidance at the end of last year to ensure social issues are properly taken into account when procuring large amounts of steel was encouraging, however it is vital that all parts of the UK take notice of this guidance. Far too often guidance is overlooked, and the Welsh Government should work with Westminster to ensure a joined up approach, that has real impact to manufactures of steel and the wider supply chain.

Government's cannot afford to let up on ensuring that all major procurement projects, from rail to tidal barrages and airports, all use British steel to give this vital UK industry confidence for the long-term. To invest, grow and benefit the wider economy.

Innovation and Research and Development

UK Steel supports the needs for a Foundation Industries Catapult. Steel and associated foundation industries underpin the UK's industrial sectors, employing 500,000 people, accounting for 25 percent of the UKs manufacturing base and delivers over 30 percent of the UK trade goods, with a combined turnover of £69 bn. GVA per employee is 36 percent higher than the economy as a whole, excluding financial services.

This sector is not covered by the existing Catapult network, which is focussed on industrial sectors and end users, such as: automotive, aerospace, etc. This sector requires innovation capability that is cross-sectoral and focussed on materials and energy efficiency, new alloy development and new applications.

The success of the Catapult network in other sectors of the economy has shown the benefits of de-risking individual projects and providing shared access to research facilities. Establishing the Catapult will enable the industry to:

i. Exploit the significant investment in alloy research currently being made in UK Universities, which will otherwise be commercialised overseas.
ii. Significantly improve industry productivity and cost base by the development and application of new processing technologies
iii. Close the materials lifecycle and make greater use of home raw materials, thereby reducing material imports, reducing UK dependence on overseas materials and reducing the carbon impact of end use manufacturing.

iv. Development of new materials applications, including in demanding hostile environments, such as aerospace, offshore and nuclear.
v. Tailor SME-focused interventions specific to entrepreneurs' particular innovation demands, delivered by national network of established facilities (including Port Talbot) and partnerships to offer support in close proximity to businesses nationwide.

Such a Catapult can be readily established by drawing together existing facilities across the UK, including in Wales, to deliver the right support for industry, by trusted partners, without risk of crowding out

Trade

The EU Commission currently undertakes investigations on behalf of the whole Customs Union and EU law around this is enshrined in a Regulation which would lapse on Brexit and therefore it is essential for government to set up its own Trade Defence Instruments. Priorities/areas of concern:

- What happens to current and pending anti-dumping duties?
- Swift, decisive trade defences need to be set up that deal with dumping, taking the parts that work from the EU and further afield and tailoring to the UK.
- The cost to the Exchequer run these/expertise within the civil service.
- Who brings these cases forward (potentially shifting from multiple companies to individual companies) and the costs associated?
- Time frames with MES for China and the EU Commission's modernisation of TDIs back on the table.

It is vital that the Welsh Government put pressure at all levels to ensure that the implementation of anti-dumping measures in the UK are robust enough to deal with the flooding of steel from countries such as China and Russia.

Dominic King
Head of Policy and External Affairs
UK Steel

[i] Conversion costs refer to the costs of converting raw products (either iron ore or scrap steel) into a steel product. These figures were provided in 2016 by members of UK Steel.