

Steel Update 3 October 2016
Welsh Assembly – Economy, Infrastructure & Skills Committee

Introduction

1. The Government is committed to working with the steel industry and other stakeholders to create a sustainable and competitive steel sector in the UK. This work is being led by the Department for Business, Energy & Industrial Strategy (BEIS), although other Departments, including the new Department for International Trade are also closely involved. The Government is working to address the challenges the industry faces in the short term due to global overcapacity (estimated at 570 million tonnes globally), including unfair trade practices, but also to work with the industry to develop a vision for the future of the steel sector in the UK, and address issues such as energy costs. This update sets out the status of the commercial negotiations on the future of Tata Steel UK, and provides an overview of the actions undertaken by Government to support the steel sector in the UK.

Tata Sales Process

2. Since Tata announced its intention to sell its operations in the UK on 29 March, HM Government has worked closely with the Welsh Government to secure a sustainable future for its UK business, including through a sales process to find a credible alternative owner.
3. On 8 July, Tata announced that they intend to explore strategic alternatives regarding the future of their strip business (Port Talbot), and had entered into discussions with potential partners in the steel industry, including ThyssenKrupp AG. These negotiations are on-going. They have also decided to separately sell their specialty steel business in Rotherham and Stocksbridge and two large diameter steel pipe mills in Hartlepool, which collectively employ around 2,000 people. None of these businesses are supplied with steel from Port Talbot, and are operated as separate business units within the Tata group. We understand that there has been significant interest in both the specialities business and the pipe mills, and that negotiations with potential purchasers are ongoing.
4. Tata's global board met on the 12 September to announce their quarterly results, and receive an update on the sales process for the Specialty Steel business and the Hartlepool pipe mills, as well as the joint venture negotiations with ThyssenKrupp.
5. The joint venture and other negotiations relating to the sales of parts of Tata Steel's UK business are commercially confidential negotiations in which the Government is not involved. Therefore, the Government cannot comment on these. However, the Government is committed to providing Parliament with updates as Tata announce developments in relation to any of these ongoing negotiations.

British Steel Pension Scheme



6. The objective of the Government is to secure a sustainable and competitive future for steel making in the UK. As part of this, there is a need to resolve the long term future of the British Steel Pension Scheme (BSPS).
7. The Government is committed to working closely with Tata, the trade unions and the Welsh Government to find the best outcome for the business and the pension scheme.
8. The consultation period on options for the British Steel Pensions scheme ended on 23 June. The Government is currently considering the several thousand responses received and will respond in due course.

Industrial Strategy

9. It's critical that we have an effective strategic partnership between Government and business. We're focused on developing a strategy that will boost productivity in all parts of the country, create good jobs and ensure sustainable economic growth.
10. We will be working closely across Government and with a range of organisations – including regional representatives, businesses, trade and research bodies, universities, and trade unions - to deliver this, to help ensure that the economy grows strongly in all parts of the country, and to support the UK's global competitiveness.
11. Our goal is to create the right environment for investment and growth through:
 - driving innovation, improving productivity; and
 - strengthening the relationship between industry, education and skills. We will be engaging with all sectors, including the steel industry through the Steel Council, to understand issues common to multiple sectors, and where Government needs to focus its effort to support UK businesses.
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Government Action

13. The Government has made sustained efforts over the past year to improve the business environment for the steel sector in the UK, as the first step to deliver our long term objective of a sustainable and competitive steel sector.

Steel Council Future Capability Study

14. At the request of the Steel Council, the Government has commissioned a study to inform the development of a vision for a sustainable and competitive steel sector in the UK. The study aims to comprehensively map the current capability of the UK steel sector, identify the future opportunities for steel products in new and existing markets (by product and sector), and examine how to overcome potential challenges or barriers preventing industry from diversifying and building the capability to meet this future demand.

15. The main aim of the research is to assess the extent to which the current capability of the UK steel sector is aligned to the potential future demands of the UK and EU markets. Such analysis at a company level will identify the industry's strengths and weaknesses in market strategies and positions, as well as the areas where it needs to adapt and develop and what the barriers to this are. The output will assist industry and government in developing a long-term plan working together for a sustainable and competitive UK steel industry.
16. The Government will work with the Welsh Government, the steel sector, trade unions, academia and other stakeholders to undertake this study, which we aim to complete in the first quarter of 2017.

Energy Costs and Emissions Regulations

17. The Government recognises that energy costs are a major concern for UK steel makers. The UK currently has amongst the lowest gas prices in Europe and Government has taken significant action on industrial electricity prices. In December 2015, the European Commission approved our plans to commence relief for the most electricity intensive businesses for the costs of renewables policy in their bills. We have received over 130 applications for Renewable Obligation (RO) and small scale Feed-in-Tariff (FiT) compensations. We have paid over £40m to 74 companies (7 steel companies, including Tata).
18. This compensation is in addition to the £175m the Government has already paid to mitigate the impact of climate policy since 2013, and includes over £80m for the steel industry. At the 2015 Autumn Statement, the Government went even further and announced that we would exempt Energy Intensive Industries from renewable policy costs. This will save the steel industry over £400m by the end of this Parliament.
19. In October 2015, the Government has also secured flexibility over emissions regulations for the steel industry, which will save the sector hundreds of millions of pounds. The transitional arrangements and derogations secured from the Industrial Emissions Directive (IED) will enable specific plants to be granted an additional 4.5 years from January 2016 to meet the new emissions standards, where the costs of moving to best available technologies to reduce these would be disproportionate.

Steel Procurement and Construction Projects

20. In 2015, the Government published new procurement guidance for central government departments, to ensure that social and economic factors are taken into account when Government procures steel. As hundreds of billions of pounds of infrastructure spending is planned over the next few years, this guidance will help to ensure UK steel producers are able to bid to supply steel for these projects. The UK is the first government in the EU to take advantage of this flexibility, and is also working with all UK steel companies to ensure they are fully aware of the public procurement pipeline and able to compete for these contracts. This guidance is being extended across the wider public sector, and plans are being developed for an approved list of steel suppliers.

Business Rates

21. At Budget 2016, the Government announced the reform of Business Rates. From April 2020, businesses paying rates, including those in the steel sector, will see savings through a switch in the indexation of Business Rates from RPI to CPI. These changes will deliver a reduction in the level of Business Rates charged of £370 million in 2020, with the value of these reductions increasing over time.
22. The question of whether plant and machinery should be excluded from Business Rates was considered in the course of the Business Rate Review. However, there are considerable operational challenges involved introducing such a change, which would impact on the fairness of the tax and accuracy of billing. It would also not be a cost effective means of helping the steel industry. The cost of such a change would be £2bn a year, with only a fraction of that accruing to the steel sector, as well as there being wider fiscal policy implications of such a significant change.

International Action

Addressing Unfair Trading Practices

23. The Government has worked within the EU to protect UK steel producers from unfair trade practices, and pressed for anti-dumping measures on wire rod, seamless tubes, rebar and cold rolled products. The EU now has 37 trade defence measures in place on steel or steel products. The Government has also taken action where provisional duties were deemed too low. In response to concerns raised by the steel industry that the provisional duties imposed on rebar and cold rolled flat products were too low, the Government pressed the Commission for higher definitive duties and were successful in both instances. These measures are proving effective – with reductions of 70-90% in the level of dumped products.
24. BEIS is working closely with the Department for International Trade on all issues relating to the steel sector. This will include future market access, and any decisions on the design of a future trade defence regime that will apply on leaving the EU.

Global Forum on Steel Excess Capacity

25. The Government played a key role in securing agreement from G20 Leaders at the Hangzhou Summit to the creation of a Global Forum to address excess steel capacity. The Forum will ensure greater transparency around steel capacity and government or other support for the steel sector, and greater information exchange between countries. The UK will continue to work with international partners to ensure the success of the Forum.

Conclusion

26. The Government welcomes the opportunity to provide an update to the Welsh Assembly Economy, Infrastructure & Skills Committee, and to set out the actions taken to date and planned actions to achieve our objective of ensuring a sustainable future for the steel industry in the UK.