



Steel 2020



**The All Party Parliamentary Group on
Steel and Metal Related Industries**
Forging a Future for the British Steel Industry

January 2017

THIS REPORT WAS RESEARCHED BY DR IAN GREENWOOD AT THE CENTRE FOR EMPLOYMENT RELATIONS INNOVATION AND CHANGE (CERIC) UNIVERSITY OF LEEDS BUSINESS SCHOOL, UNIVERSITY OF LEEDS WITH FUNDS FROM THE APPG FOR STEEL AND METAL RELATED INDUSTRIES AND COMMUNITY UNION.

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1. INTRODUCTION | AN EXISTENTIAL CRISIS

The UK Steel Industry has reached a fork in the road. The closure of the Redcar steel works and the on-going challenges facing Tata Strip Products UK, the focus of which has been on Port Talbot, have demonstrated beyond question that it is an industry in crisis. The ability of the industry to repair and regenerate, as it has at moments in the past, appears to have broken down. It is now up to every industry stakeholder – government, industry and unions – to determine which way we go from here.

One choice is to continue the path that we have been on for the last few decades: one of accelerating decline that may well lead to the end of the steel industry in this country. To do nothing is always the easier short-term path for decision-makers, but if taken it will have a devastating impact on steel communities, local businesses, national manufacturing capacity and on the UK economy as a whole.

There is another path that can lead to the reinvigoration of the steel industry of the UK, built on sustainable business, innovation and high quality jobs. This may seem to be the harder route, requiring essential work, vision and collaboration from every stakeholder. But the rewards are greater: because it offers the potential to regenerate industrial communities; to achieve a revitalised engine for the UK economy and to prove that the UK invests in the industries in which it leads the world.

The All-Party Parliamentary Group on Steel and Metal-related Industries believes that embarking on this second path is a strategic decision essential to the well-being of the entirety of the UK. We are also convinced that not taking it would do serious and lasting harm to the national interest.

Nearly all members of the APPG represent parliamentary constituencies that are indelibly built around steel and metal communities. In these areas, the steelworks often represent the beating heart of the community, providing the employment and wealth that is the lifeblood of the large majority of people that live there. Similarly, the APPG is acutely aware of the UK steel industry's crucial role as a vital foundation industry for the broader manufacturing sector. The APPG also recognise the vital role that the UK steel industry plays in the UK defence, aerospace and automotive industries, and in supporting key infrastructure investments in the UK economy.

Understanding the context, importance and urgency of the crisis facing the steel industry, the APPG therefore believes it has a special responsibility to contribute to the development of a national strategy that charts that more constructive, productive, optimistic, and collaborative course towards a revitalised steel industry. The action required, though essential, may be difficult at points, but neglect will prove to be far more costly and seriously destabilising for the UK than proactive reform. This report, a cross-party manifesto for steel, is the product of this ambition.

The report's main source of distinctive insight is the testimony of industry experts and of those for whom the vitality and survival of the industry is a critical, everyday need. We have spoken to and received testimony from business leaders, R&D specialists, trade union leaders, politicians, civil servants and local councils amounting to around 170,000 words. These are, of course, set within the context of extant research and the many excellent commentaries that already exist.

The report is simply structured around three sections:

- A HALF CENTURY TO THE EDGE OF THE ABYSS
- A FUTURE OF POTENTIAL
- HOW WE GET THERE

This report addresses both short-term measures that must be taken to ensure that the industry can compete on an even playing field on the global market and more long-term actions to create a new, bright future for the UK steel industry. It is written in the belief that the future of the UK Steel Industry will be determined by the choices that the steel industry working with the government makes right now, and that to do little or nothing is also a choice, with long-lasting and damaging results.

We hope that the recommendations contained in this report will be taken in the constructive manner in which they are intended and provide a spur for immediate and decisive action.

**APPG for Steel and Metal Related Industries "Steel 2020" sub-committee:
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2. A HALF-CENTURY TO THE EDGE OF THE ABYSS

Half a century ago, communities that existed and grew around steelworks thrived. Most other trades and sectors in those areas would depend on the steelworks in one way or another, whether as part of the supply chain or in the businesses that served the thousands upon thousands of well-paid steelworkers and their families.

The UK steel industry directly employed 320,000 people in 1971, compared to 21,000 in 2015 (excluding steel processing). This figure now stands at around 18,000. For every job that still exists, almost 18 have disappeared. Even if processing is included, the number of currently employed only rises to 34,000. At a more general level, employment in the industry has shrunk by 59% since 1995¹.

The change is a story of the impact of technology driving enormous human efficiencies, of company consolidation and piecemeal restructuring. Strategic industrial growth has not been part of the narrative. In 1995 the crude steel output of the UK was 17.4 million tonnes and employment in the industry was approximately 40,000. In 2014 output was 12 million tonnes and employment approximately 20,000. This suggests that while productivity per employee has increased, output levels do not reflect a thriving industry².

Under successive governments there has been a long-term decline in the British manufacturing base alongside global industry trends that place unrelenting pressure on the European and UK steel industries.

Since 2014, these pressures have intensified. While the rapid expansion of the Chinese economy allowed Western steel producers to generate large profits, it also acted to stultify innovation. Competition is also on the rise, with increasing capacity in the Middle East, Russia and China. The situation is made particularly acute by the illegal Chinese dumping of steel, behaviour that has not been prevented or addressed by Eastern governments.

These dynamics are compounded by the structural impediments facing the UK steel industry, including adverse energy costs and business rates, diffuse supply chains and, until recent attempts, the lack of a rigorous and effective public procurement policy for steel.

This has had an enormous impact on the UK steel industry. Sahaviriya Steel Industries (SSI) mothballed, then closed, its steel making plant in Redcar on Teesside at the end of 2015. Capacity and jobs were lost across other major steel manufacturers, including Tata Steel and Caparo industries. In early 2016, Tata Steel announced plans to sell its UK steel business. It sold its Long Products division to Greybull, which is now trading as British Steel, and in November 2016 Tata Steel and Liberty House signed a Letter of Intent for the sale of Tata Steel UK's Speciality Steels business. The existing sale process for Tata Steel UK's Strip Products business was paused in July 2016 and discussions about strategic collaborations through a

potential joint venture with other third parties, including ThyssenKrupp, were taken forward.

In mid-December 2016 Tata Steel UK and the Trade Unions agreed a number of important steps towards securing a sustainable and long term future for the UK Strip Business, centred on the Port Talbot steelworks. These measures, linked to business performance and other issues, included commitments to securing the existing two blast furnace configuration in Port Talbot until 2021, substantial investment over ten years to ensure Port Talbot and downstream sites remain at the leading edge of twenty-first century steel making, and an employment pact that would support employees through future changes and seek to avoid any compulsory redundancies, placing the UK workforce on the same footing as their counterparts in the Netherlands. With these investments Tata Strip Products has a bright future, but without them the business is likely to face major challenges and wither over time. Without vital strategic action from government, industry and other stakeholders, working together, it is entirely possible that the UK steel industry will become a vestigial industry, whose primary function is to process imported steel.

In sum, the challenges facing the UK steel industry go well beyond the headline grabbing events of the last year associated with Tata Strip Products UK. The UK steel industry is about much more than one business, and one steelworks. It is about a complex and interconnected supply chain, a range of different steel producers: from the primary steelmaking at Port Talbot, to the cutting edge CELSA electric arc furnaces in Cardiff, to the Zodiac plant at Llanwern, electric steels at Orb, to the value added products galvanised and coated at Shotton on Deeside, to the specialty processing businesses in Sheffield, Dalzell and across Yorkshire, at Corby in the East Midlands, and across Teesside, Scotland and Wales. The UK steel industry has many strings to its bow, but faces some key common challenges to maximising its full potential and competing on a level playing field in the global market.

The result of the vote to leave the European Union has brought both challenges and opportunities to the steel industry. There is no doubt that at present there is an increased sense of uncertainty for the industry. The risk associated with Brexit relates not so much around tariffs on steel itself, but rather to the impact of tariffs on the customer base, in particular the automotive industry. World Trade Organisation (WTO) tariffs on steel products are 2%, whereas the default tariffs on automotive products are 10%. It seems unlikely that the UK automotive industry could remain in its current rude state of health if it had to deal with tariffs of 10% on all products it sold into the European Union. The repercussions of this would be significant for the steel industry.

Moreover, the devaluation of the pound since the Referendum presents real concerns for the industry. While the 15% drop in the value of the pound since 23rd June 2016 has helpfully spurred UK steel exports in the immediate term, there are concerns, that the same devaluation could drive up the cost of the raw materials which UK steelmakers have to import – the coke, the coal, the iron ore and energy - some of which have already seen astronomical price increases. Despite the forward thinking and judicious hedging of many UK steel producers, stocks of raw materials

will eventually run down. The rise in these costs will have an impact on the bottom line, as it is already for those processing scrap, who have no option but to buy month-to-month or week-to-week.

As Tata Steel's UK CEO Bimlendra Jha put it: "you can't make a business profitable on currency – we have to make it profitable on a structural basis".

But the APPG are also keen to stress that there are opportunities from leaving the EU too. Alongside the short term boost from the fall in the value of the pound for steel producers, there will also be broader global opportunities for selling which could benefit from being without EU trade restrictions. It may also give the opportunity for the Government to give support to steel companies without having to wait for EU State Aid rules clearance, and it could allow the Government to impose tariffs on dumped steel as it sees fit.

The Government has made it clear that as we leave the EU, it will fully consult with key industries such as steel and the APPG looks forward to playing a part in this.

That is the challenge facing the entire steel community: creating a structural foundation to re-build and thrive in the post-Brexit era. If urgent and strategic action is not taken, our industry will continue to decline and will not survive, let alone flourish in the new era. The package agreed between Tata Steel UK and the steel Unions in December may well pull the steel industry back from the brink, but unless action is taken by government to support the development of a more competitive environment for our steel industry in the new context, we risk witnessing the withering of our industry and of the UK's steel communities within the next decade.

The communities, economies and manufacturing chains of which the steel industry has been the beating heart cannot bear such a loss. The areas in which the steel industry has dominated are often not yet diversified enough to be sufficiently resilient in the face of job losses, particularly of the high skilled and well paid jobs that exist in the steel industry.

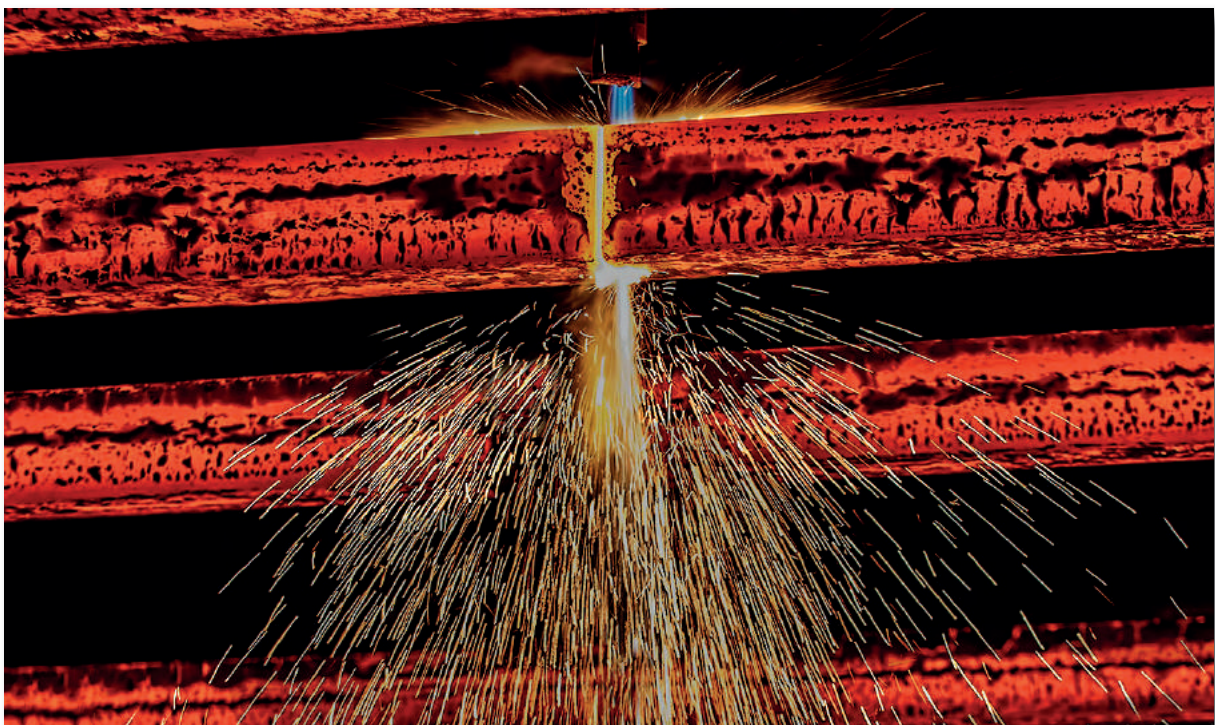
In addition to this, the costs associated with the loss of the steel industry would be greater than the costs of investing to build its bright future. Research from the Institute of Public Policy Research (IPPR) demonstrated that the loss of Tata Steel UK alone would lead to 40,000 job losses. These job losses would come from the steel company, its direct supply chain as well as from the many businesses who rely on their local steelworks to survive. The Exchequer would lose between £300-800 million in direct taxation revenue alone if the UK were to lose a steel company such as Tata Steel, but the IPPR estimate that the lost jobs could cost government a total of £4.6bn in tax revenue and benefits, and reduce household spending in the economy by £3bn, over 10 years³.

If the UK were to lose 40,000 jobs this year from Tata Steel, CELSA, Liberty or any other UK steel plant and their suppliers, the cost to government in 2016/17 could be £0.8bn, or £2.2 million per day, according to the IPPR research. This reflects lost revenue from income taxes and VAT, and additional benefit payments. In addition,

the economy will also suffer from a drop in spending from affected households by £0.5bn in the first year following a closure, worth a cumulative total of £3bn over ten years. These figures do not even begin to take into account the additional costs associated with investment in retraining, environmental clean-up and so on. Following the loss of SSI in Redcar the Local Authority has noted not only the direct year one costs of closure – such as the loss of almost a quarter of the Council’s Business Rates revenue – but also the indirect costs to local businesses (from retail to tourism to leisure businesses) and Council revenue coming from local residents having reduced disposable income. In sum, the economic costs of the loss of a steel plant are greater than the costs of investment.

These repercussions would not only be economic. The social fabric of steel communities would also begin to come apart. Research from the Centre for Employment Relations Innovation and Change (CERIC) at the Leeds University Business School has clearly demonstrated the negative psychological impact of job loss on workers, many of whom have spent the vast majority of their working lives in the steel industry⁴. The sense of self-confidence, self-respect and communal camaraderie that typifies steel work is rarely rediscovered once lost, as former coal communities across the UK can testify. When the steel industry has been the lifeblood of a community, the effect of loss always go far beyond the individual: they spread to every part of society for generations to come.

The steel industry and its communities are in an increasingly and unrelentingly precarious position. There is a practical and constructive alternative, but it will not emerge through spontaneous market activity alone. It requires strategic action from the Government, steel companies, stakeholders along the supply chain and the Trade Unions all working together. There are compelling reasons for that path to be taken, and urgently.



3. A FUTURE OF POTENTIAL

Revitalising the steel industry is not simply needed to avert crisis, but it also presents a great opportunity. Steel is an industry at the heart of the UK's high tech future, and it is critical to the success of any modern industrial strategy. The steel industry can and must be at the heart of the modern manufacturing renaissance that the UK requires if it is to diversify its economy and make the products needed to compete in a post-Brexit world. In 1970, manufacturing accounted for one third of the British economy, but today that figure stands at barely 11%⁵. Some would argue the dramatic decline of our manufacturing sector over recent decades, including steel, is the root cause of three deep-seated structural weaknesses in the British economy: the chronic trade deficit, a productivity crisis and the imbalance between regions and sectors.

A modern manufacturing renaissance, driven by innovation, is essential if the UK is to prosper. There is significant evidence that economies with relatively large manufacturing sectors are better able to weather economic storms. The prime example is Germany, where manufacturing accounts for 23% of the total economy – more than double the proportion of the British economy⁵.

However, British steel is at the heart of our national manufacturing sector. One in three aeroplanes in the world have aerospace steels from Stocksbridge and Sheffield Forgemasters provide cutting edge steels that are at the heart of our defence industry. Over a third of Port Talbot's output goes to the UK automotive industry, and all of the five car makers that construct around 99% of cars produced in the UK use Port Talbot steel⁶. Steel is essential to the development of a thriving and innovative manufacturing sector – whether it is an expansive automotive industry, the research and development-led aerospace sector, or the development of green technologies. It is also key to our national security and defence.

Recognising this, the APPG believes that there is a future of enormous potential for steel, if we choose to act and take the path to get there. It is a future where the steel industry sits at the centre of UK manufacturing and is recognised as a critical lever to help restore balance, boost productivity and expand opportunity in the UK economy. A thriving steel industry would condense and strengthen onshore supply chains, be underpinned by technical innovation, research and development, skill formation and generate and support good, well-paid jobs – steel jobs have a consistently higher Gross Value Added (GVA) per employee than the UK average⁷. This is not a utopian dream, but a realistic and achievable future. The industry has survived decades of restructuring and competition, it is lean, productive and embodies high levels of skill and world-class research and innovation. There are already companies creating a new and innovative future for steel, from internal developments such as up-cycling and client integration to external developments such as the use of steel in solar energy products. Given the proven quality of the British steel industry, even greater diversity of application is achievable.

To realise the possibilities of this vision, the industry needs a level playing field, and this requires government support and partnership with industry stakeholders. Markets do not operate properly if there is not a level playing field and government intervention in the national interest is sometimes necessary. The global economy is too complex and uncertain for industries that are strategically vital to an economy to be left to the vagaries of the market alone, especially when the market does not function in an optimal and efficient manner. Following the financial crash, this has been demonstrated in the finance sector and elsewhere in the nuclear and energy industries, as well as with regard to transport infrastructure.

Given steel's strategic importance to national prosperity and security, the APPG believes that the Government must now take a similar approach to its engagement with the industry. In the form of the Department for Business, Energy and Industrial Strategy (BEIS), the Government has indicated that it understands the need for it to play an active role in developing an industrial strategy for an expanded manufacturing base in the UK – something the APPG has long called for, and which is welcome. A revitalised steel industry is central to this objective.

The APPG therefore calls on the Government to move quickly from a demonstration of understanding to demonstrable action. The action we seek is not a simply post hoc response (or the absence thereof) to plant closures, it must be proactive, evidence-based, long-term and strategic, building on the structural foundation for a more successful and cutting edge steel industry in the UK. The country, its manufacturing base and steel communities cannot afford to look back in 20 years and bemoan missed opportunities – the cost will have simply have been too great.

With that realisation, this APPG report is offered as a contribution to the Government's thinking and development of an on-going industrial strategy for the UK Steel industry.

Our recommendations cover themes that reflect the steel industry's (pre-EU Referendum) 'Asks' and build on the existing agenda set out by those engaged in the industry. They are:

- Energy and the Environment
- International trade deals
- Procurement
- Business Rates
- Supply and value chains
- Skill Development and R&D
- Industrial-Employment relations

The APPG is clear: we need a comprehensive industrial strategy, from investment and innovation to skill development and regulation. A strategy that does not passively accept the idea that our best days were in the steel boom years of the 1960s, but shows resolute confidence that our best days are still ahead of us. We hope the steps outlined below will help in the development and application of such a strategy.

4. HOW WE GET THERE

These recommendations have been developed on the basis of the inquiry conducted by the APPG between May and October 2016, which generated over 170,000 words of testimony from 19 witnesses, and written testimony from five Local Authorities and various other contributors.

While some recommendations dovetail with the analysis of organisations from the Trade Unions to UK Steel, the industry trade association, we have also challenged some mistaken aspects of existing economic and political orthodoxy.



4.1) A COMPETITIVE ENERGY MARKET

“If we are going to have a steel strategy we need an energy strategy that runs alongside that. A more sustainable solution is to have an industry in the UK that can have a competitive advantage because it structurally uses less energy than the rest of Europe.”

Chris Macdonald, Materials Processing Institute

Context

The crisis that enveloped the UK steel industry over the past year has brought to the fore the pernicious impact of uncompetitive energy prices on the ability of UK steel companies to compete internationally.

That the UK's industrial electricity prices are uncompetitive is well known. This directly affects the ability of UK produced steel to be price competitive with steel produced by China, and – vitally – severely hampers the ability of UK steel to compete on a level playing field with many of our European neighbours. The most recent statistics published by Eurostat show that UK prices for extra-large users are 84% higher than the EU average. Research conducted by the industry for the Steel Council in 2016 provides a much more detailed and sector specific picture. Taking into account all respective government interventions in the UK and Germany to specifically reduce industrial electricity prices, it was found that on average UK electric arc steel producers paid £17/MWh (50%) more for their electricity than their German counterparts. This amounts to an additional cost of some £50 million a year for the UK steel sector⁸.

Steel production is, by necessity, an energy intensive process. It is estimated that electricity costs make up 11% of controllable or ‘conversion’ costs at a blast furnace and upwards of 20% for an electric arc furnace (EAF). The significant large-scale price disparity has a significant negative impact on the competitiveness and long term viability of UK steel producers. This price disparity, according to UK Steel estimates, has resulted in up to £20m of additional costs for UK producers from June to September 2016 alone. More significantly, UK Steel estimates that if UK steel companies had access to the same electricity prices as German producers, they would have seen an average 70% increase in earnings (before interest, tax, depreciation and amortisation) between 2012 and 2014⁸.

There are several reasons for the national price differential, spanning all elements of the electricity bill, including wholesale, network and climate change policy costs. Electricity price and costs are, to a significant extent, the result of political and policy decisions. UK wholesale prices are, for example, higher than those in Germany in large part due to the imposition of a unilateral carbon price and Germany's continued heavy reliance on coal to produce electricity as opposed to the UK's more expensive natural gas generation. When it comes to network and policy costs, the German Government has a long-standing policy of providing significant discounts to

industry, which in turn must be paid for by other energy consumers. This is, without any doubt, the result of political decision as to the relative cost of energy to households and industry. To date, successive UK governments have chosen to distribute the costs of electricity in a broadly even manner across electricity consumers, with industrial and business users bearing a larger proportion of the costs of decarbonisation policies, and not taken proper account of the strategic significance of key strategic industries like steel. In contrast, the German Government has taken a more strategic approach, as part of its industrial strategy, by supporting and shielding certain key and foundation industries.

Furthermore, within domestic energy policy, there is a confused approach. For instance, a curious aspect of carbon pricing is that Electric Arc Furnace (EAF) producers bear significantly higher recycling costs than primary producers. The carbon tax per ton of CO₂ for primary steel is 30p, for EAF recycling it is £8⁹. The APPG recommends that action be taken to correct this anomaly, bringing the carbon taxation burden on EAF producers down in line with that of primary producers.

In the 2016 Budget the Government announced plans to replace the Energy Intensive Industries Compensations Scheme with an exemption from the Renewables Obligation and Feed-in-Tariffs, the so called 'second State Aid application'. The Compensation Scheme had budgeting up to April 2017, but not beyond, thereby introducing a January deadline for State Aid clearance for the Renewables Obligation and Feed-In-Tariff exemption. At the time of this report going to print, it has become clear that the Government have missed this deadline. The APPG regret this, and urge the Government to take steps to ensure that bridging funding is provided by the Treasury to continue funding the Energy Intensive Industries Compensation Scheme up to the point at which State Aid clearance is achieved for the planned Renewable Obligation and Feed-in-Tariff exemptions.

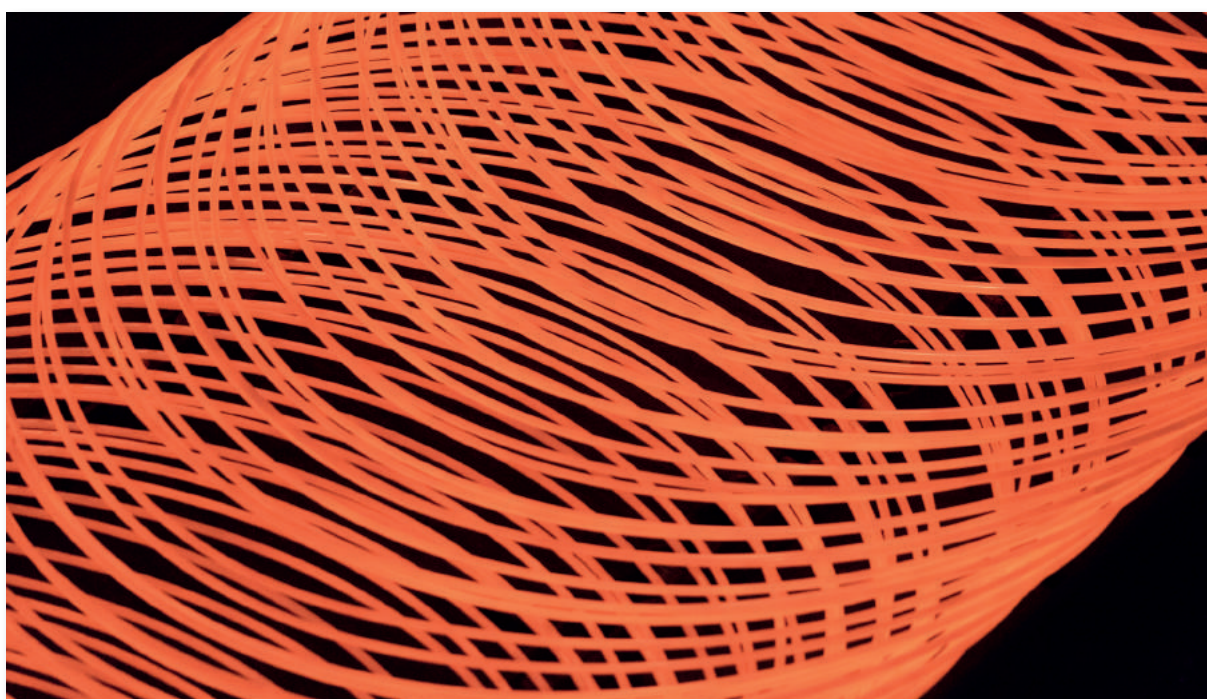
At a macro level, there is a widespread view across industry and business that the Government requires a coherent strategic plan for energy policy and needs to provide a clearer sense of direction, as exemplified by the uncertainties around State Aid clearance for the successor package to the Energy Intensive Industries Compensation Scheme. Whilst it is the Government's stated objective to decarbonise the economy in the most efficient and cost effective manner, there is growing concern from some members of the APPG that recent decisions on onshore wind, carbon capture and storage and the upcoming Contracts for Difference will make it harder for Government to reach its targets. The forthcoming Carbon Emissions Plan must set out a credible plan to reduce carbon emissions, give market clarity to investors and set out a clear approach to energy policy.

The combining of the energy and business departments and the prioritisation of an enhanced industrial strategy should provide the groundwork for a more intelligible, strategic and long-term energy policy in the UK. Industry recognises the need for policy changes and amendments as and when required, but this must be done in line with an overarching strategy and a clear sense of direction. Importantly, this strategy must place the needs and interests of a competitive industrial sector at its heart; because it is vital for the long term viability of the steel sector and that of other

energy intensive industries and enterprises along the supply chain and across the economy. At this early stage we have yet to see any substantial policy movement to match the symbolism of the new department's name. Government must, of course, consult thoroughly with interested parties and ensure they get it right, but if it is to be little more than a presentational gesture, we must see action, and soon.

As the new department moves to develop its energy strategy in the months ahead, it must place a renewed focus on tackling the cost of electricity. Government energy policy, at present, is dominated by measures to support new low carbon generation and, to a lesser extent, drive energy efficiencies. These are both important, and in need of reform, but – in the national interest – providing industry with cost competitive electricity must be prioritised. For the steel sector the fundamentally important change that the Government can deliver is in the reduction of the price of electricity. This is not special pleading for charity, rather, it is the game changer that will free up capital to invest in improving energy efficiency and creating a level playing field with respect to global competitors; something that may be easier to achieve outside of the EU.

The energy recommendations below are divided into two sections; the first focuses on the immediate steps that the Government could and should take, and the second relates to the long term, strategic policies that the Government should pursue for a sustainable and successful steel industry. These recommendations come together to provide a blueprint for delivering competitive electricity prices for the UK steel sector. These recommendations are unaffected by the United Kingdom's membership or not of the European Union, although the UK Government could be less constrained on energy policy outside the EU. Importantly, *every* recommendation already has precedent in other EU countries. Leaving the European Union should now be seized upon as an opportunity to go further and faster than continental competitors in shaping an energy policy that supports UK industry. Action is required, and is possible, right now.



Recommendations

The strategic objective driving government and industry policy should be a commitment to reducing industry electricity costs to a level below, or at least establishing parity, with Germany. That would require a 20% reduction in electricity prices. This should cover costs in distribution, transmission and wholesale that all currently inflict absolute and relative burdens on the industry. There are a number of recommended policy actions for government:

Immediate:

The APPG calls on the UK Government to:

- **Publish annual comparisons of UK steel industry energy prices with that of key competitors.**
- **Complete the Energy Intensive Industry Compensation/Exemption Package:**
 - The APPG regret that the Government has missed the January deadline to clear the so-called 'second State Aid application' which pertains to energy intensive industries exemption from the Renewables Obligation and Feed-in-Tariffs, and urge the government to complete this application as soon as possible. The existing Energy Intensive Industry Compensation Package does not have the financial resources to continue beyond April 2017, and so the APPG urges the Treasury to urgently commit to providing a bridging contingency compensation budget to funding for the existing Energy Intensive Industry Compensation Package for 2017/18.
 - BEIS must come forward with contingency plans, either to continue the existing compensation scheme or to replace it with a new, more efficient compensation or exemption scheme that will succeed in gaining State Aid clearance.
 - The Government should also consider measures to increase the aid intensity of compensation/exemptions. Aid intensity can still increase to the equivalent of 99.5% of a company's GVA under state aid guidelines.
 - The Government is more limited on what can be done to compensation levels on the Carbon Price Floor, but it is within its remit to scrap this policy mechanism. The Carbon Price Floor results in an estimated £3/MWh price differential between the UK and Germany, and reform should therefore be considered. The APPG call for a feasibility study on the impact of scrapping the Carbon Price Floor to determine the future of the scheme with regard to energy intensive industries.

- The Government should introduce an exemption from the costs of the Capacity Market. Energy companies forecast that the Capacity Market will increase costs by as much as £8/MWh by 2020.
- **Wholesale Costs: Develop mechanisms for UK steel producers to access lower priced wholesale energy:**
 - Convene the industry and energy producers to establish a mechanism for building interconnectors through industrial consortiums.
 - Reserve a portion of power generated from renewable generators, to be supplied at an agreed upon price.
 - Government support for local energy products, such as the Swansea Bay Tidal Lagoon, is required, as is strategic support to ensure they are developed with an eye to how they can supply industry.
- **Network and transmission costs:**
 - Introduction of a discount on network costs for certain classes of industrial user as has already been implemented in Germany, France and the Netherlands
 - Support for on-site energy generation both with planning permission and capital investment – thereby reducing transmission costs while also supporting cleaner energy sources. This would act as a catalyst for improving energy efficiency and promoting decarbonisation.
 - As part of its review of the charging regime, National Grid must consider changes to the Triad regime to provide greater certainty to industrial consumers. Such reform could also provide National Grid with an additional valuable, and cost effective, balancing service.
 - National Grid, the Government and the steel sector should work together to break down the barriers to greater demand-side response activity from steel companies, particularly Electric Arc Furnaces (EAF). Proposals have already been put forward for a mechanism, already in place in France, which would allow EAFs to offer far more of their power flexibility than at present. Such a mechanism would provide a new revenue stream to steel producers, partially offsetting high electricity costs and, potentially, reducing National Grid balancing costs and therefore costs for all electricity consumers.

- **Energy Efficiency Aid:**

- Establish energy efficiency and environmental schemes for the steel industry that are properly integrated with a broader steel sector and national industrial strategy.
- Support for on-site energy efficiency projects – Port Talbot, for example imports 40% of its energy from the National Grid, but burns gas every day. The Government should provide bridging finance for such projects because investments typically involve a 10-15 year payback.
- Support and funding for on-site renewable energy projects, such as calcification of “waste-gases” as renewable energy and therefore eligible for RHI payments.
- It should also be noted that broader policies to bring down energy and other costs for UK steel producers will free up capital for steel producers to invest in measures to improve energy efficiency.

- **Reform of the EU Emissions Trading Scheme (ETS):**

- Leaving the EU ETS before the end of the current phase in 2020 would cause considerable uncertainty and logistical problems for industry. It is therefore essential that the UK Government and UK MEPs remain involved in the current negotiations on post-2021 reforms to the EU ETS and fight for the best possible outcome for vulnerable industries. This would include making sure there are enough free allowances to give to sectors like steel at real risk as a result of the scheme, a more evidence-based approach to benchmarking, better reflection of changing activity levels and an innovation fund tailored specifically to the needs of industry.
- The Government should work to reform the ETS to ensure better ‘carbon leakage’ protection for carbon-intensive sectors like steel that are trying to compete internationally.
- The UK Government must begin planning possible longer-term alternatives to the EU ETS for the post-Brexit period as soon as possible and in close cooperation with industry. Officials are currently very willing to talk to industry, which is welcome, but they also need to set out their expectations for any alternative (e.g. what carbon price they would seek and what support there would be for industrial decarbonisation).

Long Term remodelling:

There is a consensus across politics, business and civil society that the British economy is in serious need of rebalancing, both in terms of geography and sectors. The dangerous over-reliance on financial services and debt-led growth, together with low productivity have all contributed to the development of an economy that lacks resilience and is lop-sided, skewed in favour of London and the South East. Central to rebalancing our economy, tackling the productivity crisis and building a resilient kind of economic growth will be the sparking of a modern manufacturing renaissance. As many analysts and this document has made clear, a major barrier to building a thriving British industrial base is the hindering of fair competition. Nowhere is this more acute than for the British steel industry.

It is testament to the resilience, commitment and innovation of British steelworkers and the British steel industry that we have been able to compete with our global rivals and partners despite the absence of a fair playing field. The priority for any Government should be creating the conditions for efficient market operation, and that means taking steps to ensure fair competition. While there are limitations to measures that can be taken to prevent the dumping of Chinese steel, there are no such obstacles to building an energy market that gives the British industry, at the very least, parity with our European competitors. It is for this reason that the Government must embark on a radical reshaping of our energy market, guided by the key strategic objectives of developing a new kind of growth and facilitating efficient market operation. The Government must therefore take deliberate and concrete steps to aid the development of a level playing field. That will enable all British industry to do more than just survive, but to thrive and lead the world. For the steel industry, this means parity on energy costs. The APPG are therefore calling on the Government to:

- Embark upon a radical restructuring of our energy model. The burden of policies to tackle climate change falls disproportionately on British industry and manufacturing. We therefore call for the Government to produce a long-term strategy outlining how Britain will rebalance our energy policy. This process should consider the relative effectiveness of energy policy in nations such as Germany, France and the United States, and consider what we can learn from their energy, regulatory and taxation mix.
- The Government should establish a 10-year energy plan, outlining the key strategic objectives of our national and industrial energy policy, energy infrastructure investment priorities, and planned measures to de-carbonise. In doing so, the Government can provide greater certainty to energy producers as well as industrial, commercial and domestic consumers, while also providing investors with the strategic framework within which they can operate. This would not only facilitate broader economy-wide investments, it would also support and give certainty to industry when it comes to investing in on-site energy infrastructure; an essential consideration for the British steel industry.

4.2) FREE AND FAIR TRADE: BREXIT BRITAIN AND DEALING WITH DUMPING

“We export three times as much steel to the EU27 as we do to all the other export markets put together. So the terms of trade between the UK and the EU27 will be absolutely critical to us.”

Tim Morris, Tata Steel

Context

International trade is of vital importance to the steel industry with few issues looming larger than Brexit and the illegal dumping of Chinese steel. At the outset, it should be noted that the APPG does not believe that departure from the European Union should be used as an excuse to either embark on a series of market distorting subsidies or for a programme of wholesale, long-term nationalisation of the UK steel industry. Such an approach would not only open up the potential for the UK to be guilty of anti-competitive practices, but it would be tackling the symptoms, rather than causes of the challenges facing the UK steel industry. Unless we tackle the underlying problems facing the British steel industry we will never reach the bright, sustainable long-term future that is within our grasp. Brexit can neither be an excuse for inaction or over-reaction, nor can it be an excuse for ignoring the root cause of much of the steel industry’s trade related problems; that being excess steel capacity in China and the subsequent illegal dumping of this excess steel. It must be a catalyst for renewed endeavour.

Leaving the European Union

Leaving the EU brings both challenges and opportunities. Leaving the EU could allow the UK Government to take greater action to tackle dumping, similar to that taken by former President Obama in the USA, by imposing punitive tariffs on Chinese excess steel. This would go a long way to tackle the industry’s trade related problems.

However, at the moment, the impact of the UK’s departure from the EU on the UK steel industry remains worryingly uncertain. It will remain that way until the precise nature of trade deals that the UK negotiates becomes clearer, which is likely to still be years away. Uncertainty is always the enemy of industry, being transmitted from customers and investors to producers. Credit insurance companies are already adjusting the credit risk of steel customers, so clients have to buy less in order to work within the risk limits that are set.

In addition to this uncertainty has been large currency fluctuation. The value of Sterling has dropped somewhat against the Euro but quite dramatically against the Dollar. Markets tend to adapt fairly quickly to exchange rate movements but, if uncertainty continues, this will become a serious problem.

The immediate post-Brexit fall in Sterling has had some advantages to the UK steel industry. It has made exports 15% cheaper on average, and has increased the cost of dumped Chinese steel by 15%. The fall in the value of Sterling could continue to increase exports and reduce imports, therefore potentially having a positive impact on our balance of trade in the long term¹¹.

At the moment, though, by volume the UK imports more steel based products than it exports. The current positive balance of trade provided by the steel industry (excluding raw material costs) may therefore be adversely affected in the short term. Not only that, but within the industry itself it is likely that profitability could be reduced as the cost of raw materials imported for steel production and traded in Dollars rises. This is a significant challenge for primary steel producers because raw material costs are the largest single cost component of production. The problem would be compounded if the cost of scrap were also to increase, as the scrap market is dominated by dollar values.

In addition to the adverse impact of the falling pound on the price of commodities, is the effect on electricity price rises on fuel costs. Within a week of the referendum vote, day-ahead costs of electricity moved up by around £3 a megawatt hour, from £36 to £39¹⁰. This comes together to make it clear that we do not operate in a vacuum, and that our ability to trade on the global market will be affected by other policies pursued: be those measures to reduce energy prices, or the vote to leave the European Union.

So while exchange rates may provide some temporary support for exporters, currency volatility, increased import prices and related dynamics may make it much harder for firms to make decisions, and the uncertainty over when we will leave the EU also makes it more difficult to chart a future course. For example, as long as the UK is part of the European Union it remains subject to all of its regulations and immediate concerns relating to dumping, Tariffs, and the Lesser Duty Rule will all still apply. Until clarity is obtained on post-EU trade arrangements, matters surrounding, for example, the Lesser Duty Rule, will remain uncertain. The APPG believes therefore that the UK should have clarity over the time frame and the nature of post-EU trade arrangements as soon as possible.

One benefit of Brexit is be that the UK Government will need to be clear about its own perspective on the UK steel industry and set out its own strategic policy position. There is now the opportunity to develop a UK strategy for trade and other policy areas including emissions, and it must be seized.

However, the overall picture looks very uneven. Total UK steel exports in 2015 to the EU constituted 52% of all steel exports, with around 12% going to the USA. Of this 52%, 71% of total UK flat products and 65% of long products are exported to the EU¹². Yet the fall in the value of Sterling has already helped exports.

It should come, therefore, as little surprise that there remains a degree of concern that the uncertainty surrounding Brexit could damage the UK steel industry. The Government has made clear they are seeking a free trade agreement with the EU,

and it is therefore essential that the Government negotiate a good deal, with ‘the best possible access to the European Market’ for the steel and metal sectors, as the Prime Minister has pledged to deliver.

This is not only applicable to the steel industry but also other closely related sectors. For example, 34% of the output from the Port Talbot works goes to the UK automotive industry. Five carmakers construct around 99% of cars produced in the UK and all of these use Port Talbot steel. Nissan alone purchase 45% of its steel from Port Talbot. Divestment of the UK automotive industry would be nothing short of calamitous for the steel industry, and the entire UK manufacturing sector. We welcome Government’s intervention to secure Nissan’s commitment to the UK, and this could be a catalyst for further inward investment into the industry. However, similar assurances must be offered not only to other automotive companies, but also to down and upstream suppliers to the automotive sector. The supply chain is inextricably linked to the success of our automotive industry and it is vital that the Government takes steps to support it.

Implicit in the support offered to Nissan is the continuation of a successful indigenous steel industry. The two industries are symbiotically connected. It is important that BEIS understands this connection within the nascent industrial strategy (that this report should inform). Explicit support should be given to the steel industry because, without that, any support given to the UK car industry will be ineffectual. The automotive industry looks for a 40% local supplier threshold in its investment strategy. A diminished steel industry could tip the balance away from car industry investment in the UK. The support that the Government has promised Nissan in the form of investment in skills, research and reshoring supply chains, needs to be applied to the steel industry.

Brexit will inevitably propel the international business community to re-assess its steel investment strategies given that we will be in a “new world”. This could reverberate across the whole steel value chain and represents a major both a challenge, but also an opportunity for the UK economy. The impact costs of Brexit, possible tariffs, and other issues such as Customs controls and non-tariff barriers could be significant for automotive supply chains. A single component can travel between the UK and EU several times. The automotive sector is a crucial downstream client for the steel industry, for this reason a clear speedy resolution to post EU trade arrangements is crucial. That is why we welcome the UK Government’s efforts to secure a free-trade agreement with the EU.

There is one certainty: no matter what the future political arrangement between the UK and the EU, geography will not change. In the short term, the importance of the EU as a market for UK steel will be profound. It is a well-known feature of economics that international trade and investment fall as geographic distance increases. It is certain that the EU will continue to be a crucial market for UK steel. The terms of trade with the EU will therefore remain crucially important and any industrial strategy must fully recognise this. The unanimous view of the industry is that clarity on the model and terms of trade under which the UK will interact with the international economy, and particularly the European Union, must be resolved with

the utmost urgency. That is why it is the APPG's view that the UK should have a clear time frame for exit, once it has the arrangements right for the UK steel industry.

Dealing with Chinese Dumping

Arguably the greatest challenge facing not only the British steel industry, but also the global steel industry, comes from the systematic illegal dumping of Chinese steel. The Chinese steel industry is characterised by significant state ownership and control with the whole of the Chinese steel industry benefiting from significant direct and indirect state subsidies, including cheap loans, and low cost energy and land. The Chinese steel industry is very fragmented in its organisation, partly the legacy of the historic Maoist desire for "back-yard blast furnaces".

In most developed economies, the top five steel producers account for approximately three-quarters of that nation's steel output. In China the top five producers account for less than a third of steel output. The proliferation of small, often inefficient and environmentally unsustainable mills, combined with a centrally directed economy has created a system of internal competition in China that is not driven to lower costs through innovation, but rather promotes subsidies and overproduction. Local officials know steelmakers wish to show a growing business, and steelmakers know officials want to report positive employment and output figures to Beijing. This has led to the development of a system of regional subsidy competition – in recent years, for example, subsidies have accounted for four-fifths of the profits reported by Chinese steel companies – resulting in inefficiencies, over-employment and massive overcapacity, which is then illegally dumped on the global market.¹³

Quite simply, the Chinese steel industry is not organised according to market economy principles that would require it to make profits, but rather it is a state directed enterprise, with many producers deemed too big or politically important to fail, being propped up by the Chinese State.

Ten years ago China accounted for about a quarter of global production but now it is around half. Chinese demand for steel has not kept pace with this growth in production and the overproduction has been dumped on the global market, contravening the rules that govern international trade and undermining the normal function of the market. Since 2011, Chinese exports have risen by around 133% with the total figure in 2015 close to 112 million tonnes, more than the combined total annual production of the five largest EU steel producing countries.

The effect of this illegal dumping has been the systematic undermining of the global steel market. Since 2011, the import price of rebar into the UK has crashed by 35%. Over the same time frame, the UK steel industry has lost around 5,000 jobs. There is a clear and undeniable link between the illegal dumping of Chinese steel and declining UK output and employment in the steel industry.

All of these realities show that the British and global steel industry has been systematically undermined by China. In response, there have been repeated moves

to strengthen EU trade defence instruments, but the UK Government has been a major opponents of such reform, citing the wider implications of changes to the 'Lesser Duty Rule', but also because of disproportionate concerns relating to the promoting of relations with China.

For trade to be free, it must also be fair: by which we mean that the market must be able to function in a normal and efficient manner. Such practices are not possible if the functioning of the market is distorted by the systematic large-scale illegal dumping of steel, or unfair subsidies. This is why trade defence instruments exist, not to unfairly protect industry or sectors of the economy, but to support the free, fair and efficient functioning of the market. As the International Trade Secretary himself said during questioning at the EU Scrutiny Committee *"It is not possible to operate without trade defence, and having trade defence does not mean turning your back on free trade"* [26 October 2016]. For this reason, depending on the nature of the trade deal achieved as part of Brexit, it is essential that before leaving the European Union, the UK legislates to create its own trade defence instruments and establishes its own trade defence capabilities so that trade defence instruments can continue to function and operate from the moment Britain is no longer a Member State.

The opportunity of leaving the EU allows us to design a new trade defence strategy for the steel industry, set on our terms. For example, Ministers should review actions taken elsewhere, such as in the United States, before consulting widely and deciding how best to proceed.



Recommendations

Leaving the European Union.

The Government should:

- Act rapidly to end uncertainty about future trade arrangements.
- Make clear that Steel will be a priority area when it comes to negotiations on the terms of the UK's exit from the European Union. The Government has said that they will be tough negotiators. The success of their negotiations around steel must, therefore, be seen as the yardstick by which we can measure success. The objectives must be:
 - Securing the best possible access to the Single Market.
 - Make clear what trade defence instruments and capabilities would be created when the UK leaves the EU and bring any such contingency plans for this before Parliament forthwith. This is essential to ensure certainty for the industry and investors that trade defence instruments will continue to be present, no matter what the final outcome of Brexit negotiations is.
 - Convene representatives of industrial sectors that are vital for the steel industry to ensure their continued commitment to the UK.

Dealing with Dumping

While the UK prepares to leave the EU the APPG call on the Government to take supportive action against unfair and illegal steel trade, notably the illegal dumping of Chinese steel, by:

- Opposing the granting of Market Economy Status for China – when any concessions to that country would greatly hamper our ability to impose fair, reasonable and justifiable tariffs. The Government should instead work with the industry, workforce and those along the supply chain to ensure that the European Commission proposals for a new non-standard antidumping methodology are revised and implemented to achieve the most beneficial outcome for the British steel industry.
- Working with European partners to ensure the implementation of tariffs on Chinese steel that will guarantee free and fair trade – this means reviewing the Government's position on the Lesser and Middle Duty Rule.
- Meet with industry representatives and social partners to discuss long-term tariff strategy.

4.3) POSITIVE PROCUREMENT

“Government procurement and other incentives should be used to increase domestic steel content in manufacturing and construction... there is clearly a significant market opportunity.”

Redcar and Cleveland Borough Council

Context

Government commitment to a positive public procurement policy is an essential part of an industrial strategy for steel and manufacturing, giving the industry a vital, reliable and patriotic source of business. The introduction by the Government of the Public Contracts Regulations 2015 (PCRs 2015) and its extended application to the wider public sector has been welcomed, along with the implicit cost benefit logic in respect of the social impact of procurement decisions.

The December 2016 announcement of new steel pipeline and procurement guidelines are a further welcome improvement, dropping the £10m threshold at which public bodies are required to consider the social and economic impact of the steel that they source. This means that all steel contracts in the public sector in England will need to assess the value of UK steel. This is a welcome start, which must be built upon with regular scheduled updates from the Government. However, it appears that alongside this the Government dropped their earlier commitment, made in March 2016, to ensure that all Government departments record, hold and publish data on the amount of UK steel they have procured. In response to a series of Parliamentary questions on this asked by Stephen Kinnock MP, the response has, and it appears will now continue to be that, the *“data requested is not held centrally”*. In responses to questions tabled by Nic Dakin MP, the Government have stated that it has *“been working closely with departments to monitor its impact and ensure delivery”* of the March guidelines, however, they also state *“There are no plans to share this data publicly”*. This appears to contradict statements made to the House in March by the then Secretary of State for Business, Innovation and Skills regarding the publication of this data. By failing to provide the means by which public bodies can be held effectively to account on their adherence to procurement guidelines, the Government risk undermining the very welcome progress that these improved pipeline and procurement guidelines represent.

The provision of regular pipeline data is vital. Regulations need to have a mandatory underpinning and a robust monitoring process to ensure Government departments are committed to its principles in practice, irrespective of when contract negotiations began. The recent decision to award UK defence submarine steel contracts to non-UK producers reflects a concern that a gap remains between industry and public expectation and reality.

Considering procurement from a wider perspective, the method and impact of procurement decisions can be extended to include social and environmental aspects, such as the provenance of steel products. Developed in the EU, this idea suggests

that price is not the only factor in what constitutes state aid and counters market rationale. Environmental, quality and safety dimensions lend themselves to defensible product standards and the “Kite Mark” criteria. Social standards can and should act as indicators of quality, sitting alongside the other two pillars of standards.

These questions fit within a more fundamental debate about the nature of procurement policy. Does it provide a fundamental solution to the development of an inherently viable steel industry vis-à-vis supply side help and demand side protection? On its own, it is not likely to be enough: if the price of steel continually increases, the downstream benefits reduce. For example, the USA protects its industry, but it is becoming uncompetitive. The key is that procurement policy must not be *the* instrument in and of itself; instead it must be one part of a broader, comprehensive, ambitious and deliverable vision and strategy to re-energise the steel industry.



Recommendations

- Public Procurement policy to be made mandatory.
 - Procurement guidelines to be replaced, where possible, with mandatory and enforceable rules.
 - The extension of these rules/guidelines to Tier One Procurement and down the supply chain.
- Timely pipeline data to be made regularly available for all government departments. Mandating that UK steel procurement data is recorded and published by departments is essential if procurement guidelines are to have any meaningful force and impact.
 - This information should also include data regarding the origin as well as the processing or distribution points of steel used.
- Support for Local Authorities to aid their procurement of UK origin steel.
 - And also introduce a reporting requirement for Local Authorities regarding how much UK steel they procure.
- Develop the quality “Kite Mark” certification system to incorporate social and environmental standards.
- Consideration should be given to introducing compulsory disclosure of certification and steel origin.
- The Government should build on the welcome work of the Future Capabilities Review to complete the mapping of the steel industry supply chain, as part of a process to build a picture of the long-term pipeline for the private sector as well. For further information on this see section 4.5) *Supporting Supply and value chain*.
- There should be a concerted drive to promote the use of UK Steel in private sector projects such as the Heathrow expansion – and Government should be considering means of promoting UK steel when subsidies are granted to infrastructure projects.

4.4) BUSINESS RATES THAT WORK FOR BRITAIN

“In the short term yes, there is probably a very significant cost to the Government, but in the longer term of 5 years plus, that actually the benefits to the manufacturing sector and the Government in terms of tax receipts, would be a positive to Government in that longer term. Unfortunately Governments don’t consider the long-term.”

Gareth Stace, UK Steel

Context

The current business rate regime is a barrier to inward investment within the UK steel industry, disadvantaging it when compared to international competition. In total, UK business rates are estimated to be around ten times those in Germany or France. This is the result of measures such as the inclusion of the purchase of plant and equipment in the formula for rateable value. In short, the current system makes profitability harder, serves as a disincentive to investment and does not encourage British firms to compete on a global stage.

Capital investment in the UK steel industry has been persistently lower than in other major EU countries. Between 1986-2000 every major EU steel producing nation invested significantly more in its steel industry than the UK. The second worst performer, France, invested 32% more on average over the period. This trend has continued between 2008-2014.

The UK Government’s position is that, within EU regulations, business rate relief must be applied across an entire sector, rather than individual industries within it. For the Government, this represents too great an expense and would leave Local Authorities short changed, while the industry is clear that not only is the expense cheap by comparison to the cost of a defunct industry, but the short-term investment would lead to increased tax revenue in the mid and long-term. As currently structured, business rates act as a disincentive to investment across the economy by penalising investments that increase the value of a business. This creates perverse incentives, and the uncertainties around revaluations can compromise businesses’ ability to plan beyond a five-year period. Outside of the EU, the UK Government could potentially have greater flexibility in that regard.

While of course the impact of reduced business rates on the ability of Local Authorities to raise revenue to support public services must be taken into account, the critical consequences of business rates for the steel industry must not be ignored by Government. The challenge, therefore, is around how we can exempt plant and machinery from business rates, thereby supporting investment and innovation, without impoverishing Local Authorities. Neath Port Talbot derives almost 25% of its business rates revenue directly from the steel industry, however, this is likely to be substantially higher when one takes into account the direct supply chain business and indirectly linked other factors. Following the closure of the Redcar steelworks the Council saw an overnight 21% loss of business rates revenue. This revenue is

essential to the ability of Local Authorities to provide vital local services and so it is essential that the exemption of plant and machinery does not deny Local Authorities access to revenue. It is for this reason that the APPG call for a fund to be established to make up this loss (data from written testimony of local authorities).

It is recognised that under the present Local Government finance system, the Government can compensate local authorities for any change in the business rate scheme by providing extra grant, as they intend to do following the decision in 2016 to widen the scope of small business rate relief. After 2020 however, it is intended that business rates will be 100% retained by local councils and there will be no Government Grant. It is therefore important to ensure that any changes in the business rate system which will reduce local authority revenue after 2020 will be offset by an equivalent and specific grant. What is more, because of the complication which will be introduced post 2020 by local authorities individually retaining extra business rate generated in their area, there will need to be a system of measuring and allocating authority by authority the impact of business rate changes and the extra grant to compensate for these.

What is clear is that doing nothing is not an option. One consequence of the current business rates is simple. Because it leads to increased costs, it precipitates job losses. When the Port Talbot works invested around £200 million in a new blast furnace, its business rate payments increased to such an extent that, according to reported company sources at the time of the announcement, it contributed significantly to the need to lay off 400 workers in 2014. Another consequence is more forward-looking: the rates present such a cost increase on capital expenditure that future investment plans often do not get beyond the planning stage. At a time when the industry desperately needs to innovate, replace ageing plant and equipment and increase productivity, it is deterred from doing so.

Action in this area can be achieved. The Scottish Government has provided one-year relief on business rates for the Clydebridge and Dalzell steel works. Business rates are, of course, devolved. This poses an additional challenge, as it is harder to achieve a joined-up approach across administrations. For this reason the APPG propose that a joint review of business rates should be convened between Westminster and the devolved governments – with a prominent role Local Authorities from steel communities – to identify the various routes forward for the four UK based Governments: in Westminster, Cardiff Bay, Holyrood and Stormont. This may result in differential policies from the three administrations in accordance with local needs and situations. However, a joint review will ensure that all voices are heard, that we have the benefit of a wider range of perspectives, and that we do not see a race to the bottom in terms of policy.

The UK steel sector is clear that to retain its competitive advantage, continuous investment is necessary. As in all areas, resolving this is key to the UK manufacturing sector as a whole given steel's place in the supply and value chain. We must remove this substantial regressive barrier to growth and increased productivity.

Recommendations

Given the current impasse in attitudes, it is difficult to see a way forward without dialogue between Whitehall, Cardiff Bay, Holyrood, Stormont and Local Authorities. The APPG therefore call for a joint review of Business Rates led jointly by BEIS, the Treasury, the Welsh Government, the Scottish Government and Northern Ireland Executive.

This review should convene representatives of the Local Government Association, leaders of Local Authorities from steel communities and industry representatives to produce a comprehensive review of, and strategy for, business rates. This review should be guided by the following strategic objectives:

- Disconnecting capital investment on technology and machinery from the calculation of business rates;
- Balancing the long-term needs of business and the short-term ability of local councils to maintain public services;
- Establishing and bringing together short and long-term strategic targets for Government and industry to work towards in partnership;
- Establishing a fund for local authorities to ensure they see no loss in revenue, with arrangements to provide a specific grant post 2020 that will reflect losses to individual authorities as a result of any business rate reform.



4.5) SUPPORTING SUPPLY & VALUE CHAINS

“Steel is not a product that travels well. If you remove steel from the UK supply chain flow to manufacturing, you will kill manufacturing. As in the automotive industry, local content is a very high determinant of where you’re going to make the vehicle.”

Sanjeev Gupta, Liberty House

Context

Steel industry supply and value chains are complex and international. The home country of supply chain components are usually the ones that retain the value: the more elements of supply chains there are and the more coherent it is, the more value is retained in that economy, be it financial, knowledge or skills-based. The steel industry is no exception. British Steel (formerly Tata Long Products), is a world leader in rail production, produces steel for automotive powertrain components. This steel is exported to France, Germany or Sweden where it machined into finished products and then imported back into the UK to be fitted into cars. The ‘value added reseller’ is embedded in a different domestic economy. In the context of post Brexit referendum exchange rates, this will inevitably have a detrimental effect on the balance of payments. The issue of supply and value chains goes to the heart of what has happened to the UK steel industry and what is required from an industrial strategy for the industry to survive and be revitalised. Addressing supply chain strategy is vital for the wider economy as well: given the high transportation cost if steel is imported, many companies and industries need the UK to retain its primary steel production if they are able to keep their business going. To make that happen, we need to fix steel-related supply chains.

It is generally agreed that UK supply chains are *“too diffuse, [divergent] and too distant”*. This has a strangling effect on the identification and development of new products, while also damaging downstream activity and, more broadly, UK manufacturing.

There is a widespread view that there are too many layers within the supply chain: traders, importers, distributors, and stockists each extracting value and lengthening the period needed to get material to customers. There is, therefore, a strong argument that supply chains need to be compressed.

The UK often exports raw steel products to be transformed into finished products, before they are then re-imported for value adding processing. This process reflects broken, missing, denuded supply and value chains that need to be on-shored. An important example of this is the supply chain for wind tower components. There is increasing UK market demand for wind turbines and the UK has the capacity to produce the required steel, yet most wind turbine blades are made from French steel. There is a missing link in the middle of this production chain that makes the entirety more expensive and less valuable to the UK economy. Another example in which action could be taken is that of hollow tube steel sections. The UK imports

almost all its hollow steel sections as UK strip production is mischaracterised as being “too expensive”. This doesn’t have to be the case: with sufficient financial and R&D support, could British companies fill this gap? The APPG believes it can.

It is important to re-shore supply chains and make them fit for purpose due to the mutually important relationship between the steel industry and other key sectors, such as transport, green technology, construction and energy. But this will require strategic thinking and joined up action. The automotive and aerospace sectors’ supply chains are especially relevant as they rely heavily on steel and steel-based products, as has been highlighted since the EU Referendum. As of September 2016, the automotive sector provided 25% of Tata’s sales by revenue. Tata UK provided around 50% of UK carmakers’ steel needs and the Port Talbot works is the only UK manufacturer of strip steel for the automotive industry¹⁴. The Society of Motor Manufacturers and Traders (SMMT) estimates the industry supports 78000 manufacturing jobs across its supply chain, many of whom are employed in the steel industry.

Automotive industry experts emphasise that the relocation of UK car production to other countries will become probable if the ability of a domestic supply chain to supply components falls below 40%. We heard evidence from an expert in the automotive industry that: *“local content is a very high determinant of where you’re going to make the vehicle”*. In its 2015 strategy document on growing supply chains, the Automotive Council reported that important and positive progress has been made in re-shoring supply chains and *“the opportunity to increase UK sourcing is stronger than ever”*. The APPG believes that intensifying this effort must be integral to an industrial strategy for steel. We acknowledge that the Government has commissioned extensive research into the links of the UK steel supply chains, but they must ensure this transforms into tangible action.

The impact of value chains extends to all downstream production and clients. To have an entire value chain in the form of a cluster of activities connecting suppliers with just-in-time logistics, product support mechanisms, R&D, transport and customers, provides the basis for competitive advantage.

Retaining a vibrant steel industry is intimately associated with a dense R&D network. The German economy exemplifies this, having the densest R&D value chain network in the world. Most steel patents are generated by Germany. R&D is an area where the UK has significant expertise, despite evidence that it has been denuded in recent years. Tata has, for example, centralised its R&D effort in the Netherlands. This needs to be reversed if the UK is to have a revitalised steel industry. Some actions are clear: investment in a Catapult for the industry is essential.

The need for re-shoring is particularly relevant in the light of Brexit. For example, components for the automotive industry can travel back and forth to the continent on a number of occasions and Tier One suppliers to the industry have made it clear that the imposition of tariffs would trigger an examination of their entire supply chain to determine the impact on profit margins. If supply chains could not be optimised to take the cost of tariffs into account, component production might

relocate offshore, so it is important that Government continues to work towards a free trade deal with the EU.

Thus the fixing, re-shoring and rejuvenation of supply chains is essential to the very rejuvenation of the British manufacturing base itself, including the steel industry.



Recommendations

As part of a broader industrial strategy, Government, industry and key stakeholders in the supply-chain should come together to:

- Produce a detailed mapping of future capabilities and demand.
 - This will involve completing and building on the promising Future Capabilities Review that has been undertaken to further map the existing supply chain. This mapping should also look at mapping future demand from the public and private sector, thereby ensuring a more efficient dissemination of information and knowledge, enabling producers to ensure that supply matches demand going forward.
- The Government should convene the steel industry and key stakeholders along the supply chain to establish a common and continuing forum for this on-going mapping exercise to ensure that future demand can be met.
 - The Government must act in a strategic manner to help ensure future demand can be met by UK steel producers, serving as an impartial body to help connect up supply and demand to ensure an efficiently operating market. This is emphatically not about the Government interfering to manipulate the relationship between supply and demand. It is about the Government utilising its power as a convener and strategic director to maximise the dissemination of knowledge and information, thereby aiding efficient market operation. Perfect knowledge within the market may be impossible, but ensuring better knowledge is achievable and the Government should take all steps to facilitate this.
- Develop clusters of industrial and research activity that will synergise supply and value chains.
- Identify supply chain critical businesses and capabilities that can be incentivised to re-shore to the UK.

4.6) THE KEYS TO THE FUTURE: SKILLS AND RESEARCH & DEVELOPMENT

“There is a general belief that the UK steel industry cannot compete on cost. Competitive success must come through from continual innovation, the human resource and human capital. Direct funding for the environment and R&D is the only future where competitive advantage of the industry will be achieved. If you do not invest in skills and if you do not invest in capital equipment then we will have no steel industry in this country in the next five years.”

Stuart Wilkie, Excalibur Steel

Context

The future of the steel industry will be built on the twin pillars of skill development and R&D that inspires innovation, new business models and world-class products.

While the UK steel industry will not be able to compete on the basis of costs with a rival such as China due to its use of anti-competitive subsidies, even if we are able to make progress in raising anti-dumping tariffs, what we can and must be are leaders in innovation. The British steel industry is already a leader in innovation: two thirds of the types of steel we use today were not even invented 15 years ago. Companies such as British Steel (formerly Tata Steel Long Products) see the importance of long term R&D strategy. Peter Hogg, British Steel’s Commercial Director explained that the company considers investment in R&D as an essential precursor for commercial success: “We have got R&D, ... we’ve got 19 of our own researchers. We’ve got links with the Materials Processing Institute. So we are continuing to do R&D. And one of the things that we are really trying to work on is how to do that much more collaboratively with academia as well. So working with University of Sheffield on trying to site our researchers on the Advanced Manufacturing Research Centre in Sheffield. So if we can get those guys still employed by us but imbedded in a research community then hopefully you will get a bit more bang for your buck, you create better networks and some of these things are not all about what we alone can do but actually how we can tap into some of the academic universities in the UK that are still very good research institutions, so why shouldn’t we try and exploit that?”

But more can and should be done to remove obstacles to investment in R&D, thereby ensuring a more investment friendly environment. Due to the uneven playing field faced by the UK steel industry, it must invest significant resources simply to stand still. Despite this, the industry has continued to innovate and lead the world. However, if measures are taken to support efficient market operation and ensure a level playing field vis-à-vis global competitors, investment could spark further innovation and help the UK steel industry to realise its full potential.

Wider research has shown that, comparative to many newly industrialised countries, Europe in general has neglected investment in R&D. South Korea for example, spends five times as much on R&D as most EU states. This phenomenon is

interwoven with both the causes and effects of the decline of manufacturing to 15% of EU GDP in 2013 and 12% in the UK. Innovation cannot proceed at the required rate in the absence of investment in skills and R&D¹⁵.

Similarly, base skills in the UK present significant challenges. The UK has comparatively poor literacy levels amongst the 16-24 year olds, deficiencies in intermediate skills, and low esteem for so called “vocational” qualifications and abilities are all directly linked to the UK’s productivity gap compared to other industrialised nations¹⁶

These factors present huge challenges for the steel industry. Research has demonstrated that unless investment in skills is associated with investment in technology and R&D, there are only marginal returns to productivity to be had. It is clear that the industry needs help from the Government and banking sector in its efforts to up-skill, research, innovate and thus be able to compete.

The future of an industry is often defined by its degree of innovation. The importance of clusters of R&D intense activity is therefore unquestioned. There is a reason why Germany, which has the densest R&D value chain network in the world, produces the most steel patents. This is an area of undisputed potential for the UK, as we already have world-renowned centres of research excellence.

One of them – the Materials Processing Institute (MPI) – provides research across multi materials, an expertise and technical knowledge that does not exist to the same extent in Germany. The Catapult proposed by the Institute of Materials, Materials Processing Institute and TWI has widespread industry support and should be quickly implemented by Government. Catapults should also be looking outward to other metal related sectors and avoid the development of a silo mentality. The development and growth intellectual property eco systems, the connection of universities to existing Catapults and industry centres of research, perhaps in the form of Enterprise Parks, should be encouraged.

Similarly, the Advanced Manufacturing Research Centre (AMRC) was established in 2001 as a £15 million collaboration between the University of Sheffield and aerospace giant Boeing, with support from Yorkshire Forward and the European Regional Development Fund. It works closely with local industry and world leading companies, including Rolls Royce, BAE systems and others to develop new manufacturing techniques, technologies and new innovations. In the steel sector, AMRC Castings provides advanced expertise and manufacturing capabilities, including computer process modelling, design for casting manufacture, rapid low-volume manufacture of precision castings and casting process and materials research, for aerospace and other high-value manufacturing sectors. Its revolutionary, glass-walled “reconfigurable factory” is at the heart of the University of Sheffield’s new advanced manufacturing campus. The AMRC now forms the core of the University of Sheffield AMRC group, along with the Nuclear AMRC, which is applying the same collaborative research model to the civil nuclear manufacturing supply chain. The AMRC demonstrates how universities and industry can work in close partnership to develop cutting edge processes and materials. The centre has

developed a world leading reputation in the innovation of new products through its collaborative work. Given the national importance of the AMRC it is vital that on-going Government support is provided for this pioneering catapult centre. This is especially so if we are to maintain and grow an advanced high expertise steel manufacturing base in the globally competitive market place.

It is clear that for an advanced economy such as the UK, funding for R&D, innovation and on environmental issues is where future competitive advantage lies. What is weak in the UK is coordination of technical effort: fragmentation is leading to the loss of embedded knowledge.

This fragmentation has increased in recent years, and has been accelerated by the sale of Tata's Speciality Products division and the discussions around the sale of Strip Products UK. The danger of further fragmentation is not only around the loss of embedded knowledge, but also around the commitment to the UK and our economy as non-UK domiciled ownership becomes the norm in the steel industry. Internal fragmentation will dilute our national UK 'brand', undermine our economy, and diminish our ability to influence international agendas. Across the economy, many UK companies can be characterized by a transactional, rootless form of ownership, which militates against the sustained investment in R&D, innovation, skills development and new technologies that is so desperately needed if we are to rebalance the British economy.

The weakening of UK ownership also means the weakening of experience and skillsets of managers in the UK. The relocation of management outside the UK makes it more difficult for future business leaders and managers to build the experience and skills they need to run effective industrial businesses in the UK. This has surely been one of the biggest contributors to the great skills gap between industrial managers in Germany and Britain. Foreign ownership also has an impact on investment in research and development, as companies will be more likely to base their high-level, add-on service, particularly R&D, in their home country. The UK steel industry has not fully experienced this, in part due to the business models of companies such as Tata Steel who have relatively autonomous and separate European divisions. This, however, brings further challenges as companies will base their R&D and other such high-end services in the nation that provides the most generous investment and research environment.

This debate has taken on additional urgency since Tata has relocated its research base to the Netherlands, further reducing UK-based innovation. How can the UK create world-leading steel-based products if we are not creating the infrastructure required to develop new ideas? For these reasons, the industry is unanimous and unwavering in its belief that investment in an industry-specific Catapult is not only desirable but also essential. The perception of many respondents was that there were unnecessary and unexplained blockages in Whitehall. The Government needs to act quickly to resolve this so that Catapults work for whole industries and are not led by corporate interests. The Catapult strategy should be complemented by the development of enterprise zones with an R&D base, where investors can be invited in to establish new initiatives.

The quality of our research capability cannot be separated from the skill-base of those working in the UK steel industry. The UK steel industry has an international reputation for its highly skilled workforce. This requires constant up-skilling but is being consistently jeopardised by downsizing – generating uncertainty that negatively impacts on the view young people have of the steel industry. Part of a holistic strategy must, therefore, include career education in schools, Further and Higher Education about the nature and importance of the industry, as well as education at the higher levels in skills that are relevant to the industry.

In recent decades, employment levels in the industry have been greatly reduced. The need to retain and develop relevant capabilities and flexibility in material science, engineering, sales, and marketing, all needed for steel production, is therefore seen as crucial: *“for a sophisticated operation like steel ... there’s a sophistication that people often forget in making things on that scale, they don’t just happen. So you need a capable, clever pipeline of well-trained people”*.

The development of requisite skills in the steel industry is a long-term endeavour. It takes a long time to train people to where they need to be. The skill pipeline is long and needs to be constantly replenished, be it from local or international talent. If this does not happen, a generation of skill can be lost to the industry. In cases of restructuring and commercial crisis, there must be a clear strategy for mothballing where skills are protected. Associated with this is the need, as practiced in other countries, to provide financial support to laid-off workers so they and their key, inimitable skills, are not lost to the industry. This happens, for example, in Holland and in Italy through the ‘Solidarity Pact’. Working in conjunction with their social partners, firms should attempt to predict the need to restructure, involving unions and the workforce in planning for all eventualities including, in extremis, that of mothballing.

Of more pressing concern, however, is the need for Government and industry support for skills retention, specifically “short time working” which is tied to training and up skilling. This is essential if companies are to be able to respond to fluctuations in the market without cutting jobs. Following the 2008 downturn the UK steel industry was disadvantaged by the fact that EU competitor companies could access state provisions for “short time working”. The APPG therefore call on the UK Government to develop measures to deliver skills retention and “short time working”. The Welsh Assembly Government has established a precedent for this with the 2009 ProAct Programme which offered wage and training subsidised, thereby helping companies, notably Tata Steel, to avoid redundancies. ProAct was a package designed to provide funding for training employees on “short time working”, providing wage subsidy support to help retain skilled staff that would otherwise be made redundant. This is a common practice on the Continent and was a central factor in the greater resilience of many EU competitors following the 2008 economic crisis. The Welsh Government have demonstrated that such a scheme is effective and viable in the United Kingdom, and the APPG therefore urges the Government to develop a nationwide scheme, particularly in light of the uncertainties presented by the UK decision to leave the European Union. While

there can be reasonable disagreements about the long term costs and benefits of Brexit, what cannot be denied is that we have entered a period of uncertainty that we will remain in until the nature of the UK's relationship with the EU 27 will be. In light of that, the case for support for skills retention through "short time working" is essential if we are to not only retain skilled steelworkers, but also up skill other members of the workforce.

Given this analysis, there is a strong belief that investment in skills need to be more strategic. Crucial to this is the development of apprenticeship training and its extension to production workers who frequently need industry specific skills that are not always transferable. Those industry experts involved with training and apprentices are clear that, *'the apprenticeship landscape is not one landscape. The steel industry apprenticeship route needs to be long term.'* The University Technical College approach is widely considered an effective initiative.

One aspect to skill development that is a cause of concern within the industry is that of the Training Levy. While the principle behind it is accepted, the cost is considered unfair and excessive as the development of apprentices is already considered vital and the industry receives support for it from the Skills Funding Agency. The view is that the Levy system constitutes a net cost, which adds to the salaries and other costs firms pay for apprentices. It is considered that the new system is *"punishing the responsible employers who train."* An unintended consequence of the Levy system might be that firms claw back funding by reducing their training effort and try to buy off the shelf: which is a spiral to the bottom.

The availability of finance is crucial for innovation in the metal sector. Investment even for start-up firms is capital intensive and hence costly. Favourable loan arrangements and the ability to avoid venture capital are essential. The majority of APPG therefore believes that a national Bank for Industry is desperately needed. Working with industry, the Government must identify a long-term funding strategy for the skills and innovation of the steel industry, and alongside the industry's responsibility to build robust and integrated pipelines with respect to each issue.

Recommendations

The Government should:

- Establish tripartite public/private partnerships, also involving trade unions to identify capability gaps and skills to prevent fragmentation, thereby ensuring the continuation of a truly national steel industry.
- Provide low cost loans to support R&D and innovation
- Consider intervening in incidents of corporate failure with an active financially underpinned mothballing strategy.
- Review the working of the Levy system to provide relief for firms that are already good trainers.
- Take broader steps to create a level playing field for the UK steel industry – this is not about giving UK producers an unfair advantage, but ensuring they compete on a level of parity with competitors – thereby freeing up capital to be invested in skills and R&D.
- Introduce support for skills retention and “short time working” tied to training and up skilling, enabling companies to respond to fluctuations in the market without cutting jobs.
- Create a National Bank for Industry to address the issues around access to finance for innovation, as supported by the majority of APPG members.
- Create and utilise an industry-specific Catapult that will help spur investment in the industry.
 - The Material Processing Institute-led proposal should be granted Catapult status as soon as reasonably possible. By expressing its clear support for this the Government can send a clear signal of intent without compromising the independence of Innovate UK

4.7) BUILDING A STEEL FUTURE TOGETHER: INDUSTRIAL– EMPLOYMENT RELATIONS

“Community considers this to be a genuine cross party approach, we’ve got really good people who care passionately about the industry and I just want to thank you on behalf of my union anyway, thank you for the work you do for us and lets stick together at least through this and get to the other end and hopefully we’ll have a successful industry left”

Roy Rickhuss, General Secretary of Community union

Context

It has been argued that unions have a special role in the development of industrial strategy¹⁷ and in the UK steel industry it is generally understood that Industrial Relations must be built on a partnership based approach, predicated on a culture reflecting a shared non-adversarial commitment to competitive success. Employees need a stake in their industry and as has been evidenced across Europe, where a partnership approach has resulted in the development of industrial strategies that do not result in a diminution of employee conditions, skills, voice and social dialogue. Evidence is clear that working together, unions and employers can develop initiatives on training, research and innovation and in times of crisis, flexible and “short time working” arrangements to ensure skill retention. Unions also act as a pressure for long, rather than short-term strategy and high road modernising strategy for industrial renewal.

Research on the manufacturing sector in the USA presents a compelling argument that the utilisation of new technology alone cannot alone deliver competitive advantage.¹⁸ Appropriate work organisation and sophisticated HRM practices are also necessary. Central to this is the ability of employees to not only possess sufficient skills but to also have a voice in the development of manufacturing processes and strategy.

Testimony from managers, business and unions leaders reflected this body of knowledge. They were clear that effective industrial relations must be built on a partnership-based approach, predicated on a culture reflecting a shared non-adversarial commitment to competitive success.

Employees need a stake in their industry and many industry leaders recognise and see the importance of this within the steel industry and an extraordinary level of occupational identity between employees of all levels of seniority and their industry has evolved. The level of commitment that this has engendered can only be dreamed of by those in the service sector. For their part, unions are clear that employers need to take into account job security, terms and conditions and pensions. There is very worrying anecdotal evidence that skilled workers are leaving the industry due to uncertainty about its future.

Any industrial strategy must include the provision for on-going involvement in shaping the industry. Unions see the level of involvement of their continental counterparts in national strategy formation and consider this is not an unreasonable ambition for UK unions. As part of this, they expect early warning of problems coming down the line and a commitment that involvement will reflect more than information sharing and consultation after the event. This concern raises wider issues of stakeholder involvement in the running of steel-making firms. In this respect it is interesting that in a majority of the other EU 27 countries, there is provision for worker directors. The involvement of unions in business strategy has been associated with up skilling, effective employee voice and high road manufacturing. There is evidence indicating that the turnaround in the US steel industry in the 1990s was clearly associated with the introduction of workplace practices that provided employees with communication and decision making functions formerly associated with managers. HR managers led up skilling initiatives and unions for their part were often the initiators of partnership arrangements that provided business and financial information that allowed them to participate in strategic planning¹⁹.

The ability of unions to not only work with managers to enhance productivity and job security but have the ability to negotiate with employers over the distribution of the benefits of organisational success is a crucial precursor for organisational success. The generation of mutual trust and commitment that emanate from such beneficial partnership nurtures further progressive industrial relations. A future industrial strategy for steel should include a mechanism for genuine participation for unions²⁰. The APPG therefore call on the Government to take forward and develop the Prime Minister's suggestion of worker and trade union representation and membership on the board of all UK steel companies.

Unions and Industry have expressed concern around the underinvestment in steel worker skills, particularly in the case of production workers. An industrial strategy must seek to address this deficit and the Government must therefore play a coordinating role. The provision of a wider range of apprenticeship opportunities would go some way to addressing this shortfall.

In the current context of steelworks under threat, the APPG believes that in cases of restructuring and potential plant closure, Government should provide support for plants to be genuinely mothballed, thereby protecting valuable national assets. This is keenly felt in the case of blast furnaces. There is agreement amongst unions and many managers that the security of blast furnaces reflects overall plant security and a shared belief is that furnaces should be considered as national assets and treated accordingly. In the words of a senior industry executive: *'There is clearly a demand for BOS plant steel, there is, you can't just switch off blast furnaces and BOS plants because the market, there is a big chunk of the market that would immediately go elsewhere for their steel and go off shore for their steel.'* Any serious mothballing strategy would have at its core not only a time-based strategy for the protection of physical assets of national importance by way of a register of Core National Assets, but, crucially, also the protection of scarce and generally high skills.

There is the need therefore to provide financial support to laid off workers to support income loss and retraining, as is practiced in other countries such as Holland and Italy through the 'Solidarity Pact'. Support should also be provided to train laid off workers hence protecting skill levels necessary for a successful industrial sector. Matched funding regimes could provide the means of providing such support. Firms should attempt to predict the need to restructure and involve unions in planning for all eventualities. There needs to be a system where the product history of imported steel is transparent in respect of its social, economic and environmental provenance.

UK steel should not be undermined on price or quality. As a defence against dumping, the provenance of steel products in terms of country of origin, environmental and social criteria should be made transparent. Unions support initiatives to better understand infrastructure and steel demand requirements. They suggest that, where applicable, public, private-partnerships offer a way forward for the analysis of missing capabilities and weaknesses in supply chains. There is the need for a national industrial strategy and foundation industries, particularly steel, are central to such a project.



Recommendations

The Government should:

- Take forward and develop plans to ensure worker and trade union representation on steel and metal company boards.
- Look to establish private/public partnerships alongside trade unions to identify skill and technology capability gaps in the industry.
- Develop an industry strategy that provides the opportunity for genuine union participation in the development and on-going operation of a national strategy for the steel industry.
- Develop a register of Core National Assets, which should include essential UK steel infrastructure.
- Work with industry stakeholders to create a holistic skills development and retention strategy.
- Have a clear and modern support mechanism for those affected by restructuring, involving income protection and support for retraining.

5. AN INDUSTRIAL STRATEGY FOR STEEL: A SUMMARY

The APPG welcomes the Government's emphasis on the need for a bold industrial strategy to drive the UK economy forward and hope that the Government will heed and incorporate the recommendations of this report into their strategy. We do not claim to have a monopoly on wisdom and appreciate that there may indeed be alternative means of tackling some of the problems identified by this report. However, this report is unique in that it is the product of almost twenty four hours of oral evidence, numerous written submission, from a wide range of sources, ranging from steel industry leaders, trade unions, the workforce, Local Authority leaders, European Commission and international trade body representatives, through to a former Government Ministers among others.

The APPG welcome the establishing of the Steel Council and its working groups, and welcome measures that have been taken regarding procurement and other areas. However, the APPG is of the view that there is much more work to be done and that without a comprehensive industrial strategy from the Government, the UK steel industry will not be able to realise its full potential. The purpose of this report, therefore, is to provide a blueprint for the way in which Governments in Whitehall, Cardiff Bay, Holyrood and Stormont, can reshape policy to provide the level playing field that the UK steel industry needs not just to survive, but to thrive and set our great nation on the path to a modern manufacturing revolution.

Our economy is unbalanced, tipped in favour of financial services and London and the South East. Essential to building an economy of purpose and resilience will be a renaissance for manufacturing, and for that steel is a key foundation industry. It is the rails our trains run on, the key component of our automotive, aerospace and key defence infrastructure – from submarines to the armoured vehicle that protect our troops deployed around the world. From our national defence infrastructure to the tin of baked beans we open for our breakfast, British steel is something we rely on every day, every hour. The UK steel industry is a crucial lever in rebalancing the UK economy, adding value (the supply value added multiplier associated with the steel industry is in excess of 3, the employment multiplier between 2 and 3) and providing highly skilled jobs that have higher productivity than the UK average. Furthermore, it is clear that its loss would be potentially devastating, costing over 40,000 jobs, at least £4.6 billion pounds of Government revenue and reducing household spending by over £3 billion over a decade.

And it is not a sunset industry; indeed, steel is at the cutting edge of innovation – over two thirds of the steel we produce in the UK today did not exist a decade ago. It is not just an economic, but a social multiplier as well, with every steel job supporting at least three other jobs across the UK economy.

We must therefore stand up for the British steel industry, not only to build a better Britain with a more balanced and resilient economy, but because we want our country to compete in the twenty first century and build a new model and decade of British prosperity.

Seizing that future will require a fresh approach, from both Government and from the industry, working together. Steel companies must present Government with their vision for the future of their business, helping identify vital areas in which they can act as a generator and multiplier for innovation, jobs and prosperity.

Before those positive results can be assured, however, it is essential that the Government act to create a level playing field for the UK steel industry, which is currently hamstrung by a toxic combination of policies that hobble the industry by comparison to global competitors. It is testament to the professionalism, skill and dedication of the workforce that the industry has been able to keep pace and continue to innovate, but without action the industry and the communities represented by the APPG risk a future of perpetual crisis and decline. As this report makes clear, that pessimistic future is by no means inevitable.

That is why we need the Government to act and remove the existing barriers to progress and prosperity. The Government needs to have an underlying strategic rationale in the development of an industrial strategy in general, and for steel in particular. This means that the Government policy and approach must change to become an enabling force, supporting the development of an even playing field by cutting energy prices, tackling illegal Chinese dumping and ensuring a strong trade deal following the United Kingdom's departure from the European Union. Leaving the EU may present the opportunity for us to do these things, and on our own terms.

The Government must build an investment friendly environment to ensure that instead of sinking, that the UK steel industry is able to capitalise on the incredible skill of its workforce and management to realise the bright future that is achievable. That is why the Government must remove the existing disincentives to investment posed by a punitive business rates regime, and it must support skills development and build a partnership approach to industrial relations and management.

Taken together, these measures will ensure a steel industry with a real long term commitment to the UK economy, building a cutting edge industry that will not only survive but that will thrive nationally and globally.

Our national policy must be guided by these strategic objectives and the recommendations contained within this report point to a pathway to building that bright future of a stronger steel industry, greater resilience for the whole economy and sustainability for the communities which serve the industry. To deliver these, everyone will need to continue to work together constructively – industry, unions, Government and the workforce.

6. SWOT ANALYSIS OF THE UK STEEL INDUSTRY

This SWOT analysis emanates from the views of respondents:

Strengths

The UK steel industry has an impressive and durable brand and reputation for product quality and customer service. Historically the industry has had strong trading relationships with North America and Asia, as well as Europe. These trading links are a strength that the UK can build on in a post-Brexit trading environment.

The industry has the capability, today, to play the foundation role for strategic supply chains like automotive. This is not theoretical; it is real and underpins the viability of the sector, as well as capturing more value for the UK from these activities. The diversity of the UK steel sectors' production routes (having both blast and electric arc furnace capabilities) give the capabilities that sophisticated sectors require. For example, while electric arc furnace production cannot, at present, cater for the automotive industry, the presence of UK primary steelmaking capacity ensures that the UK has a vibrant automotive sector.

The industry has the capability to produce a broad range of steel products ranging from commodity steel to technologically advanced products. This enables the industry to meet the needs of complex projects, or large customers as a single source of supply. In this respect the UK aeronautical and particularly the automotive sectors provide an important and intimately connected downstream client base. A synergistic relationship between strategically vital Foundation industries.

The UK has a strong fundamental research base, through a combination of several universities and centres of research excellence. Whilst each university lacks critical mass in itself, the university sector in the UK as a whole is well co-ordinated in steel, with regular interaction between academics at key institutions. Beyond to the innovation and commercialisation of technology, the UK is fortunate in having the Materials Processing Institute and TWI, respectively world leading and internationally renowned research institutes in the processing and application of steels.

The industry is underpinned by a highly experienced and committed workforce, which is reflected in the wide support for the industry in the places and regions in which it operates. There is a strong relationship between the industry, its communities, social partners (e.g. trade unions), local and national Government.

The industry also benefits from the general advantages of trading from the UK, including a general stable political and legal framework, an open economy with well-developed infrastructure for business and trade. Within this framework, the industry benefits greatly from the expertise of experienced industry advocates such as UK Steel, including of course the APPG, whose knowledge will be vital and invaluable to an on-going strategy for steel.

Weaknesses

The industry suffers from structural weaknesses, as outlined in the Five Asks from UK Steel to Government, including energy costs, business rates, procurement policy and steel dumping and carbon reduction legislation, that impacts more negatively on the industry in the UK than elsewhere. These items require immediate and urgent attention from Government. Beyond subsidies, as important as these are, energy intensive industries need a national energy strategy.

Such structural issues aside, there are underlying weaknesses, relating to the historic levels of underinvestment in capital & infrastructure and research & innovation. The productivity of the UK steel industry was world leading for three decades from 1976 and showed continued steady improvement, but then began to fall back. To return to world leading competitiveness the industry must get back on its previous productivity curve and this can only be achieved by investment in skills, innovation and new technologies. Co-investment in these areas from Government would provide a significant boost, as has been seen in the automotive and aerospace sectors. Given the need to sustain improvement over time and make long-term capital investment decisions, such investment must be structural and long term. As a result Government intervention in the form of ad-hoc research competitions would not give the desired result and specific targeted long term Catapult funding is currently the only UK instrument capable of delivering this improvement.

The UK industry as a whole has suffered from over a decade where optimisation of production and supply chains has taken place at a pan-European, rather than a UK, level. This is a rational strategic choice for the multi-national players in the industry, where their UK footprint is part of a global supply chain. However, when viewed at a UK level, this means that some components of the UK industry are operating at a sub-optimal way from a national perspective and some essential supply chain elements have been removed, or disrupted. For instance, both Tata Steel Strip UK and Speciality Steels operate below their optimal level of economies of scale, which is an inherently difficult position in which to be profitable. By reversing this 'dis-integration' of national supply chains and allowing the UK industry to compete freely against international competitors, the overall performance and profitability of the UK industry would be improved. The on-going fragmentation of the UK industry as a result of the break-up of Tata Steel, is compounding this problem in the short term, but in the longer term it could lead to a renewed level of local and national co-ordination of supply chains, that places a greater emphasis on the competitiveness of the UK as a whole.

Finally, the availability of finance is crucial for innovation in the metal sector. Investment even for start-up firms is capital intensive and hence costly. Favourable loan arrangements and the ability to avoid venture capital are essential. The majority of the APPG argue that a national Bank for Industry is desperately needed.

Opportunities

The UK has a potential raw materials competitive advantage in the form of scrap steel. With more than 60% of its scrap steel exported, the UK is the fourth largest exporter of scrap steel. This 'scrap mine' gives the potential for a circular economy approach to steel in the UK, which sees Britain leading the World in the most environmentally sustainable form of steel production. Moving to a scrap based industry pose significant challenges around product quality and it is for this reason that greater long-term investment is required from Government in the innovation capabilities necessary to support the industry. This investment, to create value added through up rather than down cycling, must be in both new product development and new processing techniques. At a more general level, the UK currently produces only 40% of its total steel needs. Infilling of this demand will reduce exports and generate products for export.

The UK is fortunate in its research and innovation assets, which attract significant attention from the rest of the World. These need to be more effectively leveraged through a new Catapult serving the needs of the steel and other Foundation Industries. The Catapult proposed by the Institute of Materials, Materials Processing Institute and TWI has widespread industry support and should be quickly implemented by Government. Catapults should also look outward to other sectors and avoid the development of silo mentalities. The development and growth of intellectual property eco systems, the connection of universities to existing Catapults and industry centres of research, perhaps in the form of Enterprise Parks, should be encouraged.

The UK is already attracting interest from overseas investors. Government should be clear that the UK is 'open for business' to new steel investment and configure UKTI and similar agencies to actively seek investment in the steel industry. There is cross over here to the interest in, and ability of, UK foreign DIT offices to 'market' UK steel. There is evidence that these valuable outposts for UK exports do not have the expertise to pitch the UK manufacturing sector at foreign governments.

One of the greatest challenges facing the industry is the cost of energy. Even at the current time, energy can be internationally competitive where industrial users are directly connected to generators. A few UK locations, including Tees Valley and south Wales, have the infrastructure available to support such an arrangement immediately and Government should target utilising such arrangements, not only for steel, but also for other energy intensive sectors. The ability of private generators to obtain cost benefits in relation to the standard grid pricing mechanisms needs to be explored.

Threats

It is essential that immediate Government action be taken on the five industry Asks; to return the industry to a level playing field in terms of international competitiveness. The industry itself can then respond to the challenges as outlined in this report and inward investment can be attracted.

The industry suffers from a generic set of misconceptions that are a drag on meaningful engagement and buy-in to the sector. These misconceptions are a threat to the industry in that they can create a negative ‘sunset industry’ perception amongst non-industry experts. They are also a threat to UK competitiveness as they are unique to the UK view of the industry and as such do not trouble producers in competitor nations. These misconceptions include the perception that steel, because of its longevity, is not part of the future of materials and manufacturing and that the UK can never be competitive in steels. This assessment is simply not supported by the facts. Steel provides the backbone for all industrial economies. It is an ever-present material and central to a green, circular economy. The industry and other foundation industries are vital components of a knowledge economy.

All high value manufacturing supply chains, in areas such as automotive and aerospace, absolutely rely on the use of steel. These sectors gain a competitive advantage from the performance of their products, much of which is embedded in the properties of the material from which these products are produced. The growth and continued profitability of these industries however, requires a step change in the growth and performance of their supply chains, including the steel industry. These wider supply chain issues – reshoring, concentrating, and forming - must be addressed, or the already yawning gap in component and supply chain trade imbalances will worsen. This will be particularly problematic for the steel sector and UK economy if output in the automotive, rail and aerospace sectors increases. The threat to the future of these wider manufacturing supply chains is real and imminent.

Fortunately, there is large scope for innovation in steel products and manufacturing processes. Two thirds of the steel products made in the UK today did not exist fifteen years ago. Many new products are being invented in the UK right now. The challenge is to ensure that they are commercialised in the UK to the advantage of the UK industry, a process in which the UK is not as strong as it should be. The steel industry also differs greatly from conventional manufacturing in that continued process innovation is possible and indeed essential for continued competitiveness. This is possible, because the manufacturing processes are generally a series of highly flexible batch operations, around which competitive advantage can be derived by means of multi-variant optimisation and rapid response to change customer, economic and commercial requirements. The UK industry cannot be effective without this level of continued process and product innovation and this emphasises the need for Government to move quickly to establishing the Catapult serving the steel and Foundation Industries as proposed.

7. APPENDIX

Appendix 1: Methodology

Data was obtained from a variety of sources. Contextual information and statistics that framed analysis were obtained from a variety of standard industry and institutional sources. These are referenced. Written statements were submitted by a number of local Councils, individuals, industry sources (position papers on the steel industry) and Swansea University. Again, these are referenced. Oral evidence was received from nineteen industry experts. The majority of these experts were interviewed using House of Commons Committee rooms. The duration of interviews was one hour. Questions were posed by members of the APPG. The chair of the APPG sub-committee tasked with the production of the strategy report, led questioning whilst other members of the APPG in attendance, posed supplementary questions. A small number of interviews took place outside Westminster or over the telephone. These interviews were typically around 90 minutes in duration. All interviews were framed around the same standard themes. Themes were informed by the five industry Asks, product market and political issues, a SWOT analysis of the industry and perceptions of how the industry might appear in 5-10 years' time. All interviews were recorded and transcribed. The full text of these interviews will remain confidential and shall be held by the APPG sub-committee. Analysis of data was conducted against the standard themes and additional issues that emanated from the interviews.

Appendix 2: Individual Contributions and Sources of Written Evidence

The APPG thanks all those who provided oral and written testimony to enable this report to be development.

Individual Witnesses:

Jon Bolton: Liberty House

Tony Burke: Unite the Union

Gwenole Cozigou: European Commission

Axel Eggert: Eurofer

Sanjeev Gupta: Liberty House

Chris Hagg: CELSA Steel

Jay Hambro: Liberty House

Peter Hogg: British Steel (Greybull)

Mich Hood: Tata Speciality Steels Stocksbridge

Jude Kirton-Darling MEP

Alasdair McDiarmid: Community union

Tim Morris: Tata Steel UK

Chris McDonald: Materials Processing Institute

Roy Rickhuss: General Secretary, Community union

Nick Reilly: Auto industry expert

Anna Soubry, Member of Parliament for Broxtowe, former Minister of State for Business, Industry and Enterprise

Gareth Stace: Director UK Steel

Dion Vaughan: Metalysis

Caroline Vis: Tata Speciality Steels Stocksbridge

Mick Watlin: Tata Speciality Steels Stocksbridge

Stuart Wilkie: Tata Steel UK/Excalibur Steel

Local Authority Written Responses:

Corby

Neath Port Talbot

Redcar and Cleveland

Rotherham

Other Written Responses:

Bridgend County Borough Council, February 2016 report to Chief Executive

Nick Reilly

Swansea University

Tata UK



Appendix 3: Local Authority Written Evidence

i) Evidence from Redcar and Cleveland Borough Council

All Party Parliamentary Group (APPG) investigation *Steel 2020*

The loss of the steel works at SSI has had a devastating effect on the local economy and the people of Redcar and the wider Tees Valley. Although the up to £80m package of support has gone some way to alleviate the hardship that this has brought to the area and allowed for companies to recover, allowed new companies to start up and has meant that the workforce has been able to re-train, the closure has meant that the area has seen limited economic growth in the past year. Redcar & Cleveland Borough had previously embarked on a significant regeneration programme, investing £75m in Redcar alone on new facilities and improving the Borough to encourage investment over the previous 5-6 years. Our recent Growth Strategy has shown that the closure of SSI has meant all of the jobs growth that had been achieved has been negated.

The establishment of the South Tees Mayoral Development Corporation allows us the opportunity for real, significant growth in the area, but this will only be achieved with considerable government support and private sector investment.

1. What proportion of local business rates does the local steel industry account for?

The closure of SSI led to a 21% loss in business rates to Redcar & Cleveland Borough Council equating to £10.7m annually.

TATA currently accounts for around 3% of the Council's total business rate income or £1.5m.

2. To what extent are local businesses, shops cafes associated with the steel industry as suppliers or in a service capacity?

When SSI went into liquidation there were around 816 known companies in their supply chain who were affected and 25% of those were in the Tees Valley. Of the 207 companies in the Tees Valley, we were able to engage with 186, and 114 of those reported an impact on their business.

26 of those companies in the Tees Valley reported job losses and had to make around 849 people unemployed.

There have also been 30 companies who have applied to the SSI Supply Chain Support Fund. This was set up to give short-term support to companies who were at risk of going bankrupt. Of these, 24 have been approved to date. Eleven companies

have also applied to the SSI Capital Grant Scheme, designed to support capital investment for diversification and sustainable growth, and five have been successful.

We know that the impact on the area has been significant. For example the town centres have suffered from decreases in spend, and the poor retail offer in Redcar reflects the current low levels of spending available to local residents. This is also having an impact on businesses in the borough aligned with the tourism offer - as day visitors and residents have less expendable income to use on leisure activities.

3. How many local jobs are indirectly associated with the local steel industry?

No local data available.

4. Compared to the local, general economy, to what extent is the steel industry associated with high skill jobs and advanced technology?

Locally the steel industry is associated with two world leading research and innovation centres (Materials Processing Institute and TWI Global) and the engineering consultancy PriMetals, which has its global headquarters for iron making engineering based in the Tees Valley at Stockton. In general, jobs in the metals industry have a GVA per employee that is 50% higher than the UK average (Vision 2030).

Steel jobs were some of the higher paid jobs in the Tees Valley and this is shown in the wage levels indicated in section 10. The majority of the workers at SSI came from Redcar & Cleveland and the Borough had the highest wage levels in the Tees Valley in 2015.

5. Are there any environmental issues associated with the local steel industry?

There are major environmental issues associated with the local steel industry which presents a huge reclamation challenge. The SSI site alone covers 1400 acres, a significant landmass on the south bank of the river. More specific issues are summarised below:

- A widespread issue, spanning the area of the steelworks adjacent to the Tees, stems from historic land reclamation via the use of slag; there are significant and deep deposits. This slag has been proven to introduce metal contaminants into surface and ground waters. The leaching of metals is further amplified by reactions which also significantly increase pH. Local sites are known to have figures greater than pH12, which are the highest in England.

- The steel operations themselves have caused significant environmental legacies to land, air and water. In particular, those areas housing waste management used for the disposal of slurries/wastes from the steelmaking process are likely to be significantly contaminated. This is similarly true for other industrial processes, including coke workings. There are also several landfill sites which have the potential to induce significant environmental impacts.

If the land area were to be retained for steel, or heavy industrial use, no remediation would be required. However, for housing, retail or even light industrial developments, varying levels of remediation would be required. The most economical and clearly the preferred option would be continue to attract investment in these sites in steel and related heavy industrial activities.

6. If the steel industry was to exit your area, what would the short, medium and long terms impact be?

The impact of the loss of SSI has been severe. In the short term the Council have lost revenue in terms of business rates which will affect Council budgets and therefore the provision of services over the short, medium and long term until those rates can be recovered through investment.

The SSI closure led to almost 3000 immediate job losses in the works and the supply chain. The closure has led to great expense to the public purse in terms of the up to £80m package of support that has been required to support the workers and help them find new employment and in terms of the rise in benefits. As a result of the closure the largest requirement from the SSI Safety Net Fund has been support for mortgage re-payments to ensure people were able to stay in their homes. This problem could continue to increase over the coming months.

We know that although many former steelworkers have found alternative employment we suspect those jobs do not provide the salary levels which they previously enjoyed. This in itself leads to a reduction in GVA. Longitudinal data to evidence this is not yet available.

If there were further closures then there would be a similar impact to that already experienced through the SSI closure as indicated above and short term loss of manufacturing jobs, medium term loss of higher level and consultancy jobs and a lack of investment. Longer term it could lead to eventual relocation of downstream manufacturing to other regions, or more likely other countries, where a stable source of material is available. The Steel Industry underpins the economy locally and nationally and exit of the steel industry will have a far reaching impact in manufacturing supply chains, both locally and nationally.

7. What would you suggest to government as the key strategic objectives/initiatives to develop a vibrant steel industry for 2020/2025?

Many years of foreign ownership has made the UK steel industry and supply chain, as a stand-alone activity, less efficient and reliant on overseas locations. It is essential that these broken supply chains are restored, from primary steel production (either blast furnace, or electric arc furnace) to finished steel product.

Locally this means recognising that the former SSI steel plant in Teesside is an ideal investment opportunity for conversion to electric arc steelmaking. This investment opportunity should be actively marketed and investors found to restart these steelmaking operations and restore the connection between this steel plant, the plate rolling mills in Scotland, the Teesside Beam Mill and Hartlepool pipe mill. By restoring these broken supply chains the whole steel infrastructure will become more profitable and sustainable in the long term. Imports of semi-finished steel to the UK will decline. The Teesside steel plant is the only option to provide the estimate 2M tpa of plate steel required for the UK market. There is no other facility with this capability.

The only rational strategy for a UK steel company is one that is based on innovation to improve processes, products and customer service. Productivity in the sector has declined in recent years and this must be improved through the application of continuous, relentless innovation. The UK has excellent universities in this field, but for innovation to be successful, it must be translated into industry and commercialised. The UK has shown in the manufacturing sector how this can be done by co-investment of industry and Government in the High Value Manufacturing Catapult. Despite having excellent national facilities for steel innovation at the Materials Processing Institute and TWI, the steel industry does not benefit from structured, long term Government support. This is why the industry has come together to support the creation of a new Catapult for the Materials and Foundation industries and is strongly making the case for this to Government. It is proposed that this new Catapult be headquartered in Redcar at the campus of the Materials Processing Institute and it has our full support.

Government procurement and other incentives should be used to increase domestic steel content in manufacturing and construction. The UK consumes in excess of 20MT of steel each year, but production is below 7MT. There is clearly a significant market opportunity. Government should also encourage new entrants to the market in areas such as Teesside, that have the infrastructure, materials and skilled workforce to deliver new steel mini-mills, exploiting new technology and business models. Britain must make it clear that it is open for investment in steel.

8. Do you feel that a national strategy for manufacturing industry (and steel) is necessary? If so why? If not, why not?

A National Strategy is essential. Developed in collaboration with industry, such a strategy should incentivise developments in energy, raw materials and the circular economy, to enable domestic steel producers to have world leading, efficient and highly productive processes. Equally the strategy needs to make clear the future needs of UK manufacturers to allow the steel industry to invest in innovation to develop new products and thereby support inward investment in the UK manufacturing sector. Such a national strategy would enable positive interventions to take place where there is a market failure, for instance to restore broken supply chains, enable the creation of new supply chains (such as offshore decommissioning at Teesside, leading to scrap processing, steel melting and manufacturing).

9. If your answer to question 8 is 'yes', how would this help your local economy and its communities?

For Tees Valley, such a strategy could result in new industry developing on decommissioning offshore structures, processing the scrap produced using advanced technology, diverting the product to steel (and aluminium smelters) and then downstream processing and manufacturing. This would have major economic impact, centred on the region's natural assets and building on the specialist skills and capability of the people in the region. A strategy would create not just local but national and international economic opportunities. A national strategy would help to create certainty in the sector which would then encourage investment.

10. How do wage levels in the local steel industry compare to the general level in the area?

Although it is difficult to separate out steel industry wage levels from all wage levels, there is some evidence to show that wage levels generally in Redcar & Cleveland are higher than the local norm and this will be due in large part to the relatively higher wages paid at SSI:

County Durham	480.7
Darlington	484.0
Gateshead	483.3
Hartlepool	495.2
Middlesbrough	467.6
Newcastle upon Tyne	496.0
North Tyneside	498.3
Northumberland	479.6
Redcar and Cleveland	505.5
South Tyneside	475.8
Stockton-on-Tees	502.5
Sunderland	455.9

Earnings by workplace (2015)

	Redcar and Cleveland (pounds)	North East (pounds)	Great Britain (pounds)
Gross weekly pay			
Full-time workers	506.4	488.7	529.0
Male full-time workers	579.0	525.0	569.9

Earnings by workplace (2015)

	Redcar and Cleveland (pounds)	North East (pounds)	Great Britain (pounds)
Female full-time workers	392.2	436.4	471.5

Information from NOMIS (National Online Manpower Information System)

There is strong anecdotal evidence to support this as feedback from former SSI workers has indicated that the jobs offered through the SSI Jobs and Skills Fund have not been pursued as the wage levels are not high enough.

Furthermore, if you would like to reflect on the implications of the UK’s vote to leave the European Union, it would be greatly appreciated.

The decision has now been made and we need to understand how we can move forward in this new reality and make the most of the opportunity the SSI site and the surrounding Mayoral Development Corporation area can offer. Brexit, although initially creating uncertainty offers the opportunity to recreate a thriving and sustainable steel related sector.

ii) Evidence from Neath Port Talbot County Borough Council

Introduction: The Steel Industry: Critical to the Welsh and UK economies

Before turning to the specific questions posed, it is essential to reference the critical importance of the steel industry to the Welsh and UK economies and its far reaching impact on virtually every sector and aspect of economic, social and environmental development in Port Talbot and across South Wales.

In 2013, the steel industry contributed £9.5 billion to the UK economy and had an export value of £4.9 billion. It employed 30,000 well-paid and highly skilled people, often in areas with higher-than-average unemployment¹. 54% of UK steel workers were in Yorkshire/Humberside or Wales. However, the value of the industry has declined by almost a quarter (24%) since 1990. UK Steel (the trade association) estimates that over the last 40 years UK steel production has fallen significantly behind that of France, Spain and Italy.

Five carmakers built almost 99% of Britain's 1.6 million cars in 2015 and all source steel from Port Talbot²:

- Carmakers account for approximately 60% of Tata UK's customers;
- Jaguar Land Rover sources around 30% of its steel from the site;
- Nissan purchases approximately 45% from Port Talbot;
- Vauxhall sources some 60% of its steel from the UK; and
- Honda sources about 10%.

Recent press reports suggest concerns about the future of this sector, including in South Wales³; but steel is also the foundation for many of the country's other most important manufacturing sectors including aerospace, defence and construction. It is also a significant provider of high quality apprenticeships⁴.

An analysis by the Institute for Public Policy Research (IPPR) suggests that the government faces a cost of £2.2million a day through benefit payments and lost tax revenue if steel plants close with more than 40,000 jobs at risk, broadly equating to lost tax revenue, welfare and housing costs of £4.6 billion over the next ten years. In addition, it is estimated that the reduction in household spending would be some £3 billion over the same period.

¹ EEF Fact sheet: the future of UK steel – a sector in crisis, 16 October 2015

² UK Reuters, March 30, 2016 and EEF: Port Talbot closure would tear hole in UK manufacturing supply chain. 3 April, 2016

³ See Guardian: 29 July 2016

⁴ EEF: UK Steel

Manufacturing accounts for 15.8% of GVA of Wales⁵, employing 155,800 people and representing 11% of the workforce⁶. Moreover, it is estimated that the total economic impact of Tata was £3.2 billion in Wales per annum with a gross value added of £1.6 billion representing some 6% of the economy⁷. Tata contributes some £200 million in wages to the Welsh economy each year and each job supports an additional 1.22 jobs throughout the Welsh economy.

In 2015, almost half of all UK steel was produced in Wales⁸. Port Talbot employs 4,000 with a further 6,600 jobs in the supply chain. Basically, one can select any statistics and the conclusion is the same. The loss of the industry would have a profound impact on the economic and social fabric of Port Talbot and a much wider area. It would also represent a major setback in terms of delivering the goals of the Well-being of Future Generations (Wales) Act 2015.

Specific Questions

What proportion of local business rates does the local steel industry account for?

The total Rateable Value (RV) for the Neath Port Talbot area is £102,686,155 with a Rates Payable of £49,905,471.33⁹ (based on RP multiplier of 0.486). The Council has identified 23% of local business rates directly linked to the steel industry. However this percentage is likely to be substantially higher as many other direct supply chain businesses; indirectly linked and other factors have been excluded. For example, haulage, transportation, plant hire and ancillary services plus the local spend by their employees.

To what extent are local businesses, shops cafes associated with the steel industry as suppliers or in a service capacity?

There are many businesses associated with the steel industry (see above and below). Accordingly, there is a far-reaching potential impact across local businesses, cafes, restaurants, shops, leisure, tourism and other services.

In the direct manufacturing supply chain, there are approximately 35 companies located within the Neath Port Talbot area linked to the steel industry. These are a mix of SMEs and larger firms. The 27 SMEs employ approximately 1400 people; but since September 2015 more than 350 jobs have been lost and the Council understands that potentially a further 400 job losses are planned or at risk in the supply chain. The combined turnover for these businesses is approximately £180m with a total RV of some £2m.

How many local jobs are indirectly associated with the local steel industry?

⁵ NB recent figures suggest a higher figure at 18%; but statistics differ depending on the source and the basis for their calculation

⁶ EEF: Welsh Manufacturing – Key facts, 18 July 2016

⁷ The Welsh Economy Research Unit, Cardiff University

⁸ Research Briefing – The steel industry: an in-depth look, May 2016

⁹ Valuation Office

The direct local manufacturing supply chain jobs linked to the steel industry can be used as a guide for the impact on indirect jobs, although quantifying the precise number of jobs is difficult (as many individuals are self-employed for example). However, using the multiplier described above produces a figure of nearly a further 13,000 jobs linked to the steel industry. The table below¹⁰ shows the employment across sectors within the area.

By Industry	NPT Jobs	NPT %	Wales %	UK %
Agriculture & Mining	500	1.1	0.4	0.4
Energy & Water	1200	2.5	1.5	1.1
Manufacturing	9000	19.7	12.3	8.5
Construction	2700	5.9	4.8	4.5
Services	324	70.8	81	85.6
Wholesale & Retails, inc Motor trade	6300	13.7	14.4	15.9
Transport storage	1700	3.8	3.5	4.5
Accommodation & Food services	2300	5.1	7.3	7.1
Information & Communications	1200	2.5	2.3	4.1
Finance & other business services	47000	10.4	14.7	22.2
Public, admin, health & education	14200	31.1	34.5	27.4
Other services	1900	4.1	4.3	4.4

Compared to the local, general economy, to what extent is the steel industry associated with high skill jobs and advanced technology?

Generally, employees in the steel industry are likely to work in high value roles which attract higher salaries and require higher skill levels. The higher than average earnings for NPT are reflected in the tables below¹¹.

¹⁰ Nomis: Labour Market Profile 2016

¹¹ Office of National Statistics

Earnings by workplace (2015)			
Gross weekly pay	Neath Port Talbot £	Wales £	UK £
Full-time workers	550.5	473.4	529
Hourly pay - excluding overtime			
Full-time workers	12.82	12.00	13.32
Average Salary by Job for Tata Steel Employees: Salary Range by Job			
Account Manager (2)	Salary	£19,813 - £40,967	
	Total Pay	£19,506 - £43,208	
Electrical Engineering Manager	Salary	£33,533 - £75,457	
	Bonus	£1,025 - £9,558	
	Total Pay	£32,712 - £85,507	
Manufacturing Engineering Manager	Salary	£33,379 - £53,210	
	Bonus	£1,360 - £6,420	
	Total Pay	£34,820 - £56,981	
Manufacturing Manager	Salary	£27,779 - £53,616	
	Total Pay	£28,597 - £49,385	
Mechanical Engineer	Salary	£20,771 - £48,971	
	Total Pay	£21,622 - £53,288	
Mechanical Technician	Salary	£16,957 - £33,286	
	Bonus	£341.86 - £5,391	
	Total Pay	£17,036 - £38,588	
Process Engineer	Salary	£22,852 - £36,292	
	Bonus	£469.48 - £4,847	
	Total Pay	£24,008 - £38,857	
Production Worker	Salary	£16,287 - £38,762	
	Total Pay	£19,006 - £38,546	
Researcher/Scientific	Salary	£22,153 - £44,731	
	Total Pay	£20,631 - £45,619	

The average Tata salary ranges from approximately £18,609 per year for Electrical Engineer to £62,698 per year for Senior Project Engineer. Salary information comes from 74 data points collected directly from employees, users, and past and present job advertisements in the past 12 months¹².

Are there any environmental issues associated with the local steel industry?

There are two specific issues. First, for some years there has been a comprehensive monitoring system in place to measure pollutants in the area, particularly PM10s. This is in line with UK and EU legislative and regulatory requirements and takes the form of Port Talbot’s Air Quality Management Area where Tata works closely with Natural Resources Wales (NRW) and the local authority in monitoring and taking action based on data from a chain of the air quality monitors in the area.

Second, there would be significant clean-up costs associated with the Tata sites. The Council understands that the Welsh Government has asked NRW to quantify these in respect of the Port Talbot site and others in Wales.

If the steel industry was to exit you area, what would the short, medium and long terms impact be?

In a word - catastrophic. The IPPR warns that if no buyer is found for Tata’s UK steel businesses it could see unemployment in areas which have depended on the company grow “significantly” for at least two decades to come. Alfie Stirling, economic research fellow at the IPPR, said: *“A similar model is the closure of the coalfields, where 23 years later only 60% of the jobs lost when the pits closed have been recreated”*.

In terms of short term impacts, the following are relevant:

- The indicative lower median average salary of £25,000 for 10,600 jobs equates to a loss of £265m of salaries in the area;
- The loss of business rates accounts for 23% of the total RV value; but could be potentially higher;
- Reduction in household incomes and the loss of tax revenues with the burden of social costs from job losses (see above);
- An increasing strain on already reducing public sector budgets;
- Employment and industrial sites becoming inactive with associated negative environmental impact;
- Further jobs losses across all employment sectors in the area; and

¹² Please note that all figures are approximations based upon third party submissions. These figures are given to the Indeed users for the purpose of generalised comparison only: Source: www.indeed.co.uk

- The social impact. Anecdotal evidence is already filtering through in terms of the impact on families, health outcomes, strain on personal finances, etc.

In terms of the medium and long term impacts:

- The loss of highly skilled jobs opportunities will lead to many younger, highly qualified/talented and mobile employees leaving Wales to seek opportunities elsewhere, with the remaining workforce having to re-train and compete for jobs in a much smaller and less well paid labour market;
- A potential knock-on effect on the Further and Higher education sectors closely associated with the steel industry; and
- The area becomes less attractive for inward investment.

What would you suggest to government as the key strategic objectives/initiatives to develop a vibrant steel industry for 2020/2025?

Steel is of national strategic importance. After some six months of uncertainty and a sales process now in abeyance, the fundamental concern is that the proposed joint venture between Tata and ThyssenKrupp will prove to be a euphemism for consolidation and closures with Port Talbot and the UK coming off worse.

The UK needs a sustainable and vibrant steel industry fit for the 21st Century and one which has sufficient scale to create innovation and value on a cross-sectorial basis (e.g. in the automotive, construction, energy, packaging and transport sectors). It also needs to be able to satisfy the majority of domestic demand whilst being capable of competing on a global scale. The industry can be the catalyst to attracting highly qualified people and R&D. This can be achieved through a number of measures:-

A UK wide Industrial Strategy with the steel industry acting as one of the cornerstones;

National and regional governments should take a financial stake in the industry (as already announced). However, this should extend to (temporary) nationalisation if need be given the importance of the industry. It has been estimated¹³ that the cost to the taxpayer of preventing the collapse of the banks was over £1.1 trillion with some £450 billion outstanding today. The cost of saving the steel industry would be a fraction of these astronomical figures, offset further by the financial cost of closures (see above);

A clear and enforceable procurement policy to ensure that there is a minimum content of British-produced sustainably produced steel in public infrastructure, energy, transport and construction contracts (with associated value for money criteria). Current policy and practice is too fragmented and ineffective;

¹³ National Audit Office

Reduce business rates which are considerably higher in the UK than in other EU member states. One reason for this is that in the UK the value of machinery forms part of the rate calculation in addition to the value of premises e.g. Tata's business rates for the Port Talbot plant increased after making the essential £185 million investment in a blast furnace;

Establish Steel Centre of Excellence in Port Talbot in collaboration with Universities creating an open innovation network for the steel industry across the UK. It is a fact that the largest global steel enterprises all have such centres either on site or within a few miles of their sites;

Reduce energy costs immediately. The electricity bill for Port Talbot in 2015 was some £60 million. Some competitors within Europe are paying half the energy costs per kilowatt hour. The UK Government has made provision to compensate industries which use a disproportionately high amount of energy for any additional costs incurred by carbon reduction policies;

Support anti-dumping measures against imports of steel from third countries selling steel at below market value into the European Union and make this a key plank of the UK's trade policy post-Brexit;

Sign off the Swansea Bay Tidal Lagoon (a key national and regional infrastructure project in its own right; but one that creates immediate demand for steel and wider engineering services in the immediate area); and

Finalise a City Deal for the Swansea Bay City Region based on the "Internet Coast" proposal submitted to the UK and Welsh Governments in February 2016. This would greatly assist in terms of providing a long term foundation for broadening the economic base of the area¹⁴.

Do you feel that a national strategy for manufacturing industry (and steel) is necessary? If so why? If not, why not?

A national manufacturing strategy is critical to re-balancing the UK economy and distributing economic benefits throughout the regions of the UK.

The strategy must include the foundation industries (including steel) and be based upon the clustering of industries in regions so that cross-sector sustainability can be achieved in the longer term. Such a strategy would promote and accelerate the deployment of the Circular Economy with appropriate changes to the regulatory regime which currently hinders the concept.

As noted above, such a strategy should also factor in - and be the catalyst for - local innovation and R&D.

If your answer to question 8 is 'yes', how would this help your local economy and its communities?

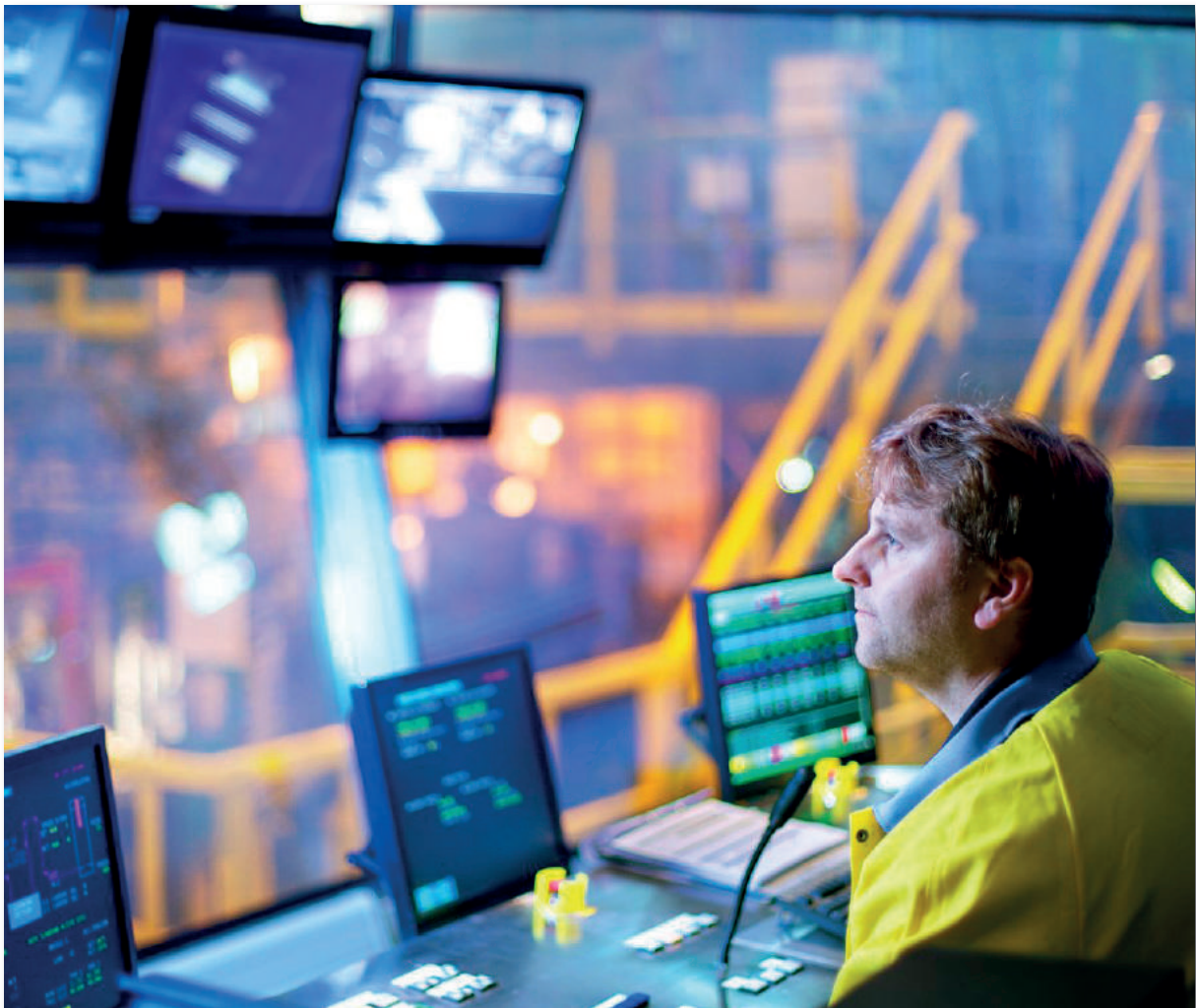
¹⁴ www.swanseabaycityregion.com

In addition, the type of trade relationship the UK has with the EU after Brexit will determine the degree to which EU State Aid rules will apply.

If, for example, the UK retains full access to the Single Market by becoming a member of the European Free Trade Association (EFTA) and the European Economic Area (EEA) then State Aid rules will still apply (broadly speaking); but this analysis must also take into account the World Trade Organisation rules.

Meanwhile, the European Commission has stated that support could be given to the steel industry for research and development, to develop innovation, to support training and employment or protect and enhance the environment. Research¹⁷ has shown that other European Governments are taking up the option of providing state aid to their steel industry, notably in Italy, France and Germany to help deal with the drop in the steel price and to increase the sustainability of the sector¹⁸.

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¹⁷ Jude Kirton-Darling MEP

¹⁸ See also EU presentation to May 2015 OECD steel meeting:
http://www.oecd.org/sti/ind/Item%203c_3-%20EU_OECD-Steel.pdf

Such a strategy would improve the sustainability of existing manufacturing operations whilst creating new manufacturing jobs across a range of sectors with the associated benefits outlined above, both in terms of future growth and mitigating the impact of any job losses in the steel sector.

How do wage levels in the local steel industry compare to the general level in the area?

Please see above. In addition, the steel industry employs a wide range of people. Overall salaries are likely to be between 30 to 50% higher than the local average with salaries for non-managerial jobs in Tata ranging between £17,000 and £45,000¹⁵.

NOMIS gives the median average weekly wage rate in Neath Port Talbot, excluding overtime, as £550.50 per week and the County Borough has higher weekly earnings compared to the Wales and UK average as a direct result of its manufacturing base and the steel industry – see table below¹⁶.

Earnings by workplace (2015)			
Gross weekly pay	Neath Port Talbot £	Wales £	UK £
Full-time workers	550.5	473.4	529
Male full-time workers	590.6	508.3	569.9
Female full-time workers	411.9	426.2	471.5
Hourly pay - excluding overtime			
Full-time workers	12.82	12.00	13.32
Male full-time workers	14.03	12.36	13.91
Female full-time workers	10.95	11.39	12.56

Furthermore, if you would like to reflect on the implications of the UK’s vote to Leave the European Union, it would be greatly appreciated.

Brexit introduces both risks and opportunities. However, it strengthens the case for a UK steel industry so as to reduce our reliance on imports and points to the need for an integrated and balanced industrial strategy going forward.

¹⁵ Payscale.com

¹⁶ Source: ONS annual survey of hours and earnings - workplace analysis (median earnings in pounds for employees working in the area).

iii) Evidence from Rotherham Metropolitan Borough Council

1. What proportion of local business rates does the local steel industry account for?

It is hard to fully quantify the total business rates for the steel industry, due to the industry of the occupying company not being captured at the point of collection. However, based on recent dealings with Tata Steel and estimating the remainder of the steel industry in the borough, a figure in excess of £4m (rates payable) is likely, out of a collectable debt of £80.6m for 2016/17. Of this, RMBC retain approximately half. This however would be multiplied further when taking into account the local supply chain.

Below are the main Tata sites within Rotherham and the previous year's rates payable. The total rates bill for the Rotherham sites is £3.14million of which Rotherham receives £1.54million as its 49% share. Details as follows:

	Total Charge	RMBC receipt (49%)
Aldwarke Lane (includes Thrybergh Bar Mill)	£2,504,440	£1,227,176
Brinsworth Strip Mills	£451,095	£221,037
Swinden Technology Centre	£158,923	£77,872
Unit S Aven Park Industrial Estate	£15,776	£7,730
Unit E4/E5 Aven Park Industrial Estate	£5,640	£2,763
	£3,135,874	£1,536,578

2. To what extent are local businesses, shops cafes associated with the steel industry as suppliers or in a service capacity?

It is hard to quantify the exact reliance of local companies on the steel industry, however, Tata Speciality Steel's local supply chain with the Sheffield City Region amounts to c. 420 companies, who range from caterers to contract labour supply, taxis to industrial services.

On a less formal basis however, feedback indicates that local shops and catering establishments within the immediate vicinity have relied to a good extent on trade from local workers at Tata steel. It is therefore likely that the wider steel industry will follow a similar pattern, and that any reduction in the workforce will have a knock-on effect on local small businesses.

3. How many local jobs are indirectly associated with the local steel industry?

Unfortunately, we don't hold information on the level of indirect jobs from the steel industry in Rotherham. However, approximately 420 Tata supply chain companies are located within the Sheffield City Region. It is therefore likely that these companies will employ many thousands of workers, and the wider steel industry supply chain will further add to this number.

4. Compared to the local, general economy, to what extent is the steel industry associated with high skill jobs and advanced technology?

The steel industry in Rotherham utilises a range of skilled and semi-skilled workers, but a continued movement toward advanced manufacturing is occurring.

For example, since 2009 Tata has been following a strategy to refocus their speciality and bar business on supplying high quality safety-critical steel for demanding applications. Investments have been made to improve the capability of the business to make steels for the aerospace and other high value markets. These investments have included:

- new quality inspection equipment at Thrybergh Bar Mill
- enhanced fume extraction at Aldwarke to reduce electricity usage
- works to improve the reliability of the small bloom caster at Aldwarke
- a new vacuum induction melt furnace at Stocksbridge

Investment in technology such as vacuum induction melting, has definitely started to move the industry into higher value products, alongside further diversification into joint ventures such as Tata's 'The Proving Factory'. This has meant moving Tata downstream into production as well as their role as a primary steel producer. Tata have, over the past five years, invested tens of millions of pounds in such productivity developments and new technology.

As another example, there has been a recent announcement regarding the £600,000 investment into a new steel foundry by the Advanced Manufacturing Research Centre (AMRC). This will allow the AMRC Castings Group to conduct innovative research and product development projects in collaboration with its industrial partners for the benefit of industry sectors in which castings are, or could be, used in the future.

The organisation develops new castings technologies and provides design and manufacturing consultancy services for aerospace and other high-value manufacturing sectors.

Please see question 10 for further information on wage levels within the industry.

5. Are there any environmental issues associated with the local steel industry?

Whilst the modern steel industry has taken continued steps to mitigate impacts upon the environment and meet regulation, electric arc and other forms of steel making inherently have an environmental impact. Increases in R&D spending and new technologies are however helping to reduce the use of energy and materials. The sector has improved its energy efficiency by 34% since 1980ⁱ and is close to reaching the limits of what can be achieved with current technologies.

Investment by the Government in helping the steel industry to develop through R&D and other mechanisms, would help the industry to limit its environmental impact through driving efficiency. This would be seen to be the preferable route to carbon reduction, as opposed to being penalised as an energy intensive industry (EII).

6. If the steel industry was to exit your area, what would the short, medium and long terms impact be?

Whilst it is difficult to predict the exact effects of the steel industry exiting the area, some likely scenarios are highlighted below. These however, would need to be considered in relation to the socio-economic and political picture at the time, which at the present time is hard to predict.

Short term implications would inevitably be immediate job losses. Currently, there have been a number of large-scale redundancy announcements within the City Region (Outokumpu, Polestar, HSBC), and the job market is becoming more saturated with workers looking for employment. It has already been acknowledged how the redundancies occurring at Tata Steel have socially impacted local communities, as well as mental wellbeing for many of those affected and struggling to find work. A further reduction of around 700 remaining workers (plus contract labour) could significantly exacerbate this situation.

Additionally, a large scale reduction in council business rate receipts, would inevitably have an impact on service delivery in an already challenging environment for the public sector.

In the medium term, empty mills and large sites would become derelict and many will have significant contamination issues. Much of Rotherham's previous large-scale regeneration programmes have been funded through European mechanisms; a suitable alternative would be required in light of the recent Brexit vote.

Higher employment is likely to prevail for some time, inevitably impacting upon local communities, whose fabric is rooted in the steel industry and job security that it used to offer. The impact of any exit would be magnified through the supply chain, adding further social and economic pressures for the borough.

Longer term, without the proper intervention and support from local and national bodies, local communities will continue to be impacted by higher unemployment, social problems and potentially crime. Following decades of decline in traditional industries and related communities, significant resource has been employed at all

levels to reverse the decline and build a safe and prosperous borough. Without significant investment and support, a return to those times could occur.

Please see Appendix A for further information on the history of the steel industry in the borough and the impacts of previous downturns on its prosperity.

7. What would you suggest to government as the key strategic objectives/initiatives to develop a vibrant steel industry for 2020/2025?

Many of the strategic objectives below are taken from conversations with senior steel industry management in the Borough. These areas largely fall into mechanisms for equalising trading conditions intra-Europe, although global impacts beyond the EU are also having a significant effect on the industry, albeit less so for the largely Speciality Steel sector in Rotherham, compared to lower grades of steel produced elsewhere:

- Equal/lower tariffs with other steel producing countries – ensuring that tariffs/taxes in the UK match or are lower than those in other steel producing economies, especially within the EU.
- Environmental regulations eased/offset through R&D efficiency improvements – whilst some progress has been made on the reduction of environmental tariffs for energy intensive users, the UK must ensure that with the inherent use of energy for steel production, that they are not unfairly penalised for producing what is a much needed product. Instead, investments and support on research and development into new technologies would help the industry to increase efficiency, reducing environmental impact and in turn boost profitability.
- Energy price offsets to match other steel producing countries – many countries have lower energy infrastructure costs, which when applied to EII's is multiplied many times, compared to other businesses. This in turn adds cost to the bottom line for steel companies in the UK. Reductions in pricing and as above, investment in R&D to further reduce power consumption, would help to achieve this objective. The fact that the main furnace at Rotherham is powered via electricity means that the local plant is at a huge disadvantage when trying to compete in the steel market.
- Removal of schemes such as the 'Triad' peak energy demand tariff – a long term, achievable energy strategy must form part of the support for the industry, with a holistic approach to not only ensuring security of supply, but also reduction in pricing. However, flexibility in the energy supply available over the winter months, would help to boost capacity for energy intensive users and remove the need for the 'Triad' policy of penalising EII's for the three highest periods of demand, which impacts the industry through greater uncertainty, higher labour and running costs and impacts upon production timescales.
- Anti-dumping strategy - to limit 'below cost' imports of steel from China and other economies, targeted at aggressive undercutting of British Steel.

8. Do you feel that a national strategy for manufacturing industry (and steel) is necessary? If so why? If not, why not?

The steel industry is recognised as being in turmoil amidst unfavourable global market conditions, dumping of foreign steel and the impacts of UK energy and carbon reduction policies. Many of these areas are outside of the immediate control of any one company, or even industry. The government needs to ensure a cohesive strategy to ensure fair trading conditions for the steel industry, which is critical to UK manufacturing, security and the many communities who are reliant upon it.

For the UK to trade on a global stage, with larger influences at work, the need for a clear future direction on government policy around industry will help to provide a level of certainty in an ever more uncertain world (both in terms of trading conditions and politically), and prove that the government is serious in supporting manufacturing, exports and the Northern Powerhouse.

To drive growth in manufacturing and return the UK to a position of surplus, any strategy must include the need for skilled staff, which is still a problem for many companies. To compete on the world-stage, UK industry must have access to not only the right calibre, but the right quantity of workers to enable continued growth.

9. If your answer to question 8 is 'yes', how would this help your local economy and its communities?

Rotherham is reliant on the steel industry and its value to the local economy should not be underestimated. However, whilst the industry has been hit hard over past decades, in Rotherham, a restructuring of the steel industry into higher-value products and diversification, has meant for example, until late, an upturn in the speciality steels arm of Tata. With further support on technology development and clarity on future policy, this trend could continue, developing a world-class steel industry, supplying high-value manufacturing and boosting the UK's position as a technology-led economy.

Locally, this opportunity to grow the sector and develop it further, could stem the decline and impacts upon the local economy and in time offer growth for the industry, jobs for local people and increased spend within the local economy. Successful and profitable industry in turn links to the sense of place and pride in the borough that has been developed over so many years.

As mentioned previously, economic benefits of maintaining a vibrant industry and supply chain, will include higher business rate receipts and enable a higher level of local authority service provision.

The table below highlights approx. numbers (now reduced due to redundancies) in 2014, of metals industry employment and downstream fabricated metal products. This amounts to a significant level of employment, some of which is directly reliant upon the steel and more broadly the manufacturing industries.

Number of employees in the manufacture of basic metals and the manufacture of fabricated metal products:

	Basic Metals	Fabricated Metal products
Rotherham	2300	3200
Sheffield City Region	7700	18000

Source: ONS BRES 2014

10. How do wage levels in the local steel industry compare to the general level in the area?

Whilst exact data on the comparative pay levels of steel workers and the wider population is not readily available, indicative pay levels on the job site Indeed.co.uk show that jobs advertised for Tata Steel sit slightly above the average for a job of that type and appear well above standard pay levels in the local economy. Average full time worker salaries in Rotherham are around an average of £25,000 p/a vs. an average of the highlighted Tata jobs at £34,000 p/a approximately.ⁱⁱ If representative of the industry, this would indicate a 36% premium for jobs in the steel industry.

However, figures should be treated with some caution, as despite a small number of adverts being for lower paid positions, it is likely that most adverts of this type are for harder to fill, technical or senior positions. Also, these are not geographically segmented and so cover Tata sites across the UK, where wage rates may be higher.

Overall however, the evidence seems to indicate that steel worker jobs are paid above the local average and therefore represent a higher economic value, meaning their loss would be more significantly felt.

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Appendix A

Steel production has been a leading driver of economic activity in Rotherham since the 18th Century. Manufacturing still accounts for 14.5% of all the jobs in the borough (well above the 8.5% that manufacturing represents nationally). Metals manufacturing remains a relatively skilled and well-paid occupation – this is particularly important in Rotherham which has an average weekly wage (workplace based median for full-time employees) of £479 which is just 90.7% of the UK average (£528pw).

Rotherham was hit particularly hard by the recession which started in the latter part of 2008 and although employment and business numbers are improving, key labour market indicators are still below the pre-recession position. Rotherham's last coal mine, Maltby Colliery closed in 2013. Rotherham continues to perform poorly compared to the national average and remains particularly vulnerable to the economic shock of downsizing of Tata operations in the borough, the multiplied impact of job losses in the wider supply chain and reduction of spending power in both the business and consumer economy. This is evidenced by:

- The employment rate was above 72% in 2006 (close to the national average) and having dropped to a low of around 65% in the years following the 2008 recession is now at 69.5% - lagging behind the GB average of 73.1%
- Unemployment is 7.6% (9,400) at June 2015, almost 2 percentage points above the GB average
- People claiming Job Seekers Allowance in Rotherham is at 4,500 (2.7%) which is well above national (1.6%) and regional (2.1%) rates
- The number of people claiming the 'main out of work benefits' is 20,000. At 12.4% of the resident working age population this is 3 percentage points over the national rate, equivalent to around 5,000 extra benefit claimants
- Consumer spending in Rotherham fell by 4% in the 3rd quarter of 2015 compared to the same period last year (source Barclays). The average person in Rotherham spends 31% less than the average person in the UK
- Rotherham was particularly hard hit by job losses - over 10,000 employee jobs were lost during the last recession, and job numbers have still not recovered to pre-recession levels. Details of employee numbers are provided in the table below.

Employee Numbers					
	1999	2004	2007	2008	2014
Rotherham	79,700	104,600	104,100	99,600	98,000
Yorks. & Humber	2,057,400	2,249,400	2,238,000	2,245,600	2,260,500
Great Britain	24,827,400	26,067,500	26,602,200	26,989,600	27,950,900

Source: NOMIS Annual Business Inquiry to 2007, Business Register & Employment Survey 2008-2014

- Business numbers remain well below the regional and national averages at just 304 per 10,000 adult population compared to 396 for the Yorkshire & Humber region and 467 for the UK.

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iv) Evidence from Corby Council

What proportion of local business rates does the local steel industry account for?

Tata rates are approximately £1.6m out of a total of £40.7m, equating to 3.9% of the total bill.

1. To what extent are local businesses, shops cafes associated with the steel industry as suppliers or in a service capacity?

Manny local shops and cafes depend on the steel industry and the workers employed there for trade. Local pubs and restaurants would also be affected by any plant closure.

2. How many local jobs are indirectly associated with the local steel industry?

It is estimated that there are an equivalent number of jobs (to the 550 at TATA) in local suppliers to TATA.

3. Compared to the local, general economy, to what extent is the steel industry associated with high skill jobs and advanced technology?

Tata steelworkers are amongst the most highly skilled in Corby. Losing those jobs would have a significant detrimental effect on the local economy.

Approximately 25% of Corby employees work in manufacturing but only a minority are employed in high skill jobs and advanced technology. Many are involved in minimum wage jobs in the food sector.

Other dominant sectors such as warehousing and distribution offer primarily semi-skilled and unskilled employment.

Employment in office based businesses is low and lower still in research and development.

Moreover, the Tubes Division at Corby has developed an innovative range of products for the manufacturing and construction sector.

4. Are there any environmental issues associated with the local steel industry?

The Corby Tata plant is on a large site which is far from being in full use. Closure would leave the site in need of demolition, clearance and remediation before its redevelopment for other uses.

Dependent on the availability of funding for that work the environmental impact of the closed site could be very long term, i.e. 30 year plus; based on the Borough's experience of the closure of most of the plant in the early 1980s.

5. If the steel industry was to exit you area, what would the short, medium and long terms impact be?

The short-term impact would be the loss of over 550 directly employed jobs and a similar number of contractor jobs.

It is extremely unlikely that all those affected would find local employment using the skills and experience they have. Unemployment would rise. There would be a knock on effect on local businesses with the decrease in spending power of the two groups.

There would also be a very significant psychological effect on many of the Borough's residents with historic links to the steelworks. Confidence would be sapped and there would be a general air of despair and depression similar to that following the steelworks closure of the early 1980s, and from which the Borough has taken decades to not fully recover from.

The attraction of new skilled jobs and the rebuilding of community confidence would be a medium to long term task.

It would be a bad, blow to the hard earned reputation of a Borough successfully regenerating through growth in which all in Corby take great PRIDE in.

6. What would you suggest to government as the key strategic objectives/initiatives to develop a vibrant steel industry for 2020/2025?

- Secure R&D and manufacturing jobs in key sectors: steel, aerospace, automotive, etc.
- Support innovation, training and investment in these sectors
- Take action against cheap subsidised steel flooding the market. Particularly from China.
- Public procurement for large infrastructure projects to prioritise UK manufactured steel.
- Reduction of energy costs for energy intensive industries such as steel.

7. Do you feel that a national strategy for manufacturing industry (and steel) is necessary? If so why? If not, why not?

Yes.

There is a very serious threat to the future of these sectors arising from:

- Competition from abroad, particularly China
- Acquisition of British firms by foreign companies and potential off shoring there of
- Transfer of UK production to EU countries following BREXIT (automotive, aerospace, etc.)
- Reduced investment in the UK, for the same reason

8. If your answer to question 8 is 'yes', how would this help your local economy and its communities?

It would ensure that where Strategic Industries are located in a local economy, they have a chance of remaining and growing.

9. How do wage levels in the local steel industry compare to the general level in the area?

See 4

26/7/2016



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