



House of Commons
North East Regional Committee

Teesside Cast Products

Second Report of Session 2009–10

Report, together with formal minutes, oral and written evidence

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North East Regional Committee

The North East Regional Committee is appointed by the House of Commons to examine regional strategies and the work of regional bodies.

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Committee staff

The current staff of the Committee are: David Weir (Clerk); Ian Thomson (Inquiry Manager); Emma Sawyer (Senior Committee Assistant); Ian Blair (Committee Assistant); Anna Browning (Committee Assistant); and Sian Jones (NAO).

Contacts

All correspondence should be addressed to the Clerk of the North East Regional Committee, Committee Office, 7 Millbank, London SW1P 3JA. The telephone number for general inquiries is: 020 7219 0654; the Committee's e-mail address is: regionalcommittees@parliament.uk.

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Summary

The North East Regional Committee's decision to take evidence on the Steel Industry arose from Corus's and Tata's decision to mothball Teesside Cast Products (TCP) at Redcar and Lackenby by the end of February 2010, a decision put into practice on 19 February.

Evidence was given for Corus by TCP's Managing Director, Jon Bolton. He outlined the fact that demand for slab steel declined exponentially from the autumn of 2008 and through 2009. He did not state that Corus Redcar had no orders for slab. He did make a statement that a wage subsidy would be insufficient to maintain production at Redcar. No explanation of failed partnership agreements was given.

A continual criticism was made of the fact that Mr Kirby Adams, Chief Executive Officer of Tata Steel Europe (Corus's and TCP's parent company), did not attend in person to give evidence to the Committee. He was made the offer that the Committee would meet with him at any time during its inquiry to fit in with his diary. It is disappointing, and unacceptable, that this offer did not receive a positive response. His only response was written, in answer to a list of questions that may be found among the evidence attached to this Report. The Committee was not, as a result, able to question Mr Adams in any detail about why a decision affecting the lives and livelihoods of thousands of people on Teesside had been taken. A similar disrespect was shown to the multi-union committee representing Corus workers, who told us that Mr Adams had attended meetings only briefly in order to make a statement and then leave, without engaging with the workforce or answering legitimate questions.

Evidence produced by Redcar and Cleveland Borough Council and by Tees Valley Unlimited, along with the Joint Trade Union committee and Trades Union Congress, outlined the serious economic devastation that would occur if the TCP plant were mothballed. The number of those made unemployed as a consequence will climb above 4,000.

Tees Valley Unlimited outlined work commissioned by Redcar and Cleveland Borough Council that raised the opportunity of keeping Corus manufacturing slab steel if the Government provided a wage subsidy. This idea was supported by the TUC, who outlined the fact that 22 of the 26 Organisation for Economic Co-operation and Development (OECD) countries have wage subsidies in place for industries in economic difficulty. This evidence ended with a request that Government urgently explore the legality of using a state wage subsidy.

The Joint Trade Union's evidence, led by Community, requested explanations of how, and why, potential buyers had failed to achieve a working partnership agreement with Tata. They made reference to the fact that the mothballing of TCP would lead to a serious decrease in demand for highly skilled and general worker operatives. They made the case that mothballing the plant would require the retention of upwards of 400 highly skilled employees if the plant were to be maintained for operational use.

Redcar and Cleveland Borough Council and the Mayor of Middlesbrough made reference to the facts that world steel prices are rising and that the North East Region's economic

development is changing to carbon capture and renewable industries, such as, off-shore wind farms. Thus, a future demand for steel is inevitable.

The Regional Development Agency played a central role in securing £60 million in aid for the North East in the wake of Corus and Tata's decision to mothball the Redcar facilities. It will also be central in funding and organising work to enable those who lose their jobs at TCP, and in the wider local and regional economy, to seek alternative employment.

The Minister for the Region, Rt Hon. Nick Brown MP, said that the Government would continue to explore means of returning the plant to production.

Teesside Cast Products

Introduction

1. Corus decided on 4 December 2009 to mothball its Teesside Cast Products (TCP) integrated iron and steel plants at Redcar and Lackenby. The decision was endorsed by Corus's owner, Tata Steel. About 1,600 workers will lose their jobs now that the decision to mothball has been implemented, from 19 February. An estimated 1,000 more sub-contractors will be directly affected, with an estimated 8,000 people further down the supply chain also at risk of losing business or their livelihoods. One North East (ONE), the Regional Development Agency, suggests some 346 main suppliers could be affected. About 98 are in the North East, with 235 elsewhere in the UK and 13 international. ONE also suggest that the loss of 1,600 TCP jobs could result in a further 1,100 job losses down the Corus supply chain and 400 more in the wider regional economy.¹ That makes about 3,200 North East jobs in total.

2. Corus initially announced that the Redcar blast furnace—Europe's second largest—and Lackenby Steelmaking and the South Bank coke ovens would be mothballed from the end of January, but kept ready for any possible restart of business. It later agreed to defer mothballing until February, and to keep South Bank open, saving about 100 jobs. These followed earlier decisions in June 2009 to cut 428 more jobs in the area at the Teesside Beam Mill. Corus continues to employ a further 2,000 people in the area, including at Hartlepool and Skinnigrove. Most of Corus's Teesside iron and steelmaking facilities were constructed in the 1970s, but the company moved its core steel business elsewhere from 2003.

3. Until recently, the TCP plant was profitable. Corus itself describes its Redcar operation as “a unique steelmaking business with the capability to produce a wide range of steel slabs for the international market. It is operated by a highly skilled and experienced workforce and is located in a region that understands and supports the needs of the business”.²

Why mothballing was announced

4. Three broad reasons have been advanced explaining why Corus took the decision to mothball its Teesside plant. First, a worldwide fall in demand for steel resulted in significant falls in production at Teesside. Corus, dependent largely on export, was expected to produce 33% less steel in 2009 than it did the previous year, and was operating at only 60% capacity. Steel demand across Europe had fallen by 40% in the first nine months of 2009 compared with the previous year. Secondly, falling demand has been accompanied by falling prices. In July 2008, prices peaked at just over \$1,000 a tonne. By December 2009, the price per tonne of the type of steel produced at Teesside had fallen by nearly 60%.

1 Ev 49

2 Ev 54

5. The third reason is the main reason why the plant has been mothballed. Partly as a result of the combination of the first two factors, an off-take agreement to buy the steel produced at Teesside collapsed. Under that agreement, 78% of slab steel produced at Teesside was to be sold at cost over the 10 years to December 2014 to a consortium of four foreign-based steel companies—Marcegaglia of Italy, Dongkuk of Korea, Alvory of Argentina, and Duferco of Switzerland. The agreement broke down in May last year, partly because the cost price had become higher than the world market price for steel, and the four companies walked away from the agreement.

Attempts to sell TCP

6. Discussions between Corus and Marcegaglia Steel, the lead partner in the consortium, did not result in an agreement to continue the deal. Corus is taking legal action against its former consortium partners, but no result can be expected from that for several years.³ Nor have Corus's efforts to find an alternative buyer for its plant proved fruitful. Short-term contracts were used to keep the plant working until December, when the decision to cease operations was announced. Corus lost £137 million while employing internal contracts to keep the plant operating.⁴ Short-term external contracts kept operations going through October and November, but on a month-by-month basis.⁵ With no orders beyond 31 December, and no buyer for the company, Corus announced the decision to mothball on 4 December. The negotiations with potential buyers failed, Corus says, "because TCP is forecast to remain unprofitable for an indefinite period. In an environment of rising raw material costs and uncertain global markets, no partner/buyer could be found who was prepared to take on the liabilities such as employment costs, pension liabilities, environmental compliance costs and other contractual obligations, as well as the ongoing loss-making attributes of the business".⁶

Effect on the regional economy

7. The loss of 1,600 jobs at Teesside Cast Products and several thousand more within the North East as a result of the Corus decision to mothball the plant at Redcar and Lackenby will devastate the local economy. About half the workers affected live in Redcar and Cleveland Borough, and about half in Middlesbrough. Redcar and Cleveland Borough Council estimate the loss to the national exchequer will be about £40 million in the first year in lost income tax and national insurance and in increased employment allowances and other benefits. It estimates the cost over five years at £192 million (although the Government point out that that would result only if no one made unemployed by TCP were employed again elsewhere in that time).⁷

8. New employment for those who lose their jobs will be affected by their age profile: the average age of TCP workers is 49.⁸ Workers are also unlikely to find jobs at the same wage

3 Q 58

4 Ev 47; Ev 54

5 Ev 54

6 Ev 85; Ev 54

7 Q 3

8 Q 37

levels—wages at TCP average £40,000 a year, and a manufacturing job in the steel or chemical industries contributes around £70,000 to regional gross value added (GVA) while a job in warehousing, for example, contributes only £30,000.⁹ The Mayor of Middlesbrough, Mr Ray Mallon, said there are already 13 applicants for every job in the town, and that most new jobs are in the lower-paid or part-time service sector rather than in manufacturing.¹⁰

9. Employment in manufacturing in Redcar and Cleveland fell from 16,800 in 1991 to 7,150 in 2007, and the area has, in its own Council's words, not found replacement employment in financial services, retail and distribution, as has been the case elsewhere.¹¹ The Borough is among the most deprived in the UK. The TUC feared local unemployment could reach 9% if TCP were mothballed or closed, the highest figure in a decade.¹²

10. The central priority for Corus and for the Government, the trade unions and the region must be to find a way to return the plant to operation as soon as possible and to maintain the jobs of a highly skilled workforce until what may well be a temporary downturn in world steel prices has been worked through. In particular, the development of the offshore wind industry, the infrastructure required to implement carbon capture and storage and the other opportunities in developing the low-carbon industries of the future will all need substantial quantities of good-quality steel. It seems counterproductive, and classically short term, to remove a local steel producer from the area just as these industries are developing.

Worldwide demand for steel

11. Jon Bolton, Managing Director of Teesside Cast Products (Corus owns TCP, and is in turned owned by the Indian steel company Tata), told us that falling world steel prices were a significant aspect in the events that led to the collapse of TCP's market. Between September 2008, when TCP was profitable, and the beginning of the worldwide recession, demand for steel worldwide fell by between 30 and 40%, and prices fell even further, by 50%. This led to significant overcapacity problems—world steel capacity is currently about 1.6 billion tonnes, and demand about 1.2 billion; and Europe alone has overcapacity of about 350 million tonnes.¹³ The off-take consortium was taking about 3.2 million tonnes produced at Redcar but the price set under the agreement forged in 2004, then significantly below the cost price of production at TCP in Redcar and Lackenby, had risen above that cost price by the time the four consortium partners decided to end the deal. Prices halved between July 2008 and March 2009.¹⁴ Said Mr Bolton: “We lost 80% of our turnover overnight and that put us in an extremely difficult position”.¹⁵

9 Ev 58

10 Ev 67

11 Ev 69

12 Ev 78

13 Q 55

14 House of Commons Library

15 Q 56

12. World steel prices have begun to rise again. The World Steel Association believes the price may rise by 12.5% this year (back to the level attained in 2008), and Kirby Adams, Chief Executive Officer of Tata Steel Europe (Corus's and TCP's parent company), has been quoted as anticipating an increase of around 8% in demand within Europe.¹⁶ Ray Mallon, Mayor of Middlesbrough, suggested prices had again risen above the cost of production at Redcar and were predicted to rise higher this year.¹⁷

13. Continual criticism has been made of engagement shown by Mr Kirby Adams, Chief Executive Officer of Tata Steel Europe. Mr Adams did not attend in person to give evidence to the Committee. During our meeting in Redcar, we made him the offer that the Committee would meet with him at any time during its inquiry to fit in with his diary.¹⁸ It is disappointing, and unacceptable, that this and subsequent written offers of specific dates did not receive a positive response.

14. Mr Adams's only response to us was written, in answer to a list of questions that may be found among the evidence attached to this Report.¹⁹ The Committee was not, as a result, able to question Mr Adams in any detail about why a decision affecting the lives and livelihoods of thousands of people on Teesside had been taken. Similar lack of engagement has been shown to the multi-union committee of Corus workers: Geoff Waterfield, Chair of the Corus multi-union committee, expressed the frustration of the workforce by saying that "the sticking point has been there from day one with Tata and its executive board. Kirby Adams has been very reluctant to meet with us at any length. In the two or three meetings that we've had, he has only ever stayed for half the meeting and then disappears—He comes in, makes a statement of fact, and walks out. We've never had an opportunity to sit down with the company—Tata—or with any prospective buyers around the same table and discuss any long-term possibilities".²⁰

Closing the rolling mill

15. The difficulty for TCP is that its own part of the steel market is extremely limited, largely because of decisions taken a decade ago. TCP produces steel slab, an unfinished product which other steelmakers then turn into finished products. The market for that is small, about 30 million tonnes at best, and, according to Corus, only about 19 million tonnes in 2009; TCP's capacity is about 3.5 million tonnes.²¹ Nor is Corus hopeful that the market will quickly demand more slab: "With global overcapacity expected to persist for several years, the slab market is expected to remain depressed for a considerable time and any limited recovery in demand that does occur is likely first to be taken by slab producers at a considerable cost advantage, mainly from the [Confederation of Independent States]

16 Q 4; House of Commons Library; Ev 59

17 Q 1

18 Q 11

19 Ev 85

20 Q 27

21 Ev 43; Ev 54

but also Brazil. [The] latest forecast is that the merchant slab market will be 24mt in 2010”.²²

16. Although the slab market is unlikely to recover quickly, there are signs of recovery in the market for some other steel products. Teesside is ill-placed to benefit from that, however, as decisions taken in the early 2000s left it without the flexibility to make anything other than slab. Most other producers of slab have ‘downstream’ capacity—plant which allows them to turn the semi-finished slab into something else when the market requirement for slab is low. TCP does not have a rolling mill that would allow it to do that. Its mill was closed in 2002, against opposition from the unions and warnings that that decision would leave the company exposed by a lack of flexibility. The Iron and Steel Trades Confederation, then the major steel union, “argued at the time that it would limit the plant’s ability to compete in the global steel market as the plant would only be able to produce steel slab”.²³ Corus decided to concentrate steelmaking for internal use at Scunthorpe and Port Talbot, and to run the Redcar operation for export of steel slab only.²⁴

17. Mr Bolton accepted that “not having more downstream capacity available to us on Teesside obviously makes it more difficult”.²⁵ He said that it was “difficult” for him to comment on decisions taken in the past, but “plants that have rolling mills on their steelmaking facilities and added value potential attached are in a stronger position”.²⁶ He also, however, ruled out developing that capacity on Teesside—“difficult to justify with a business case” at a time when world capacity is already too high.²⁷ **The short-sighted decision by Corus to close its rolling mill at Redcar and Lackenby eight years ago has left it unable to respond flexibly to changes in the world steel market in a way that would guarantee continued production on Teesside. This is not simply a statement that benefits from 20:20 hindsight. They were told at the time by the local trade unions and politicians that this would be the result of their action. The Government would be well advised to note the fact that local trade unions and politicians have a track record of forecasting outcomes correctly, and, in reflecting on that fact, they should give additional weight to their views in relation to the present situation.**

18. The slab produced on Teesside cannot be rolled there for lack of a mill. The question remains whether Corus could continue to produce slab at TCP and roll it at its mill in Llanwern, South Wales, which produces hot and cold rolled steel products, for which the international market remains significantly larger than for slab. The South Wales plant certainly has the capacity—it has been operating at below capacity for some years. The question is whether Corus could unite the plants in a profitable manner. **We urge the Government to continue to work with Tata and Corus and the unions on both sites to explore fully the inherent potential in the Llanwern proposal and to seek support from the European Union to progress the initiative.**

22 Ev 54

23 Ev 43; Ev 76

24 Ev 59

25 Q 89

26 Q 72

27 Q 89

Collapse of the consortium

19. The off-take consortium was clearly profitable during the four years before steel prices began to fall. John Lowther of Tees Valley Unlimited cited evidence that the consortium had made about £800 million over that period, and as Corus retained 20% of output, it is clear that it, too, benefited substantially while that deal continued to operate.

20. The off-take consortium deal was initially so successful that two of the partners are reported to have been interested in taking stakes in TCP itself.²⁸ That ended with the worldwide steel price downturn. After the consortium's decision to break the deal completely in May 2009, Corus attempted, first, to negotiate a continuation of the deal, and then in the latter part of last year, to find a new buyer willing to take on the Redcar and Lackenby operations. Those negotiations, which Corus says involved every steelmaking country in the world, ended in November, resulting in the mothballing announcement made in December. Corus has said it would still welcome a new partner willing to keep the site going. Mr Bolton told us: "We need a strategic investor, somebody who can actually utilize over 3 million tonnes of steel and is willing to invest in the business [...] we still have some hope that, potentially, up to the point and after the point of mothballing someone could still come forward and take a strategic role in steel making on Teesside".²⁹

21. Corus has launched legal action against its four former consortium partners over their decision to break the deal. Mr Bolton said: "We initially tried to take out a court injunction to compel the consortium to fulfil that contract, which we failed to do. As a result of that, we are now suing the consortium for breach of contract. [...] it is likely that it will take a number of years to come to a conclusion".³⁰ In reaching that conclusion, **any agreement on compensation from the consortium must fully consider the impact on the public purse of the disgraceful and reckless behaviour of members of the consortium and, where appropriate, compensation to the public purse should be paid.**

Government response

22. Immediately after the collapse of the consortium in May 2009, the regional development agency, One North East (ONE), established a Corus Response Group to put in place an aid package for those affected. The Group is chaired by One North East and representatives include: Corus, Vera Baird MP, Business and Enterprise North East (BENE), Job Centre Plus, Learning and Skills Council, North East Chamber of Commerce, Confederation of British Industry, Engineering Employers Federation Northern, Redcar and Cleveland Borough Council, Teesside Works Multi-Union Chair, Communitas, Tees Valley Regeneration, Tees Valley Unlimited, and the Government Office for the North East (GONE).

23. On 8 December, only four days after Corus announced the plan to mothball TCP, the Business Secretary, Rt Hon. Lord Mandelson, announced a £60 million aid package for the North East, in a deal brokered via One North East. **The Government is to be commended**

28 Ev 62

29 QQ 56, 61

30 Q 58

on its swift response to the mothballing announcement. Some £30 million of this is new money, drawn from the Government’s strategic investment fund. The other £30 million will, however, be “reprioritised” by GONE and ONE from current resources. GONE say that the package is intended “to secure immediate investment to support the region’s industrial transition to low carbon and advanced manufacturing”.³¹ Ian Williams, ONE’s Director of Business and Investment, said proposed projects over the next three to five years were expected to provide around 3,000 jobs.³² The Government also cite 3,000 as the job target, but say the package will also “sustain” 10,000 more jobs in the long term.³³ About £10 million goes into apprenticeships and support for those setting up business, about £20 million into investment at Wilton International (the other major local employer), and about £30 million into low-carbon manufacturing for the future.³⁴

24. Inevitably, though, much of the Corus Response Group’s work focuses on help for workers who lose their jobs—skills assessments, options for other employment, and tax advice for those who might consider setting up their own businesses, for example.³⁵ ONE says that resettlement rates for workers who lose their jobs have been around 70 to 80% in the six months after job loss, but recognise that the current economic circumstances will make it hard to maintain that record in the case of TCP.³⁶

25. Mayor of Middlesbrough, Ray Mallon, pointed out that the £60 million is not directly targeted at Corus workers.³⁷ He also pointed out that half of it is being drawn away from other projects within the North East rather than being entirely new money.³⁸ The North East Chambers of Commerce, too, have expressed concern about the diversion of ONE resources.³⁹ Cllr George Dunning, Leader of Redcar and Cleveland Borough Council, said that the money was welcome, but not enough, and being spread beyond the steel workers and to the chemical industry; the Council thinks another £40 million is needed.⁴⁰ Alan Clarke, Chief Executive of One North East, accepted that half the money is being diverted from his regional development agency resources, but said that the deal was a good one, and would remain in place even if TCP continued to operate.⁴¹ Ian Williams, ONE’s Director of Business and Industry, added that although the money is not directly targeted as aid for steel workers, it will provide “investments that will leave a long-term legacy”, including in the process industries on which Teesside’s future so heavily rests and which have also suffered a difficult last 12 months economically.⁴²

31 Ev 39

32 Q 51

33 Ev 40

34 Ev 40

35 Ev 40

36 Ev 46

37 Q 1

38 Q 12

39 Ev 62

40 Q 2

41 Q 42

42 Q 50

Mothballing

26. In spite of its losses, Corus has chosen to mothball rather than close down the Redcar and Lackenby facilities. This implies keeping the plant ready to restart operations if market conditions for steel imply profits may once again be made there. Jon Bolton, TCP's Managing Director, said that the plant could, in theory, be mothballed indefinitely, although questions will eventually arise over whether the site could be put to another use if the plant remains out of action in the long term.⁴³ Corus said that "a small workforce" would be retained to keep the plant in a reusable condition.⁴⁴

27. The trade unions are fearful, however, that the mothballing proposal will prove merely a prelude to closure. Community Union and the TUC both say the loss of 1,600 jobs implies closure rather than a realistic mothball.⁴⁵ "Proper mothballing would leave enough people in place to pick up production as soon as an opportunity arises. Therefore keeping people in work must be a priority while alternatives are sought or the market recovers,"⁴⁶ says Community. Corus is negotiating with the unions over how many workers should remain on site, but told us in response to written questions that it could expect either to recruit new staff or to divert existing workers from Scunthorpe or Port Talbot in the event of a longer-term restart to operations.⁴⁷

28. Steve Readman of GMB warned, too, that the costs of returning the plant and site to action if the mothball is not correctly handled could be prohibitive to any company that might want to take over steelmaking at Redcar.⁴⁸ There is a wider point at issue here, too: if any land from the Corus sites is released for other uses, there will be considerable clean-up costs to be borne. The Minister for the Region, Rt Hon. Nick Brown MP, said that that is among the matters being discussed with the company at a high governmental level.⁴⁹

29. We deeply regret that the Teesside Cast Products plant at Redcar and Lackenby has now been mothballed. We believe that it should have remained open while any hope remained that TCP, Corus and Tata could find alternative markets for its steel, alternative uses for the site, and potential alternative buyers for the site. Now that the plant has been mothballed, we seek an absolute guarantee from Corus that sufficient staff will be maintained on site to enable a return to production as soon as market conditions permit, and we urge all parties to utilise European wage subsidies and other supportive measures to maximise employment opportunities at the mothballed site to ensure the quickest possible restart of operations if and when new operators are in place.

43 Q 79

44 Ev 54–57

45 Ev 43; Ev 76–77

46 Ev 43

47 Ev 54–57; Ev 85

48 Q 35

49 Q 109

Wage subsidy

30. Redcar and Cleveland Borough Council, the Mayor of Middlesbrough and the unions have all backed the idea of a Government-funded wage subsidy to keep the plant in action while the avenues outlined above are explored. John Lowther, Director of Tees Valley Unlimited, told us that work commissioned by Redcar and Cleveland suggested a wage subsidy of £10 million would be required, and argued that this compared favourably with an estimated £40 million cost to the Exchequer in lost tax revenues and increased benefits.⁵⁰ The Redcar and Cleveland scheme implies a two-day-a-week Government subsidy for 12 months, a period the unions also broadly support for a temporary scheme.⁵¹ Kevin Rowan, regional TUC Secretary, also argued that some 22 of the 26 Organisation for Economic Co-operation and Development (OECD) countries have wage subsidy schemes in place for industries in economic difficulty.⁵² A list of wage subsidy schemes in operation across the EU has been supplied to us by Tees Valley Unlimited.

31. Both Corus and the Government have, however, ruled out the use of wage subsidy as a means of keeping the plant going. Jon Bolton, Managing Director of TCP, said much more would be needed than the £10 million John Lowther had suggested, since Corus had, in fact, been subsidising TCP's operations since last May.⁵³ He added: "If the purpose [...] was to keep everybody employed by Corus and to enable Corus to operate, the scale of the subsidy would not be enough to compensate for all the development opportunities that exist in the Tees Valley [...] A wage subsidy would not be enough to enable us to keep the plant going".⁵⁴

32. Alan Clarke, Chief Executive of ONE, expressed concern about the value of wage subsidy: "once you set the precedent at the national level and talk about wage subsidies during a recession, the question is where you intervene, what the priority is, how long you go on for and what the cost is. I'm not necessarily saying that you shouldn't go down that road; I'm just saying it's a very difficult area".⁵⁵

33. A memorandum from the Department for Business, Innovation and Skills, sent after the Regional Minister, the Rt Hon. Nick Brown MP requested it on our behalf, also rules out wage subsidy entirely, saying: "The Government is exploring all [the] possibilities but [...] does not believe that a wage subsidy would achieve its objective. Therefore, it does not believe it would be money well spent or that there would be a net benefit to the Exchequer from such a policy".⁵⁶ Mr Brown made it clear to us, however, that the Government would explore every option to retain steelmaking at Redcar and Cleveland.⁵⁷

50 Q 4

51 Ev 59; Ev 70–71

52 Q 31

53 Q 82

54 Qq 84; 93

55 Q 54

56 Ev 82

57 Q 116 and passim

34. **We are disappointed that Corus ruled out any possibility of a wage subsidy scheme to maintain production at Redcar and Lackenby under any circumstances. We are disappointed, too, that the Government, having explored all possibilities, has concluded that a wage subsidy would not achieve the desired objective. We urge the Government to keep an open mind on this question should a future operator for the plant emerge.**

Other uses of Corus land

35. The land occupied on Teesside by Corus is considerably more than is required to keep Teesside Cast Products in operation. Tees Valley Unlimited's Director, John Lowther, pointed out to us that there are three major proposals for development of parts of the Corus site, including a South Tees eco-park at Redcar and Cleveland, which would bring in new industries involved in making energy from waste and the former Warrenby ironworks, which could be used for a heavy oil upgrader.⁵⁸ ONE says the three projects, with a capital value of £4 billion, could create 900 jobs. A decision is expected shortly from Corus on whether land might be released for them.⁵⁹

36. While it was attempting to find a buyer for the site after it announced the decision to mothball last May, Corus placed a moratorium on releasing any of its land for other projects. Alan Clarke, ONE's Chief Executive, and the Regional Minister, the Rt Hon. Nick Brown MP, both expressed some sympathy with that decision, taken at a time when the future of the whole site was uncertain.⁶⁰ However, now mothballing has gone ahead, Corus should be able to take decisions soon on which land might be released for other wealth-creating and job-creating projects on under-utilised land.

37. The question of who pays clean-up costs on such land is one barrier to quick action on bringing in new projects. But North East Chambers of Commerce argue for the importance of getting unused land assets into action as soon as is practicable. Indeed, in the long term, it suggests that the mothballed site needs to be monitored in that respect. "The site being mothballed for decades, as has been seen with the former nylon plant at Wilton, will not serve the ambitions or the regeneration of the Tees Valley".⁶¹

38. We believe that Corus should make clear immediately whether it will release land for projects that could provide new jobs and investment for Teesside, and we hope that it will release that land. If Corus fails to give such a commitment, or if it is seen to be holding back in any way, both national and local government should act in the public interest to acquire the land. Corus's responsibility to the community which has served it well should also make it contribute substantially and swiftly to the work needed to make those sites available for new projects. We call on the Government to ensure that the "polluter pays" principle is rigorously applied on land made available for uses that may replace some of the jobs likely to be lost by Corus's decision to reduce its Teesside operations.

58 Q 6

59 Ev 48

60 Q 52

61 Ev 63

European Union and state aid

39. Shortly before Christmas, in a parliamentary debate, the Business, Innovation and Skills Minister, Rt Hon. Pat McFadden MP, said both that Corus had not asked for Government aid to keep the plant open and that such aid would not in any case be possible under state aid rules.⁶² The Government Office for the North East says that EU state aid rules are stricter for steel than for other sectors.⁶³ Aid is restricted to the purposes of research and development, environmental protection and implementing plant closures. The Government believes that any financial support aimed at keeping the plants open would probably be declared illegal by the European Commission.

40. Tees Valley Unlimited entirely disagrees. John Lowther, its Director, told us the Government should be more proactive in seeking EU aid for an area in need of economic restructuring.⁶⁴ The Regional Minister, Rt Hon. Nick Brown MP, said that market conditions rather than state aid were the insuperable obstacle to keeping TCP in operation, though it was unclear from that whether some state aid might, in fact, be possible.⁶⁵ The Government Office for the North East and One North East have been considering whether European Globalisation Adjustment Funding might be available. That fund can provide money in response to large-scale redundancy, and TCP would qualify in terms of scale. But the money, which is used only to help workers who are redundant rather than preventing them from becoming so, can only be made available if it does not duplicate other European funding, which it may do in this case. GONE told us “If it can be shown that an application to the EGF would be of added value by differentiating from the provision already provided then this would be given the fullest consideration”.⁶⁶ **We recommend that GONE and ONE find out as a matter of urgency whether European Globalisation Adjustment Funding would be available to assist those who might be made redundant at TCP. If such funding is available, we recommend that they do not give the matter “the fullest consideration” but apply immediately.**

41. Whether or not any tranche of European Union funding is available or UK state aid for TCP possible, the Government also needs to address the clear perception among witnesses to our inquiry that the UK fares less well than its EU partners in supporting troubled work forces through such funding. In particular, we urge the Government to look closely at the evidence submitted by Mr Lowther for Tees Valley Unlimited and at background information provided by Mr Stephen Hughes MEP, which spell out the significant advantages that other European countries and industries seem to enjoy.

Carbon Emissions Trading Scheme

42. There has been some speculation in the media that Corus could benefit from deciding to shut down the Teesside Cast Products plant by up to £600 million. Corus strongly denies

62 HC Deb, 16 December 2009, col. 306WH

63 Ev 39

64 Q 4

65 Q 117

66 Ev 41

that this is so.⁶⁷ The implication is that ceasing to emit about 6 million tonnes of CO₂ will benefit Corus via the carbon allowances available under the European Union Emissions Trading Scheme. Corus argues that the £600 million figure is incorrect since it assumes both that Corus would receive the maximum allowance and that the price per tonne of CO₂ would be significantly higher than it is at present. The North East Chambers of Commerce, however, argues for further investigation on whether the incentive to mitigate production of carbon dioxide played any part in Corus's decision to mothball TCP, and of how the Emissions Trading Scheme can be managed to ensure that other manufacturing facilities are not closed just to enable the trade of carbon credits.⁶⁸

43. Corus did not address whether mothballing the plant, with a subsequent reduction in carbon emissions, will benefit it financially to a lesser extent. Jon Bolton, TCP's Managing Director, told us that Corus, its parent company, would be able to trade whatever allowances it receives. How much it made from those allowances would depend on their value at the time of a trade.⁶⁹ Corus points out that the allowance it receives will be affected by mothballing and that the estimate of £600 million depends on carbon trading prices significantly higher (£37 per tonne) than those projected for 2012 and beyond.⁷⁰ Corus also notes that its allocation of allowances may fall below the level of its emissions, and that that implies costs for purchasing allowances of between €42 and €112 from 2013, depending on the price of carbon trading at that time.⁷¹ All the same, as a simple matter of natural justice, it would be wrong for Corus, or any company, to profit from a scheme intended to cut carbon emissions simply by closing down companies and putting the heart of a community out of work. **Corus will soon receive new Carbon Emissions Trading Allowances. If any such allowance relates to Redcar and Lackenby, any profit made from trading the allowance on plant that is not emitting simply because it is not working must be put into supporting the work force and the regional economy.**

44. Tees Valley Unlimited notes that the Tees Valley is among contenders to provide a carbon collection and storage network, and indeed has a strong case for being one of the pilot areas chosen by the Government for this new industry.⁷² Michael Leahy, General Secretary of Community Union, notes that the steel no longer produced on Teesside will be produced elsewhere in the world, and probably in a country where carbon emissions are less efficiently controlled than the UK.⁷³ This appears to run counter to the Government's welcome commitment to developing a low-carbon economy in the North East and to contributing to a global reduction in emissions, and it is further evidence of the need to retain steelmaking on Teesside.

67 Ev 54–57

68 Ev 62

69 Q 96

70 Ev 54–57

71 Ev 54–57

72 Q 4

73 Q 27

Renewable energy and the future

45. The Government's £60 million aid package, as mentioned already, looks beyond the immediate difficulties of the steel industry to the wider future for the Tees Valley in low carbon manufacturing and renewable technologies. The Tees Valley Industrial Programme, built around 20 projects offering a potential 3,000 jobs for the area, is aimed to a greater degree at equipping the "Tees Valley to move beyond traditional heavy industry to realise its potential to be part of our low carbon manufacturing base".⁷⁴ Among the £8 billion potential schemes on the drawing board are a £4 billion oil refinery which refines heavy oil from the North Sea, the Progressive Energy clean coal gasification plant with carbon capture and storage, the Northern Gateway Container Terminal, £1 billion investment in two combined heat and power plants, three new biomass power plants, one of which will be the UK's second largest, various recycling plants and a second nuclear power station.⁷⁵ The manufacture, construction and installation of renewable energy generation facilities, from wind turbines to nuclear power generation and energy-from-waste facilities, offer considerable potential for the area, said the North East Chambers of Commerce.⁷⁶ There is also huge potential for the whole region in linking the work on Teesside into the activities being carried out on carbon capture and storage at the Alcan site in Lynemouth and the groundbreaking work being piloted by Newcastle University, ONE, the Association of North East Councils and local businesses in relation to the underground gasification of coal off the North East coast.

46. We recommend most strongly that the Government choose the Tees Valley as one of the areas to pilot carbon capture and storage projects later this year. The Tees Valley is home to 18 of the North East region's 21 largest emitters of carbon and has the infrastructure and expertise to make such projects work. Such projects also offer a future to a region still more dependent than most on traditional heavy industry and desperately in need of good news at a time of grave economic difficulty, including loss of jobs now Teesside Cast Products has been mothballed by Corus.

Conclusion

47. The decision taken by Corus to mothball the Teesside Cast Products plant at Redcar and Lackenby with the loss of around 1,600 jobs will have a devastating effect on the local economies of Redcar and Cleveland and Middlesbrough, on the sub-regional economy of the Tees Valley and on the wider North East. The central priority for Corus, for the Government, for the unions, and for the region must be to find a way to reopen the plant as soon as possible and to maintain the jobs of a highly skilled work force until market conditions allow the plant to operate profitably again, as it has in the past. Corus must continue to seek either a market for the slab made at Redcar and Lackenby or to find a buyer interested in taking over the operation. Mothballing must be real and viable, and that has to mean keeping not just the plant, but the highly skilled work force, ready to restart production at short notice when market conditions change.

74 Ev 49

75 Ev 60

76 Ev 77

48. The future for the North East economy relies heavily on carbon capture and storage and on the development of renewable energy sources, for both of which substantial quantities of steel will be necessary. That steel will not, regrettably, be the slab produced at Redcar and Lackenby since Corus chose to close the plate mill. The irony that a region crying out for steel is closing a steel works will be lost on no one.

Conclusions and recommendations

1. The central priority for Corus and for the Government, the trade unions and the region must be to find a way to return the plant to operation as soon as possible and to maintain the jobs of a highly skilled workforce until what may well be a temporary downturn in world steel prices has been worked through. In particular, the development of the offshore wind industry, the infrastructure required to implement carbon capture and storage and the other opportunities in developing the low-carbon industries of the future will all need substantial quantities of good-quality steel. It seems counterproductive, and classically short term, to remove a local steel producer from the area just as these industries are developing. (Paragraph 10)
2. The short-sighted decision by Corus to close its rolling mill at Redcar and Lackenby eight years ago has left it unable to respond flexibly to changes in the world steel market in a way that would guarantee continued production on Teesside. This is not simply a statement that benefits from 20:20 hindsight. They were told at the time by the local trade unions and politicians that this would be the result of their action. The Government would be well advised to note the fact that local trade unions and politicians have a track record of forecasting outcomes correctly, and, in reflecting on that fact, they should give additional weight to their views in relation to the present situation. (Paragraph 17)
3. We urge the Government to continue to work with Tata and Corus and the unions on both sites to explore fully the inherent potential in the Llanwern proposal and to seek support from the European Union to progress the initiative. (Paragraph 18)
4. Any agreement on compensation from the consortium must fully consider the impact on the public purse of the disgraceful and reckless behaviour of members of the consortium and, where appropriate, compensation to the public purse should be paid. (Paragraph 21)
5. The Government is to be commended on its swift response to the mothballing announcement. (Paragraph 23)
6. We deeply regret that the Teesside Cast Products plant at Redcar and Lackenby has now been mothballed. We believe that it should have remained open while any hope remained that TCP, Corus and Tata could find alternative markets for its steel, alternative uses for the site, and potential alternative buyers for the site. Now that the plant has been mothballed, we seek an absolute guarantee from Corus that sufficient staff will be maintained on site to enable a return to production as soon as market conditions permit, and we urge all parties to utilise European wage subsidies and other supportive measures to maximise employment opportunities at the mothballed site to ensure the quickest possible restart of operations if and when new operators are in place. (Paragraph 29)
7. We are disappointed that Corus ruled out any possibility of a wage subsidy scheme to maintain production at Redcar and Lackenby under any circumstances. We are disappointed, too, that the Government, having explored all possibilities, has

concluded that a wage subsidy would not achieve the desired objective. We urge the Government to keep an open mind on this question should a future operator for the plant emerge. (Paragraph 34)

8. We believe that Corus should make clear immediately whether it will release land for projects that could provide new jobs and investment for Teesside, and we hope that it will release that land. If Corus fails to give such a commitment, or if it is seen to be holding back in any way, both national and local government should act in the public interest to acquire the land. Corus's responsibility to the community which has served it well should also make it contribute substantially and swiftly to the work needed to make those sites available for new projects. We call on the Government to ensure that the "polluter pays" principle is rigorously applied on land made available for uses that may replace some of the jobs likely to be lost by Corus's decision to reduce its Teesside operations. (Paragraph 38)
9. We recommend that GONE and ONE find out as a matter of urgency whether European Globalisation Adjustment Funding would be available to assist those who might be made redundant at TCP. If such funding is available, we recommend that they do not give the matter "the fullest consideration" but apply immediately. (Paragraph 40)
10. Whether or not any tranche of European Union funding is available or UK state aid for TCP possible, the Government also needs to address the clear perception among witnesses to our inquiry that the UK fares less well than its EU partners in supporting troubled work forces through such funding. In particular, we urge the Government to look closely at the evidence submitted by Mr Lowther for Tees Valley Unlimited and at background information provided by Mr Stephen Hughes MEP, which spell out the significant advantages that other European countries and industries seem to enjoy. (Paragraph 41)
11. Corus will soon receive new Carbon Emissions Trading Allowances. If any such allowance relates to Redcar and Lackenby, any profit made from trading the allowance on plant that is not emitting simply because it is not working must be put into supporting the work force and the regional economy. (Paragraph 43)
12. We recommend most strongly that the Government choose the Tees Valley as one of the areas to pilot carbon capture and storage projects later this year. The Tees Valley is home to 18 of the North East region's 21 largest emitters of carbon and has the infrastructure and expertise to make such projects work. Such projects also offer a future to a region still more dependent than most on traditional heavy industry and desperately in need of good news at a time of grave economic difficulty, including loss of jobs now Teesside Cast Products has been mothballed by Corus. (Paragraph 46)
13. The decision taken by Corus to mothball the Teesside Cast Products plant at Redcar and Lackenby with the loss of around 1,600 jobs will have a devastating effect on the local economies of Redcar and Cleveland and Middlesbrough, on the sub-regional economy of the Tees Valley and on the wider North East. The central priority for Corus, for the Government, for the unions, and for the region must be to find a way

to reopen the plant as soon as possible and to maintain the jobs of a highly skilled work force until market conditions allow the plant to operate profitably again, as it has in the past. Corus must continue to seek either a market for the slab made at Redcar and Lackenby or to find a buyer interested in taking over the operation. Mothballing must be real and viable, and that has to mean keeping not just the plant, but the highly skilled work force, ready to restart production at short notice when market conditions change. (Paragraph 47)

14. The future for the North East economy relies heavily on carbon capture and storage and on the development of renewable energy sources, for both of which substantial quantities of steel will be necessary. That steel will not, regrettably, be the slab produced at Redcar and Lackenby since Corus chose to close the plate mill. The irony that a region crying out for steel is closing a steel works will be lost on no one. (Paragraph 48)

Formal Minutes

Tuesday 23 February 2010

Members present:

Ms Dari Taylor, in the Chair

Mr David Anderson
Mr Denis Murphy

Phil Wilson

Draft Report (*Teesside Cast Products*), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 48 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 18 January.

[Adjourned to a day and time to be fixed by the Chairman.]

Witnesses

Friday 15 January 2010

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Councillor George Dunning, Leader, and **Amanda Skelton**, Chief Executive, Redcar and Cleveland Borough Council, **John Lowther**, Director, Tees Valley Joint Strategy Unit, and **Ray Mallon**, Mayor of Middlesborough. Ev 1

Alan Calcutt, Unite, **Michael Leahy**, General Secretary, Community, **Terry Pye**, Full-time Officer, Unite, **Steve Readman**, GMB, Multi-union Committee, Corus, **Kevin Rowan**, Regional Secretary, Northern TUC, and **Geoff Waterfield**, Chair, Multi-union Committee, Community, Corus. Ev 8

Alan Clarke, Chief Executive, and **Ian Williams**, Director of Business and Industry, One North East. Ev 16

Tuesday 19 January 2010

Jon Bolton, Managing Director, Teesside Cast Products. Ev 23

Rt Hon. Mr Nicholas Brown MP, Minister for the North East, **Vera Baird QC MP**, Member of Parliament for Redcar, **Brian Greenwood**, Deputy Head, Manufacturing and Materials Unit, Department for Business, Innovation and Skills, and **Dan Monnery**, Deputy Regional Director for Economy and Strategy, Government Office for the North East. Ev 31

List of written evidence

1	Government Office for the North East	Ev 38, Ev 81
2	Community Union	Ev 42
3	One North East	Ev 45
4	Corus	Ev 54, Ev 85
5	Tees Valley Unlimited	Ev 58, Ev 80
6	North East Chamber of Commerce	Ev 61
7	Friends of the Earth	Ev 63
8	Ray Mallon, elected Mayor of Middlesborough	Ev 66
9	Redcar and Cleveland Borough Council	Ev 68
10	Northern TUC	Ev 74
11	Letter from Mr Kirby Adams to the Committee Clerk	Ev 84

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2009–10

First Report	Industry and Innovation in the North East of England	HC 169 [incorporating HC 25 of Session 2008-09]
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Oral evidence

Taken before the North East Regional Committee on Friday 15 January 2010

Members present:

Ms Dari Taylor (Chairman)
Mr David Anderson

Mr Denis Murphy
Phil Wilson

Witnesses: **Councillor George Dunning**, Leader, and **Amanda Skelton**, Chief Executive, Redcar and Cleveland Borough Council, **John Lowther**, Director, Tees Valley Joint Strategy Unit, and **Ray Mallon**, Mayor of Middlesbrough, gave evidence.

Q1 Chairman: I warmly welcome everyone here this morning. This is the first Select Committee session taking evidence on Corus, but others will follow. We received research documents—[*Interruption.*] I am sorry if people cannot hear me—I will shout, and do my best to ensure that everyone hears what I have to say. This is our first evidence session on Corus, and it has been set up for a number of reasons. Our report on innovative industry in the northern region showed us that we have a tremendous future in the green energy field. For us then to hear from Corus that it was potentially or definitely mothballing—it had different tracks on the same line—was gut-wrenching so we knew that, after our first piece of researched report in Committee, we needed to do a second one on Corus. We are focused on asking, and we will ask it again and again of all who give us evidence, how and in what way they have had a positive relationship with Corus. That will be the whole thrust of our sitting because we want to why know, when so many of us believe that there is absolutely no need to close Corus, mothballing is the track that has been taken again and again. The audience will know my colleagues, Dave Anderson who represents Blaydon; Phil Wilson who represents Sedgefield and Denis Murphy who represents Wansbeck. I represent Stockton, South. David Weir is the Clerk to the Committee, and *Hansard* will take down every word that is spoken. The BBC or whoever is here with a camera will leave within two minutes. I warmly welcome all my colleagues, and I see many of you here today listening to this evidence session. I particularly want to thank Vera Baird, because she has been startling in the way in which she has led all of us, in parliamentary terms, on this issue, and I am really pleased that she is in the audience. I also thank Ray Mallon, Mayor of Middlesbrough, George Dunning and Amanda Skelton from Redcar and Cleveland, and John Lowther, who has written one of the best research papers that I have read for a long time. I know you can't hear from the back, so I shall attempt to shout. We will ask questions, but it might be difficult for you to hear. Although we are miked up, it is for the *Hansard* recording, so you might need to get closer. There are some seats at the front, or you can bring your seats to the front. We need you to hear this session. Let me start by saying that I want you to know that we have looked at everything published

by Tata. We know that this is Corus Redcar. This is Redcar Steel, but the parent company is Tata. I want you to know—and again and again it will be the profile of where we are as a Committee—if the managing director Kirby Adams can make the statement that we have realised cost savings of more than £1 billion, we believe that “we are on track”, that the “financial targets” have been met, that we are starting to recover and that this trend will continue. We have no doubts that the recovery is fragile and that the construction industry is fragile, but we believe that we are over the worst in Europe, and that we can “look forward to returning to a positive financial performance”. That was his report to the Mumbai board of Tata in November 2009. Inevitably, this piece of documented evidence is very important to us as a Committee, and we will be using it again and again. This morning, we will ask our colleagues what their relationship is with Corus, how and in what way have they been engaged formally and officially in the situation Corus finds itself in. I am shouting and doing my best to ensure that you can hear me at the back. It won't always be feasible to shout and we may not always remember to do so, so if you cannot hear at the back, please say so. I am sure that our colleagues and those in front of us will raise their voices. Ray Mallon, Mayor of Middlesbrough, would you begin? As we all have many questions to ask, I would appreciate it if we could keep them and our responses as nippy and as sharp as we can. For us, it is your response that is critically important. How and in what way have you been engaged with Corus Redcar? How and in what way have they engaged with you? How and what can Middlesbrough do to support Corus at this time?

Ray Mallon: Chairman, I will stand up and raise my voice so that everyone at the back can hear me. I will just say this before I answer the question. The North East of England has a £29 billion productivity gap with the rest of the country. Going back 30 years, manufacturing used to stand at 94% of GDP. It now stands at 12% I blame consecutive Governments over a long period of time for that failure. The North East of England was based on manufacturing, and that has been eroded over a long period of time. I can make this very simple for you because I only have one message for this Committee. When the Government—whether it be Conservative or Labour—have the real will, they can make things

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happen. Ladies and gentlemen, I don't have a piece of paper; this is coming straight from the heart. Going back to 1984, the Conservative Government had the will to torpedo and sink the miners. This Government have had the will to take on terrorism and other such things. It is as simple as this; Tata and Corus are not interested in saving these jobs. They have made that plain. The Government need to intervene. If the Government intervene and subsidise as in some countries abroad—for example, Germany—these jobs will be saving subsidy. It's not a great value. I am reliably informed that steel is going up in price—it is about £430 a tonne at the present time—and it costs Corus about £420 a tonne to produce. I may be wrong, but the figure is certainly under £420. It is the gap that is a problem. You don't need a mathematical guru to work out that it is not going to take a great deal of money. The £60 million isn't worth anything to this area. That £60 million will not help one worker at Corus or one family member. As far as Corus and Tata are concerned and how they've engaged with Middlesbrough, they haven't engaged with me one iota—not one bit. I was quite happy to sit back and let people move it along until I went to a disgraceful meeting in London some weeks ago that was completely stage-managed. It was offensive, impolite and so on and so forth. I then became involved. I am pleased to say that for whatever reason, it looks as though a number of people are motivated. One of the pieces of evidence for that—I am an ex-policeman and I deal with evidence—is that we have got a Committee sitting here. I think the Committee should have been here a lot sooner, but having said that, you're here and I am very grateful. Frankly, I haven't got very much to say. It is down to the Government. They need to subsidise and if they've got the will, they'll do it, and they'll save the jobs. There should be a manufacturing-based strategy, which I don't see anywhere in this country. This Government have to some extent—and I stand as an independent—almost abdicated responsibility, instead of delegating it to civil servants. We need a manufacturing-based strategy, and I haven't seen one anywhere.

Q2 Chairman: Thank you, Ray. That was very clear and very concise. George, would you like to make an opening statement?

George Dunning: Yes, I will make an opening statement. I will try to stick to the question. What I think Redcar and Cleveland borough council has been doing since this was announced—since January 2009—is in relation to the multi-trade unions. I have worked for 30 years in the steel industry, and not just in one patch of the steel industry. I worked for Teesside Cast Products in the continuous casting plant from 1972 to 1984, so I have some experience. The plant is a first-class, excellent piece of kit. We have taken some steps in the right direction in the last few days with the south bank coke ovens coming back on-stream for three years. That is a quarter of the kit, although it is only 100 jobs. The other part of the kit is obviously the Redcar blast furnace. Then we've got the BOS plant and the continuous casting

plant where I used to work. That is a step in the right direction. Ray and I were at the same meeting—the Peter Mandelson meeting. I passed the mobile telephone number of the Corus multi-union chair over to Peter; the chair is Geoff Waterfield, who couldn't be there for obvious reasons. In relation to that meeting, if it was stage-managed, the chief executive and I were not part of that act at all. We went down there and asked for £100 million on 4 December, when Corus announced the mothballing of the blast furnace. We got £60 million on that particular Tuesday. Okay, it was broken up into bits and pieces, but to some extent it was a piece of good innovation, because it wasn't just going to the steel lads and lasses, who are close to my heart; it was going to the chemical industry as well. It's fantastic to be at the Redcar race course, because there been racing here since 1876—more than 100-odd years, which is as long as there's been iron and steel in the borough. I would like to thank Redcar Racecourse, because it held a Save Our Steel day on 9 August. Thank you very much, Lord Zetland for that—it was a fantastic day. You asked us what else we've been doing. We had the Save Our Steel march through Redcar, which was before the race course meeting a few months before. We've been working closely with the multi-union chairs since 9 January 2009. We've got an announcement this afternoon from Corus and I am hopeful that it will extend the mothballing period until the end of February. In a nutshell, I believe Corus was very premature in announcing that mothballing on 4 December. I wasn't expecting it. I thought the earliest any mothballing would have been announced would have been at the end of January. You were right in what you said in your opening remarks about our local council—sorry, not just about our local council—of which I am the leader. Vera Baird our MP has been fantastic, as well as yourself. Some of the comments made directly to the Government are a little bit unfounded—let's be honest, what we've all got to be is completely united on this front.

Q3 Chairman: Amanda, would you like to take us on in this journey, because in submitting to the Government important requests for serious financial investment, we need to make sure that we all know what the economic assessment of the potential mothballing and the loss of Corus could be to this area?

Amanda Skelton: Just some facts and figures: direct job losses at the moment stand at 1,700 and we know that 900 of those people live in our borough in Redcar and Cleveland. The next biggest impact will be in Middlesbrough. The estimated indirect job losses are 4,000, and that is based on a 2.4 multiplier. We believe that that equals about 2,000 people in Redcar and Cleveland. In addition, 1,000 contractors work on site in 35 different companies. At the moment, we do not have exact figures for how many of those people would be redundant, and how many could be redeployed elsewhere. The impact on the national economy would be a loss of £200 million gross value added, and in addition there is the social and health impact. Already the local NHS has

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pledged £1.5 million to help Redcar and Cleveland, as well as Middlesbrough, to help with the health impact of this mothballing. In addition, there will be the physical manifestation of things like shop closures. We already have a serious number of shop closures in Redcar in particular, and this will exacerbate that problem. In addition, there is the cost to the Exchequer, which is estimated to be £40 million in the first year for things like loss of income tax and employment allowances, which adds up over five years to £192 million.

Q4 Chairman: That was brilliant. It was a very clear statement of the disastrous impact it will have locally on Redcar and Cleveland, but there is a wider one. As you will know, many people in my constituency also work in the steel industry, and have done for years, so thank you for that. John Lowther, this is a paper I found incredibly valuable, and I wonder if you would go into the details of why you believe it would be valuable to see a wage subsidy process engaged in, and support Amanda Skelton's statement. In effect, whatever the Government put in, they will get back four times if your papers and figures are anything to go by.

John Lowther: What we have got to remember is that the key competitive advantage that Corus Redcar has is the quality of the steel and, given that the plant is there totally for export to external suppliers, the security of supply. The steel industry is quite volatile and companies want to ensure that they have security of supply. They want to be sure that Corus won't have production for its own needs. That is a big competitive advantage that Corus has. The Community union evidence, is that the submission is that the Marcegaglia consortium made about £800 million of profit over that four-year period. That suggests that when conditions are more normal in terms of the economic cycle, basically the position should be that TCP should make a profit. The problem that we face is the world market, and that withdrawal of the Marcegaglia consortium leaves Corus with problem of how to sell 3 million tonnes of steel over a period, and it needs time to find those alternative markets. The evidence is that basically, as I said in my evidence, world prices for steel are now rising, and demand for steel is rising. Kirby Adams himself said that in Europe demand would go up 8.5%, and figures from the World Steel Association say 12.5%. The issue is that there needs to be a period of time when we keep Redcar going to enable Corus to find time to find those alternative markets, which no doubt will come as the world recession goes back. Fundamentally, the proposed £10 million wage subsidy is very valuable, because the whole point is that if we mothball it the Government will have to spend about £40 million, with all the closures, the unemployment benefits, the benefits they will have to pay out to families and so forth. So, it seems to us that it is a £10 million investment to save £40 million and keep jobs and things going. The other thing that is necessary is to identify with Tata what needs to be done to keep things going in terms of help for Government support. The Government say in their evidence that you cannot support the steel industry

at all, that it is not allowed, that it's illegal. But, in fact, we have been in touch with our European office in Brussels and it indicates that where there has been restructuring going on and there is a clear future for something, the European Union does allow that to happen, and also where there is research and development, and help in environmental protection. We think that the Government could have a more proactive response to working with Corus, to find an answer to that problem over that year. Finally, the other thing that is quite important to Corus, and which is in its evidence, is carbon emissions trading, which comes forward in 2013. Corus is saying that if it goes to €40 a tonne, which is the sort of figure that is being talked about for carbon emissions trading from 2013, that will add between £42 million and £112 million to its costs. The Tees Valley is one of the areas being looked at as a pilot for the carbon capture and storage network, which is to be funded through the Department of Energy and Climate Change through that system. Part of that £60 million enables us to make the business case for that to continue, but it seems to us a no-brainer that if we want to improve the competitiveness of the Tees Valley industry and to ensure that Corus does not have a problem with emissions trading, a priority for the Government has to be providing that carbon capture and storage network for the Tees Valley as a whole.

Chairman: Absolutely. I hope that everybody heard that. Work on carbon capture is one of the most interesting pieces of research and an important aspect of industrial manufacturing development. We know, because of the extent of our chemical process industry, that we offer serious opportunities in terms of capture, which can be used again and again. It is clean energy, and it is cleaning up the whole industrial process. Thank you, John. I invite David Anderson to come in.

Q5 Mr Anderson: Thank you, Chair. In response to Mr Mallon's statement, this Committee is here on behalf of Parliament, not on behalf of either the Government or the Labour party. We are here to get evidence and to make recommendations. Mr Mallon made reference to 1984, and there are two of us on this panel who were at the sharp end in 1984 when his former employer was part and parcel of the Government's will. So, we know what losing jobs is about. We are not here as thoughtless politicians; we have felt this. We have been there and we know what these people are going through. We are determined to do our bit to make sure that everything we can do to help you is done. I wanted to start with that. The other point that I will raise is about whether the Committee should have acted earlier. On 25 September, the Regional Grand Committee met in Middlesbrough town hall and I raised the issue then about nationalising the steel industry in this area. I was told, "Leave things now because we're working together; we're working with the employer". So, in terms of timing we would have been involved earlier but the advice we got from the people in this part of the region was, "Don't do it yet". We have done it at the first possible opportunity, and so I hope that that

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is on the record and understood clearly. I also want to be clear about what John said about the subsidy level. You said £10 million, John. Is that a one-off £10 million?

John Lowther: That would be for a year.

Q6 Mr Anderson: On the back of that, has anybody had any discussions? I hope that with the work you have done and that other people are doing for us we can find a way of saying to the Government, "There is a way round the European rules". We all get this blank all the time: we can't do anything. I won't believe that that is true, and we need your help to show where it is not true. But if we could pull that together, what would Corus's attitude be? There is not much point in our saying "We'll help you out", if Corus says, "We don't want your help".

John Lowther: I think that that is a question you need to put to Corus. I cannot give you an answer to that particular question because I do not think the question has actually been put. We have, for the response group, put that proposal forward for discussion, and we have not had a formal response from Corus.

Q7 Chairman: Do you mean that you were not involved in the discussions over ProAct? Your local Member of Parliament said to Corus in early December, "I will now go back and put ProAct on the table, centre stage". That is an effective way of supporting people's wages and salaries. Were you not involved in Corus's response by Kirby Adams? He said, "That is academic. It is not useful. I'm sorry, don't do it." So, you were not involved in that at all.

John Lowther: We have not been involved in the discussions personally, no.

Q8 Chairman: ProAct was used in Llanwern. We knew it was working there and that we were on the edge of the policy, but we actually had a Member who said, "We'll take this back, because we know where we can make this work."

George Dunning: Are you are talking about the Wales situation, where it was offered via the Welsh Development Agency? Am I on the right track?

Chairman: Yes, indeed; of course you are.

George Dunning: There was a difference there, wasn't there? Here in the Teesside steelworks, they were all working full-time. That was the problem. I think what you are alluding to is when Vera, on December 4—that dreaded day—actually put it to Corus about the short-time wage subsidy, and I think at that particular time it was refused, on that particular day. But there are differences between what has happened in Wales in relation to the steel industry there and what has happened here. It is not so easy to lay people off for two or three days a week up here on Teesside, with the steelmaking process, as it was in Wales. I think that was the issue.

Q9 Chairman: Councillor Dunning, we understand that very well, but we think the discussion should have taken place, because the trade unions should have been in on that. They know jolly well how to use whatever it requires in rules terms to make a

policy work. The absolute fact is you have a Member saying, "We can actually bring this to the table" and she's dismissed by the managing director. I am shocked that you were not engaged in this at all. None of you.

Ray Mallon: Can I make two quick points? First, Vera Baird is on the record as indicating that—I don't know whether it was Kirby Adams who had said, "Don't ask". Those were the words: "Don't ask." I think that is disgraceful. It is almost a *fait accompli* decision: "We are not really going to look at this proactively." To be blunt—very blunt—Vera Baird was disrespected in that way. You all know that politics it is not about the subject; it is about influencing someone to change their opinion from A to B, and I would also say that it is the politics of people. I would suggest that that should have gone further than Vera Baird; it should have gone to Lord Mandelson at that point. I want to make another point. I spoke to Stephen Hughes MEP about three weeks ago. I cannot give you chapter and verse, but he absolutely assured me that the legislation is there in relation to European rules, and they have been relaxed because of the recession. Other countries across Europe are taking advantage of that, so why isn't this country? These are the questions. Finally, I have asked on a number of occasions over the past five or six weeks that we should have a subsidy, yet no one from Government has come along and said, "You can't have a subsidy, for these reasons." That was the point that I was trying to make to Lord Mandelson. The public, because it is in the public interest, deserve an explanation as to why it cannot be done. I submit to this Committee that it can be done, and that is why I said in the opening statement, "if the will is there". I acknowledge what Mr Anderson said, because I was at that meeting. I will say to the public here that I recall—thank you for the prompt—you flagging it up. You were the first one to flag it up and you were more or less told to pause. That is what happened. So Mr Anderson is dead right. But it was a serious error of judgment on the part of the advisers in saying "pause". If you people had been here earlier, we would have had a great deal more enhanced motivation.

Q10 Chairman: That is really valuable. You will all have gone down the track with much of this a number of times, but we've got to have this on the record. That is why we are blazing trails that you have done previously. It is very important. The argument stated now by our witnesses is that the Department for Business, Innovation and Skills has not done the business it should have done. That is a serious criticism and we will be taking it up.

George Dunning: Chair, you have two weeks to get it on the record with Corus about the short-time wage subsidy. You have two weeks to do that because the mothballing starts on 27 January. You still have two weeks to do it.

Q11 Chairman: The absolute fact is we are seeing them on Tuesday, but Mr Adams, sadly, is not available. That is what he told us. We are now looking at Select Committee rules. There is not a

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banker in Great Britain who refused to turn up for the Select Committees in the House of Commons. If he is refusing—we have said to him, “Our diary is open”. Whatever date he can do, we will.

George Dunning: But surely, Chair, Mr Adams has a deputy, like Ray and I. Surely there is somebody to fill his shoes.

Chairman: No, we want Mr Adams. He is quite central to this whole debate. We want to know how and in what way Corus Redcar has been addressed in Mumbai, or wherever. David, are you finished? Okay, Denis.

Q12 Mr Murphy: May I open my remarks by supporting the position that David Anderson has explained? I was not just on the opposite side from you on the picket line, Ray, but I lived through the devastation of the destruction of the mining industry and the communities that relied on it for support. That is why we are here. We don’t want to see the same thing happening here. The £60 million package has had a mixed reception from the people here.

George Dunning: That is a bit of an understatement.

Mr Murphy: If you had a cheque for £60 million, signed by the Chancellor, how would you spend it to support this industry?

Ray Mallon: This is what I would do. First, I think the public deserve to know that £30 million of that £60 million is coming from the regional development agency, so it’s already in the North East of England. The people at Newcastle should be up in arms because some of the money that is coming down here is their money. The RDA itself should be up in arms. The other money is coming from BIS. Bearing in mind that we have a £29 billion productivity gap between the north of England and the rest of the country, we could have expected some of that. When I first got this job, £60 million was a lot of money, but in the big picture, it’s not. I would like to have seen the £60 million get members of the Corus work force who had been unemployed into employment. We don’t see that. There is £20 million for the chemical industry. Let me point this out. I have spoken to the chemical gurus and experts. They say to me that that might see them through a year or 18 months of research. They will then need another boatload of money. The bottom line is, I am at odds with George not because I suggest that he, or Amanda Skelton, were partner to some conspiracy. It was a conspiracy of two or three people. When we went in there, I was a policeman. I am not stupid. That is what I said at the end of the meeting. It was a stage-managed meeting. It was about placing BIS in the best possible light. Frankly, the £60 million was just a token to get us to come back up north on the train and say, “Well, look at what we’ve got.” Most people could see right through it. It will do nothing for the Corus work force. You know as well as we do, as an experienced politician, that a lot of that money, or some of it, would be paid to consultants and other people to give the Corus work force some advice, which they can get within the public domain anyway. What I want to see is real money. I don’t want to see £60 million. If we are going to lose 1,700 jobs, I’ll tell you how much I want to see. I want to see about half

a billion pounds. You people and people like yourselves know about the manufacturing industry. I will point this out. It is common knowledge that when I was a policeman, I sided with the miners. *[Interruption.]* Is that my time up? I sided with the miners as a police officer in 1984. I wasn’t on the picket lines. I sided with the miners and I still side with the miners. But that is a different kettle of fish. It might not have been viable—I don’t know the details—but this company and this steel industry are viable. Going back to the question, if we’re going to lose the work force, we need about £400 million or £500 million to get them re-employed. I accept that there are some in the 1,700 who probably want redundancy, but not all of them do. The bottom line is that it needs the gurus to sit down and say, “Alright then, how should we really be spending that money?” I think that is beyond our expertise. I can’t give you a complete, comprehensive answer as to how we would spend the £60 million, but it should all be spent on the work force so that they can see, in pounds, shillings and pence, what will be spent on them. Not one penny of it would affect one member of this work force. I appeal to you about this, and I think I am pushing at an open door. This is about people and about families. I deal with people every day who know the cost of everything and the value of nothing.

Q13 Mr Murphy: May I press you a little further? The question was whether you would use the money to support the current business or to retrain people to move on.

Ray Mallon: Absolutely. I would use the 60 million quid on this business. I am no expert, just like most of you, but it is as simple as this: we know that when we get out of the recession, the steel manufacturers that are left standing will be stronger. The ones that go under will go under, but they then make the ones that are left stronger. So it is obvious. What we do as a country is say, “We’ve got faith in the steel industry. We’ve got faith in the manufacturing sector that we have got left and we need more of it, so what we should do is invest. We should invest for the future.” I truly believe, on the evidence that I’ve got through talking to people like Geoff Waterfield, the union Community chair, that it has got a good viable position, but it just needs the Government to buy it some time. I’m on everybody’s team, providing the team is going in the same direction, to save the jobs and, as a last resort, to get the Government to be what I think is something called the lender of last resort; it is a banking phrase, I seem to recall. I want the Government to intervene as our last resort, because I think it is the right thing to do. I have a feeling, looking at your eyes and your body language, that you agree with me.

Chairman: I think Phil Wilson wants to come in on that.

Q14 Phil Wilson: As part of the package of £60 million, £10 million will go on apprenticeships and business start-ups and so on. How else would you use that money to help Corus to get through this? Would it be with the wage subsidy? This is for the

whole panel. Corus says in its brief—it is not necessarily what we believe, but it is what it says in its brief—that there will not be an upturn for several years. Other people say that the upturn is happening now. If there is a wage subsidy, how many years would you see that lasting—a year, two years, until perhaps we get another buyer?

George Dunning: Steel is very cyclical. As you know, we are coming out of the recession in the steel industry and that is why South Bank Coke Ovens is being kept on—the price of coke is increasing and the price of steel is starting to increase. It could be for a short period of time. John might be able to answer a little bit better than that, but the short-term wage subsidy could be for about a year. I'll let John come in, Chair, with your permission. Like you said, it is a no-brainer, really, to the Treasury—an absolute no-brainer. You have to pay out loads more in benefit than in providing a short-term wage subsidy. Like you said, Chair, it's an absolute no-brainer. Pay the wage subsidy and save on the benefits.

John Lowther: Essentially, there needs to be discussion on how long it would take Corus to be able to develop the new markets, you might say. So it has to last for that length of time. It has to last as long as Corus takes to identify new markets for the products that come out of Teesside Cast Products. That could be a year, or it could be 18 months, but it is for that sort of period that we are talking about.

Q15 Chairman: John, do you know anything at all about the trade union Community's idea that there could be a stronger and purposeful partnership between Redcar and Llanwern on the basis that if we start looking at diversifying product that gives Redcar a much more stable future?

John Lowther: I thought that the argument put into its submission, which says categorically that we need to look at how we could do hot rolled coil perhaps as a market, seems to be one that is very much worthy of further investigation and something that should be pursued.

Chairman: That is really valuable. Phil, do you want to come back in on that?

Q16 Phil Wilson: Tata Corus, the steel works, is sitting on a whole host of land in the area. Should some of the money go there? What kind of pressure do you think should be put on Tata Corus to loosen up some of that land? From what I understand from the brief, there is a lot of interest in investing in that land for future jobs. What could we do in that regard, as well?

John Lowther: There are three major proposals for the development of part of the Corus site. The first of those is at Redcar and Cleveland working with developers to propose a South Tees eco-park, which is bringing in new industries involved in making energy from waste, fundamentally. Also, there is a scheme which is creating electricity from coal gasification underneath the North sea. Both of those are very important to the future development of the Tees valley. The particular site that is required is not one which is affected by anything to do with Teesside Cast Products, so that is one where we can see no

reason why Corus could not release that land for future development. There is a second site, which is known as the teardrop site. For those who have been around long enough, that is the old Warrenby ironworks site, which is also wanted for another very important project for a heavy oil upgrader in the Tees valley. There are more difficulties about releasing that because that is quite close to the existing TCP element. If Corus is going to mothball and start withdrawing from the area, the whole site is vitally important for future developments. There are things, such as the deep water port area, which are vital for future development. There are the opportunities for wind farm fabrication in the North sea, which needs vast areas of land that are available. I don't know whether you have ever been round the site, but it is enormous. You can't see it because it is all behind closed doors, if you know what I mean. The site is very big and has tremendous potential. If Corus does decide to mothball the plant, it is important that it releases the sites for future development, and also works with One NorthEast, developers and Redcar and Cleveland council, to have a clear plan about how to make best use of a site. Recognising that Corus wants to make use of it as well, we need to see what can be released for development for the future.

Ray Mallon: Chair, may I make a point? I don't want to dominate because everybody has a lot to say. In my view, on the evidence before me up to now—not today but over the past six weeks or so—there has been too much decoy information. I am raising my voice but I am not being aggressive, I just want everyone to hear. For example, the £60 million was a decoy, basically to appease people like me. As far as this plant is concerned, it is very important; that piece of land is very important. But it is diverting us from the main issue. Yes, there has to be a twin-track approach to save the jobs and—if we lose them—the land. Let us get the land released. To me, the first objective is to save the jobs. A lot of people are decoying people. Sometimes, in evidence, it is the silence that speaks volumes. There has been a lot of silence, as well. We have had this decoy. My advice to you would be: it is all about the Corus jobs. It is not about the land. This Committee, and we, must have the single focus in saving those jobs. I agree that there has to be a twin-track approach.

Mr Anderson: We, as a Committee, don't have a choice in having a twin-track approach.

Ray Mallon: I agree. I accept that but I wouldn't like to see the Committee diverted away from the job in hand, the saving of the jobs. All I am saying is that, from where I sit, on the evidence before me—and I have verified it—there are an awful lot of decoy tactics. There is not the will in this to save those jobs. The other thing I should say is this. It is quite disrespectful for senior politicians from BIS to say on the record in Parliament just a few weeks ago, "But we've never been asked to intervene. We've never been asked for subsidy." Where is the proactivity? They shouldn't have to be asked. They should be responding to the whole situation. I was amazed. I forget the name of the Minister; somebody help me.

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Chairman: Pat McFadden.

Ray Mallon: Pat McFadden comes out saying, “We’ve never been asked.” Nobody should have asked him. He should have been responding as to why they can or cannot do things.

Chairman: Ray will always inspire a political response. In all honesty, that is not our jobs. Our job is straightforwardly to take evidence. If I could say one thing to everybody, we don’t look at Corus land as deviating from saving the jobs. We are looking at Corus land because we know it represents very serious finance. If we put those income streams together, the fact that it could well afford to keep that plant open with support—no one is denying the investment required—is the argument that we have been pressing for some time. Please don’t think that we are thinking, “Sell the land. The jobs are not important.” It is all a package that we can see beginning to develop.

Q17 Phil Wilson: One more question to you, Mr Mallon. In the brief you sent as your submission, you list three examples of what could happen: wage subsidy, production cost guarantee and the use of carbon permits. Which of those would you recommend?

Ray Mallon: Which paragraph?

Q18 Phil Wilson: I think it is paragraph 16. Could you tell us which of those proposals you would recommend as the route to go down, or is it a combination of all three?

Ray Mallon: Well, the clock’s ticking—we all know that—so it’s got to be the subsidy, because, to me, the subsidy would buy us time. Those are the most important words: can we buy time? Carbon permits and things are more in the future and there may possibly be legal challenges and so on and so forth where carbon permits are concerned, because Corus might want to hang on to them, and might think that they can, and that might have to be challenged in the courts. Subsidy is the one that would buy us the time and hopefully that will come to pass.

Q19 Chairman: We have virtually come to the end of this first session. It finishes at 11 and an awful lot has been said. The minutes will be published some time early next week and you will all be able to get a copy in the usual way. In ending, I want to ask our four witnesses: is there anything that you want to add to what you’ve said to ensure that we have an absolute focus on your belief that Corus has a future?

George Dunning: Briefly, as leader of Redcar and Cleveland Council, because I have worked on the plant, I know that it is a first-class piece of kit—excellent kit. There have been talks about buyers coming on the scene and anyone interested in buying that particular plant is going to buy a first-class piece of kit. To be honest, and I’ll repeat it again, to announce on 4 December the mothballing of that plant was far too premature. They should not have done that.

Q20 Chairman: We know that this is a private company and that confidentiality is an absolute; in fact, I am sick of hearing, “Sorry, you can’t hear because it’s confidential.” Have you got any sense or understanding at all of why potential deals, which were on the table, have floundered? Have you any notion of why they have floundered or why Corus has not managed to secure a sale?

George Dunning: If I was back on the shop floor, I’d be thinking that maybe it was because there would be a competitor—the people who buy the plant could be a competitor to Corus. If I was thinking cynically, as I did in my old trade union days, I would think that maybe Corus did not want to sell this piece of kit because they would be selling it to a competitor.

Q21 Chairman: So, have they spoken to you about Jamshedpur, which is the company that they have extended in India, with the absolute statement that as a consequence they require 17% less productivity from Redcar? Have they spoken to you?

George Dunning: I have heard it through the chair of the multi-union committee, Geoff Waterfield, who has expressed that, but it hasn’t been expressed to me directly as leader of Redcar and Cleveland Council.

Q22 Chairman: Ray, is there anything that you haven’t said?

Ray Mallon: The only thing that I want to say, because I think that I should say it, is that I am very grateful for the Committee sitting. It is nice to see some socialists here—

Mr Anderson: Wash his mouth out.

Ray Mallon: With a small “s”.

Amanda Skelton: I’d just like to say that we’ve been asked some questions about how we might choose to spend the £60 million differently. The £60 million is being spent on good and important things that will secure the diversification of our economic base in the future. That is really important. We do not want that money diverted anywhere else. We’d like additional money to buy us some time with Corus and protect jobs in the short term, giving us time to secure the plant in the long term, so that Corus can seek a new strategic partner, and we have time to use money to diversify our economy and create new and different jobs. So, I put that back to you: we don’t want to spend the £60 million differently. We’d like much more money to spend on what I’ve outlined and protecting Corus, building up our place and revitalising our towns and villages in this region.

Chairman: Thank you, that is very valuable. John?

John Lowther: Just to back entirely what Amanda said, fundamentally everybody in the Tees valley wants to ensure that Corus-TCP has a viable future. That is the No. 1 priority that we need to address. Having said that, it is also important that we develop and diversify the economy of the Tees valley for the future. We have major challenges coming with emissions trading, and some major opportunities, including a pipeline of £8 billion of investment that is coming forward. Certain preparatory work has to be done for that and a large part of the resource, particularly the bit coming directly from BIS, is to

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help us do that work. It is vital that that resource remains as we move things forward. Things we need to do for Teesport include engaged enhancement, making the business case for carbon capture and storage systems and the pipeline infrastructure for the area, and so forth. We need to maintain an apprenticeship structure and the apprentices whom we have at the moment, because those people are still needed for future industries on Teesside.

Q23 Chairman: That was valuable. Nobody from the panel has spoken about the port this morning. We haven't asked the question, but we are well aware that the port will be significantly affected if Corus closes.

George Dunning: I don't know if you've seen the recent articles, but the port has increased its container business—

Chairman: Significantly.

George Dunning: So the knock-on effect, thankfully, from any mothballing of Teesside Cast Products won't be that significant to the port. I would have thought like you: most people would think that, because you've got your raw materials coming in and your semi-finished products going out, that would mean a big hit on the ports. Well, it would have done, but they have diversified and their container trade has increased substantially.

Chairman: I know, but George, do you know something? When Harwich has those opportunities—and more—it celebrates. We have got to stop being thankful and grateful for what we've worked damned hard to get. I want the

“more” part of that statement. Harwich would not be satisfied with losing Corus at this point in time. It would be fighting tooth and nail.

George Dunning: I'm sure the management of PD Ports and the trade unions there will not be satisfied, Chair.

Q24 Mr Anderson: There was a reference to Stephen Hughes MEP: it might have been John. If you've got anything concrete—and even anything that's not concrete—give us it so we can pursue ways to say to BIS, “Your line on state rules does not hold water. Examine these options.”

Chairman: And we'll invite Stephen Hughes to give evidence.

John Lowther: I undertake to do some work on that for you. I'll send you the outcome in the next few days.

Q25 Mr Anderson: We're interviewing the regional Minister on Tuesday after we've seen Corus. If it's possible to get us stuff for then, at least then we've got it on the record, with us saying, “This might not work, but pursue this before you go any further.”

Chairman: Thank you to all who've given us evidence. It's been a very valuable session. If people haven't read the excellent research briefings they should do so. The one from our own think tank, Tees Valley Unlimited, is excellent. These are really good documents and I hope that you look at them. The TUC document is excellent, as are the ones on communities and on Redcar and Cleveland. These are important documents that tell us not only where we're at, but where we could be moving to. On that note, thank you very much for giving us evidence this morning.

Witnesses: **Alan Calcutt**, Unite, **Michael Leahy**, General Secretary, Community, **Terry Pye**, Full-time Officer, Unite, **Steve Readman**, GMB, Multi-union Committee, Corus, **Kevin Rowan**, Regional Secretary, Northern TUC, and **Geoff Waterfield**, Chair, Multi-union Committee, Community, Corus, gave evidence.

Q26 Chairman: May I ask for order? Thank you—I always wanted to be Speaker, and this is my only chance. We will now start the second session. Frankly, we will give this as much time as it needs and will never push anyone against the clock, but we do need to start again. We will take evidence from our trade union colleagues. They are, across the piece, from: Community, the main trade union in Corus; GMB; the TUC, and Unite. Once again, we are very grateful to our colleagues for being here. It is, for us, a very important session. Some of you have come from London, including a very old friend of mine, Mick Leahy, the general secretary of Community. We will civilise him, because he is Welsh—you have failed to civilise me so far, but we'll have a go with him. Others have come from around the country. It is critically important that we hear from you this morning. Although the TUC and our union leaders are important, to be dead straight with everyone, we will be looking especially to Geoff Waterfield. He is on the ground in the company and is working extremely hard, and he knows how the work force are feeling. I believe Steve Readman is in exactly the same

position. They are facing this day in, day out, so they are very important to us and we are really keen to hear what they have to say. I would like to start as I started with previous witnesses, by asking the trade unions and the TUC how and in what way have they been engaged by Tata Corus in the discussions that have obviously taken place about Redcar steel. I do not know which one of you wishes to pick up the baton first, so perhaps Kevin Rowan will start.

Kevin Rowan: Thanks very much, Dari. May I first say how very pleased we are that the Select Committee is focusing on Corus as a major issue? Clearly, this is a huge regional and national issue, as well as a very local one to the Tees valley. So we very much welcome the Committee hearing today, and the actions that you and your colleagues have taken. Certainly, I thank you for giving the trade unions the opportunity to present our evidence to you today. Before I introduce Geoff, who led us in the discussions with Tata, to respond directly to your question, what we want to say to the Committee by way of introductory remarks is that we're very keen, in this short time we have, to concentrate on our primary

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goal—which I understand is your primary goal, too—to make sure that we encourage whatever interventions we can from Tata, other private organisations, or indeed the Government, to ensure that TCP keeps producing steel. That’s the ultimate goal of everyone on each side of this panel discussion. We are, of course, happy to discuss some of the broader issues around investment in the Tees valley and the impact there, regionally and on the national economy. However, primarily, we are keen to focus on that hugely important and urgent concern of keeping TCP Tata operating and making steel here in Redcar.

Geoff Waterfield: Could you repeat the question a bit more specifically, please, Dari?

Q27 Chairman: For all of us, listening to your evidence, we want to understand that Tata Corus has a corporate responsibility, within which it has done everything with the trade unions not just to communicate where it is coming from, but where it would like to be. The question to you, Geoff, was asked because we get a statement from some saying that Tata doesn’t want this sale to take place and that it wants a holding in Redcar steel, and from others that if it doesn’t have effective partners, this company is going nowhere and will be mothballed. We want to hear from you. As far as we’re concerned, you’re the most important people. How has the company worked with and spoken to you about the creative opportunities or other, different ones there could be to ensure the long-term future?

Geoff Waterfield: Clearly, Tata hasn’t done that. We have, on many levels, had a number of discussions with Tata over a period of time. As you stated in the first session, Tata appeared to be hiding behind confidentiality agreements. We are not involved in any talks that the company has told us it has been having with other companies, which is concerning for our ability in the process. Since last year, we’ve seen a change with the CEO from Philippe Varin to Kirby Adams, which, to some degree, you could argue was a bit of a cultural change within the company itself, and a change in direction. Kirby Adams is now on the board of directors for Tata, where Philippe Varin was CEO of Corus, which is quite different. We have tried to engage with the company. Quite clearly, we were very successful at a local level to come up with imaginative ideas to sustain steelmaking on Teesside, and I have to thank John Bolton and his team for that, because they have been very open and honest in their dealings with the trade unions and tried hard with us. That said, the sticking point has been there from day one with Tata and its executive board. Kirby Adams has been very reluctant to meet with us at any length. In the two or three meetings that we’ve had, he has only ever stayed for half the meeting and then disappears—he comes in, makes a statement of fact, and walks out. We’ve never had an opportunity to sit down with the company—Tata—or with any prospective buyers around the same table and discuss any long-term possibilities. From the point of view of the national officers and the local trade unions—who I am sure will back us up—we are full of ideas that we want to share with the Government, Tata and any prospective new buyers. However, it seems to be a

little bit of a problem to get all these people around the same table. When we are talking about community meltdown and devastation on a wide scale—a situation we have now—I do not think it is acceptable. It is pretty amazing that a company like Tata, which is a global operation and sets great store by its corporate and social responsibility and how it treats people, has employed an American CEO who cannot give us the good grace of a full meeting. I understand that he does not even want to accept turning up at the Commons’ Select Committee on Tuesday. So, you can see from our point of view and the conduct of Mr Adams how hard it has been for us to make any headway. It really is not from a lack of effort by the likes of Michael Leahy and ourselves at local level to progress meaningful talks and headway. We have got a firm belief, and a catalogue of evidence to prove the viability of the Teesside plant. Kirby Adams himself has indicated quite clearly the amount of money that the consortium made through a very short process. On that, I have to say that he called them culpable, but he and Corus Tata are just as culpable, because they shared in the profit. It was not a four-way split, it was a five-way split. Not only that, but we have heard recently that Tata would like to keep Southbank Coke Ovens, a clear indication again of part of our facility making large-scale profits. We have seen the rise of steel globally, now going to \$500 FOB, coming out of Brazil; the price of slab is massively on the increase, as is coil. So, the indicators are there, Dari. However, the one person we were hoping could bring it all together does not want to be there. The question for the Select Committee is to scrutinise Kirby Adams’s conduct and what his agenda is.

Chairman: Thank you very much, that was really valuable. Steve, would you like to add to that?

Steve Readman: Yes, there is something in what Geoff said. On a local basis, as a local rep. on the Teesside works’ multi-union, we have put in a lot of work. As Geoff said, it has been quite an open and honest debate that we have had with the local management, but from the announcement in December, when the task team was set up after the national steel co-ordinating committee, or even at a meeting last week with a company representative, Phil Dryden, there has still been some difficulty in understanding where the most recent negotiations have broken down. Again, it is all about confidentiality and it seems a very difficult task for us to understand where the most recent local discussions have failed. Until we can get a handle on that and find out what it is exactly we are asking people for—whether we are asking Tata to fulfil its social responsibility, or what we ask Government—we need to understand where the deal broke down. At the current date, it is getting very difficult to get any concrete information from Corus on a national basis.

Chairman: Did everyone hear that? Can you hear at the back? That is great, okay, that is smashing. Thank you very much, Steve. Mick Leahy.

Michael Leahy: First, I don’t want to be long-winded, but you have to understand the history of Teesside and where Corus currently is. In 2001 it made a decision to close the mill. The union opposed that

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closure because it is like having half a plant. You have got slab, but no means of rolling it, which is crazy. The plan at that stage was that Corus would supplement the slab production in TCP and actually get it rolled in Llanwern. We were opposed to that, because it didn't make any business sense. Then Sir Brian Moffat insisted that that was going to happen and, actually, TCP did a magnificent job in making that system work. Prior to the recent announcement, because of the recession, certain blast furnaces were shut down—in Scunthorpe, and in Port Talbot no. 4 furnace was also taken off heat, because there wasn't an order book. The Marcegaglia/Dongkuk purchase, which was rumoured to be about £600 million, was taken off the table simply because of the credit crunch. Steel prices had plummeted and you wouldn't buy a plant for £600 million in those circumstances. We understand from Marcegaglia that it offered Corus 6 months interregnum while it looks for alternatives. Corus's response was, "You have two alternatives and the only one that we can see is to continue with the current agreement or else we'll sue you." That involved no discussion at all and Corus essentially just walked away. That is what they told Vera and me when we went to Italy. Since then, we have been looking at alternatives. The fact is that, at that time, there was an increase in internal consumption for Corus. However, it made a decision to light blast furnace 4 in Port Talbot. What it could have done, if it was really serious about continuing production and looking for an interim measure for TCP, was use the route that we proved could be used in 2001 onwards and use TCP to produce for the internal market that it was short of within Corus itself, rather than going for an external off-taker or purchaser. It did not; it lit the furnace. We said to Corus at the time, "Why are you lighting this furnace? Why aren't you using TCP, bearing in mind it hasn't got an order book, to supply your internal market?" We know the answer, don't we? It had already made a decision. Did it genuinely want a purchaser for the business? Did it want a competitor? In 2001, when Llanwern blast furnace was shut down, we put a deal together with Caparo and we were willing to purchase Llanwern. Corus refused. I think it is a fact that it is concerned about the internal market and competition. Does it really want to sell the business at time? You need to ask it that question. Why did it put blast furnace 4 on? We estimate that, in relation to coke ovens over the next 3 years, the price of raw materials will increase by 30 to 40%. Basically, the reason for that is that China is producing at a significant rate. Therefore, because they haven't got the raw materials—the iron or the coke—indigenously, the price of raw materials is going through the roof. The truth is that keeping the coke ovens going will, in our estimation, probably save Corus around £750 million. The fact of the matter is that, in terms of coking coal at the moment, the South Bank Coke Ovens are ancient, but it would cost far more for Corus to import coal, even at the cheapest price that it can get, than to produce it through antiquated equipment on the south bank. You have to ask yourself whether Corus really, commercially, wants the purchaser, and whether it can make more

money with the plant shut down simply producing coke. It has a shortage of coke within its own consumption—it can't produce sufficient coke, so it would have to import it. From a purely economic and commercial point of view, without any regard for the consequences if it goes through with the closure, it will make some money. Sir Brian Moffat used to say to me, "Michael, I'm not interested in making steel. I'm in the business of making money." We believe that this is another case of short-sightedness and industrial vandalism, basically. I joined the steel industry 44 years ago. Corus, or British Steel, was nationalised in 1967. There were 260,000 people employed. Prior to the recession, there were 22,000 employed. It will now go down—not taking Teesside into account—to 17,000. As you say, we have made £1 billion of cost savings. In the last 20 years, we have had 10% year-on-year productivity, which is three times the industrial average. What do they want us to do? It has been starved of investment, but my point is simply this. We have been saying to our Labour Government, and now we have industrial activism, "You have to make things to create wealth". I don't think that we can stand idly by and allow a company like Tata Corus to shut down and do this piece of industrial vandalism, which is what it is all about. All they are concerned about is that they have covenants that they have to meet on their earnings before interest, taxes, depreciation and amortisation. I cannot tell you the numbers, because I am bound. They have given us the numbers, but I cannot tell you as it's commercially sensitive. However, in the first six months, there was a number that they had to return on EBITDA. For the next six months, it is twice that. If they don't reach it, they will have to renegotiate the covenants, which means the interest rates obviously might be increased. However, the Government could be of some help in that regard, because the bank involved is RBS, which is owned by the Government.

Chairman: Yes, it is. Absolutely.

Michael Leahy: Whether that's a red herring or not, I don't know, but they have to come to terms with the covenants. So, as far as we are concerned, this is lunacy. Teesside is a producer of steel that is, in relative terms, extremely efficient and has low emissions. This steel will be produced somewhere around the world, probably in a country that will emit more than Teesside did. There will be an increase of about 5.2 million tonnes of carbon leakage as a consequence. So none of this adds up. We have the same problem as you; Kirby Adams does not want to meet us. He does not want to give us an explanation. We have set up a taskforce. Because of the bad weather, we said that we wanted to look at all the alternatives that were available. Of course, the question is this; does Corus really want to sell the business?

Chairman: Absolutely. That is the key question.

Michael Leahy: They're asking a price that no steel producer will pay. So they're right to say, I think, "Well, we're prepared to sell the business," but if they want to sell it at a price that no sensible producer is willing to pay—

Chairman: There'd be no buyers.

Michael Leahy: Indeed. As Geoff has said, we do not know who broke off the negotiations, because it is covered by commercial confidentiality. Was it Corus,

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because they saw an opportunity, in terms of the increasing price of raw materials, to make a buck, or was it the potential purchasers? We don't know and they're not going to tell us, and I'll be surprised if they tell you. One final point that I want to make is that as you know, Madam Chair, we in the steel industry believe in the force of argument and not the argument of force. However, we are coming rapidly to the conclusion—and we have said this to Corus over other matters as well, such as taking our pensions away from us and not paying bonuses when it was contractually obliged to do so—that we might have to seek an industrial solution to this problem. We are not going, and I speak on behalf of all the unions, to stand idly by and watch what remains of an efficient steel industry be vandalised.

Q28 Chairman: Do you want to take us down the path of what you mean by an industrial—

Michael Leahy: An industrial solution. We may start balloting our members in Corus for industrial action to save Teesside.

Terry Pye: This company is not a lame duck. This is not the situation that companies find themselves in when they make products that are no longer attractive to the outside world. We have got to remember that when the consortium broke down in May time, this plant was under threat of closure in August. But because the consortium walked away, it freed Corus to be able to talk to other interested people who wanted to purchase the steel. Geoff and colleagues from the other unions at plant level worked alongside management in that process and they were very, very successful. Orders came flooding in from all over the world—from Canada, from America. That got us in the position where August came and we were able to lift the HR1 and carry on production. Not one single person was made redundant. Come September, same scenario. The HR1 was still lifted and during these months, the company was at least breaking even—in fact, it was making a profit. Like Mr Micawber, we hoped that something would turn up. There was total surprise on 4 December when we got a telephone call from our own reps, telling us that Kirby Adams was in the plant announcing the mothballing of the plant. That is a very discourteous thing to do. Normally, in conjunction with the line reps, you would tell the national officers of the particular plants. Reps are going to phone in and say, “Can you give us some advice on this, some advice on that?” You don't even know what's been done. It was the first act of discourtesy, and I'm not surprised when you made the announcement on Tuesday that he reacted that way, because that seems to be the culture of Kirby Adams. It's very distressing because you can't actually get him to sit in a meeting long enough to answer the questions that you need answering. We don't even know—we surmised that we know—the names, but we have not officially been told who they were talking to about a possible sale. We know that there were two companies, but we don't know who they were. We don't know what caused the difficulty of the breakdown or who walked away from the discussions. Was it them? We don't know why they

walked away. All that we do know is that the plant is not a lame duck. It's got products; it can make products that are of interest to people outside and who want to purchase that steel. It would be a crying shame if we allowed this plant to shut and, as Michael said, we will take whatever means necessary to make sure that that doesn't happen, but we want to do it by sensible dialogue—that's what we want to do. Tell us the size of the problem. There must be numerous occasions when we have managed to get Kirby to sit still long enough. We've said, “Let's make an approach to the Government. Tell us what the problem is and let's jointly go together—because this is a partnership—to the Government and make representations and see what they can do to help.” He has nodded and said the right words, and we never hear anything again. I made a point to Phil Dryden at the European works council in front of everybody saying, “You've got a commitment to do everything necessary to save this plant. You are the employer.” We should be engaging in tripartite talks with the Government to see where assistance could be given, whether it be, as we discussed this morning, an employment subsidy for a short period of time while we get over the problem or whatever. If there is a will there is a way. The question is, is there a will?

Chairman: I think we're getting the point loud and clear. Alan, you are the last person, but you are certainly not the least.

Alan Calcutt: There's a lot of talk about mothballing the plant, which would be a short-term thing until a buyer can be found. More importantly, you have to look at the work force. Mothballing the work force would be a low-cost, effective way of retaining skills, if you look at the Tees valley as a whole. Let us call Tata what it is: it is a foreign company investing in the UK, and it is so easy for foreign companies to move out of the UK. We have seen five chemical companies exit, and a loss of skills. We have seen the SeaDragon project, with the potential of 1,000 jobs, exported to the far east because it is easier to get rid of British skills. We must retain those skills, and this Government have to fund that retention. It is far easier to fund the Corus wage bill in the short to medium term than to pay out benefits in this economy.

Geoff Waterfield: Just to supplement Alan, a lot of people talk about mothballing the work force until we find a buyer and many other things, but there is a red herring that tends to go around a lot. Lord Mandelson himself said that we cannot get customers. However, the reality is that we have always been able to find customers. From the very first announcement, we went and found them. We cut our cloth accordingly and cut our costs—we have always found the customers. That is a herring because there are people who want to buy us. The real question is, why have we not brokered a deal yet? We had an opportunity in February with Marcegaglia and Dongkuk, but the company did not follow it through—there was no deal. Again, we were told that within recent weeks the company was very close to a deal but that it did not go through. There are customers to buy a profitable, viable site. As Terry said, if we were not profitable, if we were

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not viable, we might be able to understand this a little bit, but there are people there. The Government have to ask them, "What assistance can we give to help you to broker a deal?" There are customers and buyers, there is just not a willingness on the part of Corus. Tata's real agenda needs to be found out. Are we just being used as a coke processor? We have seen some evidence of that in the announcement made with South Bank. This Select Committee has to say, "Hang on a minute. It will be the Exchequer that picks up the massive bill." I heard in session one some of the numbers, but they were nowhere near the truth. Times them by two or three—those are the real costs to the Tees valley and the Government. I pay for my wife and child, and I also pay taxes and national insurance, but if I am unemployed, you will pay for me, my wife and my kids. The massive cost of meltdown in this region is not worth it. You and this Committee have to say to the Government, "Get in there. Get talking to Kirby Adams." It is not acceptable that one man can send Teesside down the drain.

Q29 Chairman: May I ask a question before my colleagues come in? This has been quite a long session. You have addressed issues that you think are critical, and you are right to address them. We have been given advice, but never formally. I am now going to put it on the record: the formal advice is that you have to speak to Tata India; you cannot keep talking through an intermediary. Would you say that that is the approach that the Government should be taking?

Geoff Waterfield: We're at the stage now where Gordon Brown needs to be speaking to Ratan Tata to see what is going on here, because we are not talking small numbers. In reality, Kirby Adams should not be an intermediary. He is on the Tata executive board. There are general secretaries here who do this day in and day out who are being shut out by Kirby Adams. The question has to be asked of Ratan Tata, if it is going to do dealings in the future, "Have you got the right man in the job?", because he potentially is jeopardising steel-making throughout the UK.

Q30 Chairman: May I ask a further question? I will shut up then, as colleagues are desperate to get in. We have seen the evidence about the new company, or the company that Tata has expanded in India, the Jamshedpur one. You're a steelman, so is it your belief that in expanding that company, it is deliberately and determinedly putting work into India that we were doing previously?

Michael Leahy: No. We've talked and know the industry quite well. It is a fact that steel production is now increasing. The raw materials thing is an aside, because of China, but the fact is there is a big market in Asia. We talk ourselves to potential purchasers, who say they could take at least 1 million to 2 million tonnes. We understand that one purchaser or potential purchaser was going to take 50%. Corus was going to take 20%. We only need a third. The

question really is whether Corus wants a solution. Does it really want a solution or is it that it wants a solution on its terms, which quite frankly, Madam Chair, I don't think are achievable? You can say, "Well, we'll sell it, but this is the price," but if that price is way up there, technically you are telling the truth when you say, "Yes, we'll sell it", but it is at a price that nobody would purchase it at.

Geoff Waterfield: There's a couple of things there, Madam Chair. If you were to make long products for the next 200 years within India, you probably wouldn't make a dent in what they need. India in some respects is a little bit like China: it has massive internal growth—a bit of an industrial revolution, if you will. It's not really that. They are building in Jamshedpur and Orissa. We've seen the way they've dealt with the indigenous population of the hinterland of Orissa and some of the dealings that they've had with the Tetley tea growers just recently, so it's questionable about their morals and ethics globally, not just what they're doing here on Teesside. Kirby Adams, again, has to think about what he's saying, inasmuch as he's saying there's over-capacity in Europe, yet we're turning on blast furnaces and we're selling in Europe. What that statement has to do with Teesside, I don't know, because Teesside's main customer base has always been in Asia since 2007, plus Teesside was making specialist steels that other areas weren't making, so there was a very selective clientele for us and this is one that we've developed over a period of time. So again, I go back to my earlier comment. The customers were there and potentially the buyers were there for a long-term process, not just spot market buying, so we've built up those relationships. I repeat myself and I make no apology for it. Kirby Adams himself mentioned how much profit they made in a very short period of time, which clearly indicates that it's a viable plant. With the people who are on that site, it is a very, very well run site. It's no different from anybody getting new windows or doors. You can ask for quotes from five people, but you're always going to get one craftsman who says to you, "Oh, we don't fancy that job. Stick a massive price tag on it, because we have other things to do." Mick's absolutely right. What is the real agenda of Tata and Kirby Adams?

Michael Leahy: To answer a question you asked about Tata—do you need to go to India?—all I'm going to say to you is, we have made representations at the highest level. Whether they bear fruit is another thing.

Chairman: That's really valuable. I have colleagues wanting to come in on both sides. Denis Murphy.

Q31 Mr Murphy: Kevin, the trade unions make a very powerful argument for a direct subsidy to enable the infrastructure, the work force and the plant to continue while all avenues are explored for a sustainable future for it. The Government's current position is one of saying that a direct subsidy like that would fly in the face of EU rules on state aid. What's your view on that? Also, have you any

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information or evidence that other companies in the UK are applying that type of subsidy or, if not in the UK, within the EU?

Kevin Rowan: The case that colleagues are trying to make is that we need to buy some time to find a more sustainable solution to the issue we're currently facing. Public sector support for buying that time will be critical. Obviously, the ideal solution is that we find a private sector buyer to continue making steel here in Redcar, but we need time to do that. There are a couple of ways in which the Government can provide that support. One is wage subsidies, and you asked the direct question, "Are subsidies happening elsewhere?" They're certainly happening elsewhere in the UK; they might not have been applied to Corus in the UK, but the ProAct and ReAct schemes in Wales have wage subsidy and training subsidy arrangements of up to £4,000 per worker. But that has been based around short-time working, and the point has been made that we haven't reduced working hours here, which has been used as a technical barrier to accessing wage subsidies. In other parts of Europe, such as France and Germany, and in 22 out of 26 countries in the OECD, wage subsidies are being used today as we sit here. By last summer, about 1.4 million workers in Germany were accessing wage subsidies through the German Government. That represents an equivalent saving of about half a million jobs, so half a million people would have gone on the unemployment register in Germany had they not received wage subsidies. So subsidies are happening right across Europe and in the UK, and we simply do not understand it when Ministers tell colleagues, "Wage subsidies aren't an option." They are an option and they are being used elsewhere. There are no EU barriers to them. It's an issue of will. As colleagues have said—they may wish to add to this—it is also the will of Tata not to use wage subsidies. That's given the Government the opportunity to say, "We haven't been asked." There is a second area, Denis, where the Government can provide support. We know that there have been conversations with prospective buyers and that there is a potential gap in terms of making the deal work. There are arguments about the price that Tata has put on this and about whether it is enthusiastic about actually selling the plant on, but that is also something that the Government can consider. If there is a 20 or 30% gap, given the arguments that colleagues have made about the feasibility and viability of the sector and the plant, the Government ought to consider providing a bridge. Whether we call it nationalising, short-term loan support or some other kind of investment—the Government have similar things in other industries and, in some regards, that has been to their credit, although it's often got them a bit of criticism as well—there are examples of the Government taking a stake in strategically important industries. Mick talked in his early comments about the importance of manufacturing, and we all recognise that. There will clearly be lots of other impacts if we do not get the right solution for TCP in Teesside, so there is a strong case for Government intervention, should it be needed. I

have given two examples in which there is no real evidence to suggest that the Government are barred from intervening.

Terry Pye: Before you move off that theme, and wage subsidies aside, I should say that I am national officer for Unite for metals, not just the steel industry. About nine months ago, we had a problem with Rio Tinto, which owns Anglesey Aluminium. It wanted to withdraw from the island because the power station at Wylfa was being decommissioned, and the cost of electricity was going to soar. It said, "We can't make any money with these high energy costs." We involved Peter Hain, the Welsh Assembly and Rhodri Morgan. We had several meetings with Peter, where I was present with other representatives. At the last meeting, Peter, on behalf of the Welsh Assembly, which had presumably been given the authority to do this by the Government, made an offer of £450 million spread over four years, with certain conditions attached. One of the main conditions, which was obviously to prevent Rio Tinto from just taking the money and shutting down anyway, was the securing of employment. If that employment wasn't secured, the money would have to be paid back. It wasn't a loan: it was actually support to remain on the island—£450 million; 500 jobs. Rio Tinto was going to use that money to help build biomass so it could supply its own energy. There was a feasibility study taking place, etc. Rio Tinto said it was a very generous offer, but at the end of the day the main board had taken the decision that it wasn't going to remain on the island. It was going to go ahead with the biomass and I suspect that when the biomass is built, it will sell the energy to outside interested parties, or even sell the biomass. But the point I'm trying to make is: why can't we support—whether it be through a wage subsidy or some other assistance—Corus with 1,700 jobs, when we can support Anglesey Aluminium? The situation's the same. Anglesey's devastated now. The price of the houses is through the floor: the money's swirled round, the redundancy money's gone and the island's going down the pan. That's what's going to happen here if we don't do something.

Michael Leahy: On the wage subsidy, it is true that Corus initially, when there was a downturn in September-October 2008, went to the Government and asked for wage subsidy, because it was getting it in Ijmuiden in the Netherlands and right across Europe. I put that question at the steel summit to Mandelson and said, "Hang on a minute; I can remember a Labour Government introducing temporary short-time working arrangements and actually the Conservatives up until 1983-84 continued with it and then discontinued it; so, quite frankly, this nonsense about it being illegal—that is what it is: nonsense. They could do it." His answer to me—and I was the one who asked the question, not the employers—was, "It's too complicated." And the reason is, of course, the Government, although they have bailed out the banks, at that time would have had to subsidise all industries. They couldn't simply subsidise one. I think it's a question of cost. It isn't a question whether it's legal or illegal. The rules for steel are exactly the same now as they were in 1980-84; there's no difference.

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Q32 Mr Murphy: Briefly, how long do you think would be a reasonable time to have this type of subsidy in place?

Kevin Rowan: We would suggest probably a minimum of six months in order to find a more sustainable solution for the company, but we would obviously want to keep that under review and keep the option to extend that to 12 months as part of the arrangements. We think that's enough time for a new company, or a new arrangement with the company, to find its feet and to be really demonstrating significant profitability, because, as colleagues have said, it's not unprofitable now; but that would give it a bigger cushion, if you like, in terms of profitability over that period.

Geoff Waterfield: If I could just supplement that; you're talking about one aspect there, about wage subsidies. That's not acceptable on its own. At the very least I would like to see from the Government—as well as the time, because people need time to get into the talks—some sort of joint tripartite meeting of all the parties: the Government, Tata itself, and interested parties. I think if the external marketplace could see that the Government were taking a real interest they might actually step forward themselves, out of the wings, to find a solution for this region and its families. I think after 150 years of steelmaking in this region, we're owed that at least. So I think, along with securing and looking after the skills that are on that site and crucial to making this deal, which I think is an easy solution for the Government—and the finances around that should be fairly straightforward—what we've got to do, and the thing that we're struggling with maybe a little bit, is actually get Tata to sit down long enough with interested parties and ourselves and yourselves, and say, "Right, what can we actually do here?" Because there are too many people having meetings in different places, but not sitting down together and actually getting on with the job in hand, and that makes me very suspicious.

Q33 Chairman: Of course. There is one statement coming through loud and clear, to which perhaps you might like just to nod, because Dave Anderson is nearly bursting to come in. I am a pretty tolerant Chair. I think that I need to be, given that the subject we are discussing is very sensitive and we want to get it right. It has been made clear that the Government have one specific role, which is to get Tata round the table. We need that to happen, and pretty sharply. Do you agree? Okay, thank you for nodding. We are hearing it loud and clear. We shall extend our sitting. We should be ending just about now, but I am sure that One NorthEast will tolerate the fact that we are extending our sitting until quarter past so that we can get through a few more matters.

Q34 Mr Anderson: From what has been said already, it is pretty clear that we are trying to prevent such action happening. I want to explore a little of what Corus is saying about the mothballing. I worked for the coal industry so I know what is meant by, "It just doesn't work". If Corus is serious about mothballing

as opposed to closure, what should it put in place to make an effective mothballing process in terms of job numbers?

Michael Leahy: Geoff can answer the particular question because he works locally. I do not know precisely what the numbers would be, but we would need to keep a significant minority of the work force because we have a widespread skill base that we need to retain. If we put in the salamander, the likelihood is that unless we keep a certain amount of heat in the furnace, it will collapse and cost a fortune to put back in production. Our view is that when they put in the salamander, that will be it. The works will close.

Q35 Mr Anderson: If the company were genuine about mothballing, can Geoff put a figure on what sort of numbers we would be looking at?

Geoff Waterfield: It is a process that is now happening locally through some of the many work teams that are going on with local management. Obviously, we have the TCP business on the site, but we must look at other businesses such as the engineering processes and administration as well as the areas that are not being mothballed. There are many levels of support. Given that we are not at that point yet, I cannot clearly give numbers but, from our view, we want to know whether Kirby Adams and the company are genuine about such action being a genuine mothball and not a "one man and his dog" job. As Mick said, we are talking about delicate, sensitive and very expensive equipment. In a couple of weeks, the salamander will be going in. We are certainly not at that stage, which is another case for the extension. We would ask local management as well as Kirby Adams that, whatever plans they want to put in place, they demonstrate clearly that they can bring the blast furnace and production back on line if a buyer is found within the next three, six to 12 months. That says that skills have to be retained. They are vital. The numbers are vital. It is no good chopping away at the work force, making people redundant, then finding a buyer and having no one with the skills to operate a plant. Kevin can talk about it better than me, but we often talk about transferable skills. A lot of the people who we are talking about have one-off, unique skills as we see in mining and shipping. If we let them go, that knowledge will not come back—it will disappear for ever. A true mothball means protection of skills right across the site and an ability to come back on line. Again, we need to scrutinise the company's view of that and make sure that it is not a "one man and his dog" operation,

Steve Readman: We were given a commitment at the national meeting in London that it was to be a correct mothball as Geoff said, and that the plant would be taken down in a proper controlled manner. If it isn't and the mothball isn't correct, and the correct people aren't kept in place, the recommissioning costs for that site for a potential buyer will be huge and will impact on anyone coming along to buy the place.

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Q36 Mr Anderson: Could you sack 1,700 people and mothball the property?

All Witnesses: No.

Q37 Mr Anderson: Is any work being done on—I hate to use the term because I know that it's not what you want to talk about—managed decline? Is there a part of the work force who would be prepared to go voluntarily at this moment in time? Could they be managed in a way that allows you to let them go voluntarily and be looked after properly, and retain the work force that would do the effective mothballing? If there is that, is there a reward for the Government in potentially creating a snap redundancy situation?

Michael Leahy: Geoff has the local knowledge.

Geoff Waterfield: It's no secret that we have an aged work force. Statistics will tell you that people change jobs every seven years, and seven times in a lifetime. I have been in the steel industry for 22 years and I still class myself as a cabin boy. I am still a new starter compared with an awful lot of people who have been there 40, 45 or 30 years. Clearly, there are numbers there who would volunteer, but there are just as many people who are reliant on that job. Nowadays, people have very expensive and very large mortgages. So, we are in that process of looking at who would be interested and what the total numbers of hard redundancies would be. It is a very difficult process.

Q38 Mr Anderson: The unions are not resistant to that as a principle? You are not saying that nobody should lose their job. You are prepared to lose some?

Geoff Waterfield: We're not blinkered to anything; we must look at everything. When we talk about thousands of people, there will always be a percentage of those who are willing to go, but there is a large percentage of people who need the job.

Kevin Rowan: The region has quite a good track record of coping with large-scale losses.

Mr Anderson: Too good.

Kevin Rowan: Yes, we have a lot of practice in it, unfortunately. In previous large-scale closures, we have talked about redeployment of 85% and 90%. You have to put that in context. It has often been the case in other parts of the region where it has been in a different economic environment and in different sectors, where the age and skills profile that Geoff alluded to have allowed it to be more successful. You need to consider the question in the unique circumstances of this company in this area at this time. I heard some of the earlier comments about the resource that is coming from BIS to continue and complete the apprenticeships, which is incredibly important and very welcome, and I am sure that my colleagues would echo that. We might go on to talk about the additional money for developing the economic base more broadly in the Tees valley, which is very welcome, despite the comments from the previous session. It is hugely important, particularly in enabling the supply chain around Tata Corus; we have 14,000 to 16,000 engineering workers dependent on the industry. So, developing the broader company base is important for

maintaining those jobs, but it is not realistic to suggest that the vast majority of those workers who would leave Corus, whether it is a mothball or closure, will either move into their own business start-ups or other employment. We need to emphasise that losing the sites and losing production is devastating.

Alan Calcutt: In response to David's question and to Geoff with regard to voluntary redundancy, from a union point of view we look at any option that gives us the chance of sustaining a viable future. If it means releasing people, we will release them. We must be mindful and consider it in a sensible manner and retain skills. That is where the Government will have to play it right.

Chairman: That's really valuable. I think that Phil might want to end the session for us.

Q39 Phil Wilson: On the back of the voluntary redundancies, are there any figures around about how many of the 1,700 redundancies would be voluntary?

Alan Calcutt: The figures are being collated at the moment, and obviously they will then have to be defined into the various groups, profiles and ages.

Geoff Waterfield: There are no voluntary redundancies. If Tata hadn't made the decision it made, people wouldn't even be thinking of these things, and that affects 1,700 jobs directly and, as Kevin had pointed out, the supply chain and the direct contract fraternity. People look at second and third options because they are forced to do so. By definition that means they are forced redundancies. No one has been on this trail as a voluntary campaign, so as far as we are concerned they are forced redundancies.

Michael Leahy: You also have to understand the age group issue, because the Government have changed the pensions, which will change in April, and of course there are a number of people who will find it convenient to go because that pension option will no longer be available after April. Those people might well be anxious and think, "Well if I need to go, I need to go now." There are a number in that category.

Chairman: We understand that.

Q40 Phil Wilson: I have a question for Geoff. At the very start you mentioned offering imaginative ideas to Corus on how it could keep things going. For the record, are there any examples you can give us about what alternative ideas there are for trading at the moment?

Geoff Waterfield: No. I am not prepared to talk about my ideas. If Kirby Adams can't even come to speak with me, I will not talk openly about that. Some of those ideas are sensitive ideas that may potentially need support from the Government or other people, and that needs to be done in the right place and at the right time. I do not say that with any disrespect, Chairman, but you can appreciate our position at this moment in time.

Chairman: You might be persuaded to talk with us privately and off the record, and that would be very valuable. I say to all our colleagues that if there is

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anything else you wish to say now, please do so. We have got your message loud and clear and understand where you are coming from and the evidence, but if there is anything at all that you would like to say, please do so. You will remember, Mike Leahy, that in 2001 many of us spoke against Moffat, and he wouldn't speak with us either. They

seem to have a tradition of wanting to make decisions about money and not about people or steel.

Michael Leahy: We gave him the red card and he went.

Chairman: Yes he did. Thank you very much everyone.

Witnesses: **Alan Clarke**, Chief Executive, and **Ian Williams**, Director of Business and Industry, One NorthEast, gave evidence.

Q41 Chairman: We are starting the third session, everybody. We are delighted to have before us One North East, an important economic arm that the Government have established in the region. I and my colleagues have worked with both Alan Clarke, who is the chief executive, and Ian Williams, who for those of us on the Tees, has often represented the clear face of One NorthEast. I welcome them both. This has been a difficult, if interesting, morning; at times it has been a very interesting morning. You have heard from a number of people giving evidence that establishing a relationship with Tata—establishing a relationship with the parent company of Corus—is not just difficult but impossible. We know we need to have that relationship. Could we ask you to start by stating your relationship with Corus, which—we are convinced through Jon Bolton—will be very positive, and also Tata? As you are the arm of Government, we are keen to hear, though this might be asking you to take one step too far. Government Office for the North East is not with us today, which is probably our mistake. If you know of the relationship—if it is not with you, it is with Government Office for the North East—we would appreciate it if you could pool that information. If you could start with that, we would be very grateful.

Alan Clarke: The agency, Ian and I have a very good relationship with Jon Bolton, the local management, the trade unions and some of the work force. That goes back way beyond the current difficulties. We have a strategic relationship with it as a major company. In the early days of the consortium agreement, I met the consortium members. That was during the good times. Even in relation to the marketing of the region, we had a "Passionate about Steel" banner and Corus played a full part in that. In dealing with international companies, we have clear arrangements with central Government, whereby the regional development agency, for the most part, deals with plant management within the region and central Government tends to deal with the international headquarters. It is different for a company like Nissan, because Nissan has only one plant in the UK, which happens to be in Sunderland. We have very good relationships with companies like that. Where you have companies that have different plants in different parts of the country, or in the service sector as well, it clearly makes sense to have one key point of relationship. We work with the civil servants in the steel unit in relation to this particular industry, but when it comes to a meeting with Tata

at the highest level, or Kirby Adams, it tends to be the Secretary of State at BIS, or Pat McFadden, as the senior Minister. We deal with the civil servants, so that we keep in touch with each other and there is liaison, but I would say that our involvement has been with Jon Bolton and the local team, and with the trade unions in the region. If you think of all the companies in the country that have different plants in different places, it makes sense to do that. Government office is giving evidence next week, so you can ask that specific question then. From my knowledge, I don't think it will have had direct contact with Kirby Adams or Tata.

Q42 Chairman: The disappointment for us is that this gentleman lives in Hexham. It would seem, in straight geography terms, it would be quite easy to have an effective relationship, but I accept what you have said. In the agenda that you have developed and determinedly set away, have you been developing ideas of retaining and supporting the retention of Corus on Teesside?

Alan Clarke: Yes. From the spring of last year, when the announcement was made about a potential mothballing, we very quickly set up a response group, which I have chaired ever since. All of the key partners, politicians, the company, the unions, everyone is involved and, to start with, we met every two weeks. Right from the very first meeting, the overall key tactics were agreed and have remained the same throughout, the first and top priority has been to do all that we can to help keep TCP going as a viable business in whatever way possible. We also had to put in place contingency plans, which we hoped we would never have to use, with people such as Jobcentre Plus. There was such a large work force at risk, so we thought that we needed to plan for the possibility that the worst might happen, but hoped that we would never have to use those plans. Indeed, until December, those plans were not required. We also put in place work streams around the supply chains. The supply chain companies are, interestingly, mainly outside the North East, so we have passed those to our colleagues in other regions. We are also looking at the acceleration of projects of the sort that John Lowther referred to, and at the availability of land for new projects. More recently, we led the discussions with Government in relation to the £60 million package, which we made clear could be delivered and does not mean you can only get that money on the basis that TCP has to close. We made sure that we kept that open as an option.

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So the twin-track approach remains. Everything is to be done to keep TCP going and to keep the work force together and so on, although that is incredibly difficult in the current economic climate. We are also putting in place all of those other plans, in the way that Kevin Rowan also referred to, in terms of the future development of the economy. That has been the agreed approach from the beginning. Vera Baird, who was at the first meeting, agreed that approach as well. That is the tactic.

Q43 Chairman: That is really valuable, and it is valuable to know that the £60 million is here whatever happens. Frankly, many of us complain—I'm sure you know this—that it is seen as One Newcastle rather than One NorthEast. That irritates many of us. I accept, knowing Ian Williams, that that is said less and less, but there is often a concern that we do not get our fair slice of the action. Before I finish, could you take us one more step down the road of this journey of understanding? You have said that you had a twin-track approach and that you were determined to ensure that, where and however possible, you would involve One North East in the retention of Corus on Teesside. How and in what way did you facilitate that? How did you deliver a policy, and what was Tata's response?

Alan Clarke: I think that goes back to the first question. The main way in which we did that was by working closely with local management here looking at how the price of steel was increasing, how the 90-day notices were being put back, and how it looked a lot more optimistic with potential buyers in the market, although, for the reasons that others have said about confidentiality, we were never told the names of those companies. Once it got to the summer, it all looked very much more positive: the company was exporting internationally again and, at the same time—obviously, within central Government, discussions that we were not party to will have been taking place with Tata and senior management—we always kept in touch with the civil servants within the steel unit in BIS to see how things were developing in that market. The management from Corus gave an update, without naming names, on how those conversations were going at every response group meeting that we had. It seemed to be going in the right direction for a period of time, but there was a lot of pessimism in the last month or so leading up to Christmas, because the steel price had reduced a little and the discussions were clearly not going as well with companies. I know that Ian wants to come in on this, but the other thing to bear in mind is that, while part of the public sector, Government and regional agencies such as ours can assist in the process; in the end, commercial deals are done between multinational companies and people who are willing to sell or buy part of a business. Others, unless they are invited into those discussions, cannot really get directly involved. We are talking about commercial companies that have big decisions to make. Trying to get an input into that is not always easy.

Chairman: We would support that as a Committee; we know that if you are not profitable, you are not going anywhere. We actually think that there is corporate responsibility as well. What we are not hearing this morning is that this company has been as responsible. That is most definitely the case locally and with Jon Bolton and his team, but we are very concerned that this does not extend to Tata.

Ian Williams: May I make one or two observations? It is clear that throughout this process, certainly over the summer and into the autumn, there has been regular engagement from the top of Government, including Lord Mandelson and Pat McFadden. I am aware of a number of discussions and meetings that Pat McFadden has had with senior management at Corus Tata, presumably on group strategy and TCP in particular. I know that Alan's office has engaged recently in two-way communication on the outcomes of those particular discussions. Pat McFadden is aware of some of the local issues that are happening here. In terms of ongoing engagement throughout the summer, it needs to be noted by the Committee that I have met the HR group director of Tata and Ian Goldsmith, the external relations man. We have exchanged correspondence with Phil Dryden, the commercial director.

Q44 Chairman: Okay. So you feel as though you have had effective discussions at the appropriate level. In those effective discussions, wherever they were, was there no suggestion until November that we were going to face mothballing in December?

Alan Clarke: That is not quite the position. All I was saying was that there was increased optimism through the spring and into the summer because the price of steel had increased. Initially, the output was going only to other parts of Corus, but then exports were beginning to pick up again. Talks were obviously going on, and we were told that they were going on, without being given a name. I don't think that at any point, anyone within the local management said that the potential mothballing was off the table. It was always pointed out that that was still a possibility. The local management tried hard to push back the date on which anything may happen. Once it got to late November and December, the messages coming from the company and the response group were much more pessimistic about the outcome. But I think that throughout the whole time, mothballing has been there as something that could well happen. I don't think the company had ever taken that off the table.

Q45 Chairman: One last question before I bring my colleagues in. I would like your view on a management strategy that sends employees letters in early December stating, "Well done, everything looks okay, we're going places."—again that was Kirby Adams—and within a week, they are told that the company is to be mothballed. This is a difficult question, but frankly, we stress corporate responsibility. What is your view?

Alan Clarke: I have worked in the region since 1977 and have been involved with businesses, helping people to get jobs and so on. I have dealt with

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positive news when companies have expanded as well as companies that are closing and downsizing. I have a real feel for communities, people and families when they get bad news. I was not aware of the particular letter that you talked about, but that is clearly a really awful way of dealing with people. There has to be clear, honest communication about what the position is, as has been the case with local management. I have every sympathy with the people who were given those two very different messages in such a short space of time, if that's what happened.

Q46 Mr Anderson: Over the last year, we have met you on a number of issues. I will name some of them: the positive news around Nissan, the development of offshore wind power and the infrastructure for things such as electric vehicles. Those things will all need steel. If this place goes, where will we get that steel from?

Alan Clarke: Ian might be able to help me here. I do not have sufficient knowledge of the steel industry to know what products are required for each purpose. I understand that what you need for the automotive sector might be very different from what you need for offshore wind turbines and platforms. The offshore wind industry and the gas industry may have different requirements. In the broader sense, I have always supported the importance of manufacturing and of having a range of highly productive and efficient manufacturing in our own country to provide as much of the supply as we need going forward. We should be developing the skills that are required to develop those new industries. In the North East, we still have a higher proportion of the work force in manufacturing than other regions. Certainly, it would be ironic if in a number of years' time we needed that sort of steel—I can understand that point—in some of these newer industries and we weren't able to provide that from here. But I don't feel I know enough about the industry technically. Ian probably knows a bit more about that than I do.

Ian Williams: In terms of the technical aspects, that question is best addressed to Corus on Tuesday, in terms of its internal capability to address certain markets. Offshore wind is one example that clearly represents a significant steel opportunity for the UK. So I am absolutely certain that Corus, in its various guises, will be able to benefit from an uplift in activity there. Whether it's this particular facility, with its particular technicalities, I don't know: that question is better addressed to Corus.

Q47 Mr Murphy: You touched earlier on the situation with Nissan and said that it wasn't really comparable with the current situation in respect of Corus. Nevertheless, you played a pretty important role in assisting Nissan get through a difficult period. As a result of all the work that was done by yourselves, other agencies and Nissan, we ended up with good news and the prospect of a battery plant, if not the production of a battery vehicle. You shared that with us. All through that process, you sensed there was determination within Nissan to succeed and that, whatever the odds, it was determined to

maintain a presence here and to expand if possible. In your discussions with Corus Tata, have you sensed that same determination to remain here?

Alan Clarke: From the local management, yes. But the difference is—going back to what I said earlier—Nissan is the only plant that it has in the UK. We have a strong relationship with the senior vice-president, Trevor Mann, who worked his way up through the Sunderland plant but now has much wider responsibility. Also, through our offices in Japan, we have strong links with the international HQ. Being the most productive car plant in Europe, and certainly in this country, Nissan was already switching on to new areas of technology, including possibly battery technology, and so on. It has clearly been happy with the work force and the supply chain in the North East. We were already knocking on an open door with a company that was looking to the future and we had strong support from Government, under New Industry, New Jobs, for low carbon vehicles, and everything that goes with that, which helped get the battery plant. Because I haven't engaged with Corus and Tata at the same level, I genuinely don't feel I could answer the question you've just asked me. But there was certainly, within Nissan, a real determination at the top levels to look for new technology and new opportunities within the Sunderland plant, while having to accept that 1,200 people had to lose their jobs for a while—although the car scrappage scheme has helped since then.

Q48 Mr Murphy: But you would accept that there is huge potential within this region. We haven't kept it a secret that there will be a great demand for steel over the next 20 years. Tata must be aware of that potential, not just in respect of the offshore wind farms, but the whole idea of this region being a world first with a carbon capture and storage grid. That infrastructure would have to be produced and developed here. There is a future in this region.

Alan Clarke: Yes, absolutely. There are several things to say about that. In one sense, what's happened to banking internationally has demonstrated that the service sector alone can't be the solution for our economy. That has made a lot of people who perhaps weren't as convinced by manufacturing realise that it is important. I don't think we ever lost that in this region. Nevertheless, everyone has woken up to the idea that high-quality manufacturing is important. Going forward, you're right: all the plans that we have in region, that everyone's bought into, put a strong emphasis on manufacturing. That will require steel and lots of other supplies, raw materials and parts, and so on. So in the broadest sense, yes, absolutely.

Q49 Chairman: Do you know, Ian, whether the debate about carbon capture and Tata has taken place?

Ian Williams: I'm having that discussion with local management here, in terms of how we are taking forward the development work for the process industries and how Corus could clearly benefit from and have an input in that process, leading up to

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submission to the Government in terms of the four demonstration projects that will be announced in September this year. We're putting forward a compelling proposition that would suggest that the North East needs to have one of those four demonstration projects. Corus, being where it is at the moment, will be a significant player in that debate.

Chairman: And would benefit, enormously.

Ian Williams: Absolutely.

Q50 Phil Wilson: I just want to ask two or three questions about the £60 million package. What is your basic view of the package, and what do you think can be achieved out of it? Apparently, £30 million of it has to be found from within the region. There is talk of producing 3,000 jobs and supporting a further 10,000 in the long term. Where would you see those jobs coming from, and what are your priorities for apprenticeships?

Alan Clarke: I suppose I have a vested interest in answering, in the sense that I was the main person within the region who brokered the deal with BIS and Lord Mandelson, so I do think that it is a valuable thing to have secured for the region. There will be lots of views about whether there should have been more money, and whether it is being spent on the right things and so on. I have had a lot of experience of engaging with Government both in good times economically and when things are difficult as well, and you sometimes get a feel for when you are knocking on an open door, for when the Government are obviously very much wanting to support and help. On this occasion, to have a meeting with Lord Mandelson and all the other partners within just a few days of the announcement, and to be in a position over the weekend prior to that of being able to put a package together that in the end brought £30 million of extra money into this region from outside, I felt was worth pushing for. There are many other occasions, either here or in other parts of the country, when people are not offered £30 million in that space of time in relation to an economic setback, so I just felt that the principle of securing an extra £30 million within a few days was a good thing. You are quite right that the downside is that we are matching that, but again, if we are a regional agency and we are focused on jobs—despite the comment about “One Newcastle” we do care about the whole region—surely we should be able to reprioritise at a difficult time. If at the moment the Tees Valley economy has real issues, it seems right to me that we have to make some tough choices. We did manage to get in there as well that we would use some ERDF money, so it is not all One NorthEast single programme resources. We will have to find this money over two years, and we have to take that discussion to our board. Also at the meeting, largely as a result of Vera Baird's intervention, it was very clearly agreed with the Government that, to go back to what I said before, this was not £60 million that would only be available if TCP closed, but that the twin-track approach was accepted—that “Yes, you carry on still trying to find a viable alternative, but here's £60 million for a

range of economic activities”. Ian's leading the detail on those. Some of them are around the chemical sector, which also has some issues at the moment, some are in relation to Teesport, some are in relation to apprentices, skills, training, business support and so on, and some are more medium to long term, around the carbon capture issues that we are talking about. Some people say that £60 million is not enough to transform the Tees Valley. Clearly it is not, but don't forget that all of the normal programmes that everyone is involved in—us, the Learning and Skills Council, Teesside university, the councils, the Homes and Communities Agency—are still going on in Tees Valley as well. We should not just think there is a £60 million pot of money being spent in Tees Valley to help to transform the economy. Ian is overseeing the detail of the £60 million.

Ian Williams: One of the comments made earlier was about this money being seen to support the direct workers, and it is important to emphasise to the Committee that this is additional money to the response group moneys that are already in place through Jobcentre Plus and Business Link to support clearly the workers who will be affected should mothballing arise here. To address some of your comments, Mr Wilson, about why we have the programme and the sorts of things it is going to achieve, it is to accelerate that industrial transition, to seize the new opportunities that clearly are going to present themselves over the next one to five years. As my colleague in Tees Valley Unlimited, complemented by Amanda, pointed out earlier, there is a need to diversify the Tees Valley, and so this money is specifically targeted at accelerating the work that needs to be done. Again, in response to some of the earlier comments about whether this money is just going to go in consultancies and areas such as that, I will give you a categorical assurance that the money is designed to accelerate investment opportunities in the short and medium term. Where infrastructure activities are required, such as carbon capture and storage, they are investments that will leave a long-term legacy and platform to build on and encourage further investment. In terms of the sort of things that we did when we developed the Tees Valley industrial programme, which has very wide buy-in from the local authorities and Tees Valley Unlimited, we are developing proposals in conjunction with the private sector. It is very important that private sector proposals come forward to utilise some of the money. The industrial programme recognises the need for diversification but it also acknowledges the important work done by Tees Valley Unlimited in terms of the North Tees/South Tees study, which identified barriers to investment and some key infrastructure activity that needs to be addressed if the Tees Valley is going to fulfil its potential going forward. Furthermore, it complemented the work that the process industry has done through its NEPIC leadership team in identifying specific issues that are pertinent now to the process industry on Teesside. In part, the Tees Valley industrial programme acknowledges and responds to the things raised by the TVU work and

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the NEPIC process leaders' work. In terms of the activities you mentioned with regard to apprentices, we have resolved through the response group a short-term issue with the Corus apprentices, should mothballing occur. However, there is clearly an acceptance in the Tees Valley that there are further issues of demand and support for industry to accelerate the need to take on apprentices. We are very much using some of the money to support the National Apprenticeships Service and private industry to look at the short and medium-term issues in the Tees Valley and at how we put a mechanism in place that increases the throughput of apprentices, and, more importantly, to look at some of the issues for apprentices coming out of programmes. Where are the companies to take the apprentices on the programmes? We are going to target some of this cash at supporting the wider Tees Valley, in terms of where are the issues and what are the actions required. Other elements of the industrial programme—I highlighted Lord Mandelson's statement—were to support the process industries. The principle behind this is to encourage investments from the private sector and, where appropriate, from public-private partnerships on things such as CCS and some of the pipeline activity. There are some barriers that we have to address on some of the rail gauge enhancement activity, if we are to seize the opportunities that have been talked about this morning with regard to the port. We will be unashamedly targeting some of the money at those areas that we feel will present a better platform for Tees Valley to grow and seize the opportunities over the medium term. In terms of Wilton, it is about competitiveness and sustainability. It has been a hell of an 18 months for the process industries, in that the bulk petrochemical industries have basically tracked the housing and automotive sectors and, as we know, those sectors have gone into significant decline. It is starting to emerge now, but it is very clear that the process industries have still got issues. We have to enable them to look at where they need to be in one to three to five years and at how we support them in that transition. Some of the money to support the Wilton and the process sector is quite clearly to put in place the building blocks—the sticking plasters—to ensure that our process industries in Tees Valley can get through the difficulties of the next three to five years and then seize the opportunities that low carbon and new feed stocks will offer for the region. In terms of the infrastructure activity mentioned in the Tees Valley programme, this is a wider Tees Valley programme. I am not going to say today that I am focusing on one particular patch. This is about creating job opportunities for the wider Tees Valley. That, clearly, will come in a number of different ways; that will come from supporting indigenous business growth and supporting foreign direct investment, building on the infrastructure that we've got, but the programme must also address enterprise. We want Tees Valley to be a more enterprising area. Some of the work that we want to do through the programme is to make more activity available. We want to encourage, across the wider Tees Valley, more

enterprise activity. We want to see more people in Tees Valley actively start their own businesses. The start-up rates, while they have improved, are something that we need to go further on. It will be a portfolio approach in terms of addressing enterprise, investment and infrastructure.

Q51 Phil Wilson: Is the Government's estimate of 3,000 jobs accurate?

Ian Williams: In terms of the broad headline—3,000 jobs underpinning 10,000—given the number of people employed in advanced engineering services and in process industries, and the catalytic effect that would have if the process industries were clearly not supported to grow, about 10,000 people in the Tees Valley would be affected. Therefore, underpinning 10,000 jobs is absolutely clear. If we cannot sustain and make the process industries more competitive, the longer-term threats are significant. The opportunities going forward are also very significant, so we are almost at a watershed moment. In terms of the 3,000 jobs on the programme, my colleague, John, outlined the pipeline investment project. That is a robust pipeline covering a one to three to five year period. It is absolutely robust. Will the same names appear on that project list in a year's time? Absolutely not; it is a fluid project list. Some will come forward and accelerate, some will go and new ones will be added to the list. I can say that a number of opportunities are currently being pursued—energy-related investments, biomass-related investments, new industry and new job-related investments, in particular in offshore wind and renewable activity. We are, despite the difficulties in the past 18 months in the process industries, still talking about significant investments to be made in the process sector. We are seeing a world-class engineering services sector in the Tees Valley in particular. It has also had some problems in the past 18 months as demand for their services has diminished, but there are global players. There is a real opportunity to grow these engineering services companies in the nuclear, oil and gas activities going forward throughout the world. There are opportunities and reasons to be optimistic, without being over-optimistic, because we recognise some of the challenges that we have now and will have going forward.

Q52 Phil Wilson: I have put together two more questions. First, we asked earlier about all the land on the Corus site. Will you be involved in trying to unpick that, if the worst comes to the worst? I think that that is relevant to this. Secondly, has BIS said to go back to them for further funding if necessary? If it has, is there any kind of time scale?

Alan Clarke: In relation to the land, we discussed that at the response group. We regularly talk about acceleration of major projects. I have some sympathy with the company on this, because in deciding to mothball the plant—if it comes to that and if they are genuine about that, and obviously everyone around here wants that to be the case—it needs to draw a line around a piece of land that would enable anyone coming in to buy it to run a

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sustainable steel plant. Therefore, it has to be a bit careful about which pieces of land. We are talking about a lot of land, as John Lowther pointed out earlier. While there was the potential of a buyer during that period, the company was a little reluctant to get too involved with pieces of land that might be required as part of any sale, as you can understand. Having said that, during that period, it invited interest from particular companies or organisations who may have projects to identify which pieces of land they may want for a particular type of project. I know that very recently a meeting at national level has taken place, and I think the company has confirmed, for quality projects that are going to create jobs rather than for speculative development. As long as that does not cut across the possibility of keeping the plant going, the company will be very positive about that. We feel now that we are in a position to discuss major projects with the company and local partners in Tees Valley, but there may be some that go too close to the core of the site, so it will say, "No, we need to defer that for the time being because we do not want to put potential purchasers off." I wouldn't say that in agreeing the £60 million, as we left the room, someone said, "Oh, and by the way, come back for more if you want some." I would not say that that was the case. Obviously, even though we are coming out of recession as a country, there are a lot of economic issues in other regions as well. In fact, if anything, we're having to do more with less—generally our budgets are reducing. If anyone can assist to secure some extra money for the North East, that would be very positive.

Ian Williams: On accelerating investment projects, it is important to look at the wider Tees Valley as well. Clearly we want to see Corus projects accelerated there that are synergistic and add real value, but there are opportunities at Wilton, North Tees and Hartlepool. It would be wrong for us to close our eyes and not maximise those opportunities. We must do that. In terms of moving forward, it is absolutely clear that we have the total support of local management at Corus in opening up those discussions. It has been a difficult process for them throughout the last six or 12 months, in terms of what a sale would mean, regarding their footprint, to the new owners. Clearly, there was a moratorium, which was obviously restricting conversations at that time. The first objective for all of us is to retain TCP in its current form, but we have been very clear in our discussions with John Bolton, who has been honest, professional and very open throughout this quite difficult period.

Q53 Chairman: We accept that, knowing him and having worked with him for many a long moon. I know that sometimes you will feel that you are not heard fairly and squarely. For us on Teesside, if the £60 million had been put on the table specifically and absolutely to ensure Corus's future, there would have been a loud cheer. To put it on the table to secure jobs that may be there in three or four years' time is problematic. Nobody denies all that Ian has said about the process industry—nobody denies

that—but everybody wants, at this time and at this point, to say, "Government's role is to focus on maintaining and retaining what we have." We are particularly mindful of the statement that a passport for salaries could cost us, as a Government, somewhere in the region of £11 to £12 million over six months, but the payback would be more than £40 million. That argument alone means that your looking to start spreading your wings in other areas at this time seems to us to be taking your eye off the ball. We would have chosen for you to remain absolutely focused on saving Corus. But of course that is our opinion and we have to live with that. As we end this session, I promise you that if there are still things that you want to say that you have not said, of course we will make time. However, if you were to make an assessment of the economic impact as a whole—on supply companies and all—if Teesside Cast Products were mothballed, what would it be?

Alan Clarke: We put this in our submission. We have an economic model for the region that is independent of any of the individual organisations, so that was the model that we used. It said that the multiplier on this occasion was 1.9. Different people will have different multipliers, but that is what we have put in our evidence. So, for us, clearly there is a big impact—I am not in any way minimising it. In addition to the 1,700 people from Corus directly, our estimate is that there will be 1,100 job losses in the supply chain and a further 400 job losses in the wider economy. This is a science only up to a point, but that is the best that we can say. I must say that what surprised us when we got the supply chain information, which was probably about six months ago—we have been working with the supply chain through Business Enterprise North East and others for a long time, as well as with Corus and the chamber of commerce—is that because Corus changed its procurement processes a number of years ago, to make it much more central, fewer companies than you might expect in the North East will be affected. I am not belittling that. In the good times, that is a bad thing, because the North East has had less wealth creation and so on. However, if the worst were to happen, it means that the impact is not so local. Roughly speaking, there are 98 regional companies with a value of £57.8 million, but there are 235 national companies with a value of £270 million, and there are some international companies, too. There are about nine companies, most of whose business, or a very high proportion of it, is Corus business. So we have had a supply chain activity work stream for a long time. It's possibly because more of the supply chain is outside the region that the multiplier is not higher in the economic model. But I am not belittling these things. When you start talking about thousands of jobs, rather than tens of jobs, that's significant, particularly when we're at the back end of the recession.

Chairman: Of course, we would add that we invariably find that the new jobs are significantly less well paid. We would be losing a company that pays well and whose employees spend well in the community. The gross value added loss could be absolutely enormous.

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Alan Clarke: There's likely to be a mixture—some jobs will be created where it is entirely as you say, and the wages will be lower—so the impact on the community will not be as great. To take some of the areas Ian was talking about, the wages and salaries in the new industries will be good. So there will be a mixture, but you're right that some of the jobs will not be as well paid, so the community will not benefit as well from them.

Q54 Mr Anderson: May I ask Alan or Ian whether we can explore any other avenues to get around the problem of there being no prospect of using state aid to support what's proposed? May I also say that One NorthEast has had a bit of a kicking today, but I don't think that it's deserved by and large, because it has done a great job for the region? One of the saddest things—I will be political now—is that if the election result goes the wrong way, One NorthEast will quite possibly not exist any more, because the Tories are committed to doing away with it and the Liberal Democrats, as on most things, don't know what they're going to do about it. I make the point to the people in the audience that the Liberal Democrats and Tories have boycotted this Committee today, and they boycott it in general. They could be sitting here today asking questions of everybody who has come through the door, but they have chosen not to come here and not to take part in this process, and people need to notice that on Teesside.

George Dunning: Chair, that's slightly unfair. Next to me is the leader of Stockton council, who's a Conservative.

Mr Anderson: He's not sitting here. The Conservative party has taken a deliberate decision not to sit on these Committees.

Chairman: I have to say with great sensitivity that you're absolutely right. But to keep order, I have to ask people from the audience not to speak. I am really sorry Councillor Dunning, but I have to put that in, because what you say will not be put into the report. We are talking about Members of Parliament.

Alan Clarke: I am not a world expert on state aid, which is highly complex, although we have people in the organisation who have expertise in it. There is no doubt that, even in normal times, checking what you can and can't do through state aid can be very complex. With a lot of the activity that we undertake as an agency, we have to get advice quite regularly. We have to ask, "Can this be done? Is there a more flexible way of doing this? Does this meet state aid rules?" Even in normal circumstances, that is a big issue for us as an agency, because you can always be open to challenge when you intervene. On things such as ports and steel, it is even more difficult to be absolutely clear about what you can and can't do and about whether that will be interpreted differently in different countries. I am not just

ducking this, but, generally, when an issue becomes as big as this, and you're talking about wage subsidies, national-level interventions and precedents that only a central Government can really set—cases where a Dutch Government or a German Government make a decision—it is probably more appropriate to look at it with the Government themselves, and they will be in the Select Committee next week. I could not discuss that. However, I agree with one other point made in the earlier session. There is also an issue about cost when you talk about wage subsidies. I am not pouring cold water on the idea, but once you set the precedent at the national level and talk about wage subsidies during a recession, the question is where you intervene, what the priority is, how long you go on for and what the cost is. I'm not necessarily saying that you shouldn't do go down that road; I'm just saying it's a very difficult area. Once you start, you have to have a very clear view and you have to have some idea of what it costs.

Ian Williams: My colleague in one of the earlier sessions referred to rescue and restructuring aid. Clearly, it is something that can be considered for certain situations. I am not an expert in the complexities, but I understand that certain outcomes have to be achieved and certain time limits have to be placed on restructuring and rescue aid. That is something that the UK Government have to consider. As was mentioned in the session with the unions, critical to this is clearly the attitude of and dialogue with Tata Corus. I know that your colleague, throughout the response group process, has raised the possibility of this with Corus, but unfortunately, didn't receive a positive response. Conscious of what has been said about the possibility, clearly there must be two parties in a marriage, and that is the thought that I would leave with the Committee.

Phil Wilson: With the £60 million, you have to look at state aid rules.

Ian Williams: We do. All the interventions we have to make need to be state aid compliant. As we work and develop under the programme, individual companies that receive some of the moneys have to be state aid compliant.

Chairman: That you very much. I think that, if we have a tremendous quality, as British people, it is that we are honest to the point of ridiculousness at times. I think maybe like the Greeks, we should get a few columns that say "research" and "future development". I know that this is not easy, but I am saying that sometimes we dot the i's and cross the t's, and we are so fastidious, and we are the only ones in Europe who are fastidious. We have an industry we need to save—it is the absolute requirement. But I say to both of you, thank you very much. We are very grateful to you for coming here today. It has been a long and important morning. Thank you very much.

Tuesday 19 January 2010

Members present:

Ms Dari Taylor (Chairman)
Mr David Anderson

Mr Denis Murphy
Phil Wilson

Witness: Jon Bolton, Managing Director, Teesside Cast Products, gave evidence.

Q55 Chairman: This is the second session of taking evidence on Corus. I specifically welcome Jon Bolton from Teesside Cast Products. Jon, we have worked together very well for a long time. Sometimes we have hit very difficult times at Corus, but we have survived them—as a smaller company, but we have survived. You are warmly welcomed. The members of the Committee, too, know of the work that you have done and, like your Teessiders, are very impressed with the way you organise and have managed TCP and Redcar steel. You will know my colleagues: Dave Anderson from Blaydon, Phil Wilson from Sedgfield and Denis Murphy from Wansbeck. Our Clerk to the Committee is David Weir. I am Dari Taylor, from Stockton, South. As I said, you are warmly welcomed. I want to start with a fairly quick question. We have 45 minutes, so we really want to motor with you this afternoon, Jon. We received a press release that was published after Tata's board meeting in November. In that press release, Mr Adams stated that life had been tough; the situation for steel and construction was fragile, but he felt that we were over the worst. At that point in November 2009, we were watching with great care the steel market and listening to his words that considerable savings had been made and although the situation was tough and fragile, we were in with a good chance. That was the interpretation of his words. Could you explain evidentially how, and in what way, that picture had changed so dramatically by the second week in December, when there were notices that mothballing was going to take place?

Jon Bolton: First, I thank you for inviting me today and commend the Committee on looking at the potential effect of this decision on the region. To answer your question, I think you need to put it in the context of the history of what has happened over the past two years in the steel industry. If you go back to September 2008, we went from a period in which the industry was doing very well to the start of the recession when the demand for steel dropped by 30 to 40% and prices dropped by 50%. That economic background was one of the reasons that led to the situation that Teesside is in at the moment. You have to separate Teesside from the overall view on steel, but if you look at the global demand-supply picture, even with a modest recovery versus those dramatic reductions in demand and, therefore, output and price, there is still an over-capacity in the steel industry. The world's current steel capacity is 1.6 billion tonnes and demand is 1.2 billion tonnes, so you still have an overcapacity of almost 350 million tonnes. The situation is very similar in Europe where the overcapacity is around 130 million to 140 million tonnes. So even in a situation where

we see some recovery—as you said, the chief executive has said that we are over the worst—we still face those fundamental issues.

Q56 Chairman: It is valuable to hear that, but it is equally important that we understand how there can be four years of profit, which probably amounted to somewhere in the region of £800 million, then one year—maybe even two years—of a very tight situation where there would be some losses, and then suddenly we are faced with mothballing. It doesn't quite make sense. There is something called corporate responsibility; where would you say that that corporate responsibility lies?

Jon Bolton: Again, let's go back to the business fundamental. If you go back to 2003—it helps to put this in a bit of context—due to some restructuring that Corus carried out at that time, we were matching our steel capacity with our downstream added-value routes. So we were looking to utilise all the steel we were making by adding value through mills and so on. At that time, the volume from Teesside did not have a value-added route to market. Again, faced with the over-capacity, particularly in Europe because that it is the immediate market that Teesside fed into, we were either faced with closure or with potentially selling the business. At that time, Corus put a huge amount of effort into coming up with the consortium arrangement. The beauty of the consortium arrangement was that it provided a strategic outlet for 3.2 million tonnes of steel that Teesside produces. Without that outlet, you become essentially a steel trader. If you don't have the ability or capacity to utilise that volume, it is very, very difficult to make business sense out of that. The situation went well. I agree with you; I think the consortium and Corus made money, particularly, as I said, up to the autumn of 2008, when the markets were very strong. But then the sudden downturn in demand meant that the routes to market for that volume just disappeared overnight, which obviously prompted the consortium to break what was a legally binding contract and walk away from Teesside. We lost almost 80% of our turnover overnight, and that put us in an extremely difficult position. That's the specific situation regarding Teesside. If you roll forward to where we are at the moment, the conditions still apply. The conditions that we need to maintain a positive business environment for Teesside still exist. We need a positive market, first of all, so that the steel that we make can actually make some money, but also we need a strategic investor: somebody who can actually utilise over 3 million tonnes of steel and is willing to invest in the business.

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Q57 Chairman: Is it the case, as is thought by many, that for Tata, Teesside is taking the heavy load? Yes, the market has been slow and flat, and it has certainly declined, but actually, this should have been spread throughout the whole of Tata's empire, not simply at Redcar steel.

Jon Bolton: No, Teesside has to be seen, as far as Corus is concerned, in a European context. Just going back to those numbers I mentioned earlier, there are 135 million tonnes of overcapacity in Europe, and if you convert that steel and put it into the market, it will have a detrimental effect on the market. It's very difficult to find those routes to market, as I mentioned earlier. Hence, again, going back to the consortium deal, that was quite an elegant solution for Teesside in that we were able to partner with strategic users of slab who actually had a route to market. You have to look at it on a regional basis. For whatever reason, the other plants have those routes to market. They have mills on their sites. They can convert that steel into more added-value products and have a more added-value route to market.

Q58 Chairman: We will ask you about that later, if that's all right with you. I am nearly at an end for the moment. We are well aware that partners had a legally binding contract and that they've walked away from it. We are of the belief that that was a 10-year contract and that we are now in a position where we could see compensatory payments being made. Do you know, and would you be prepared to tell us if you do, whether those compensatory payments will be used to support TCP or the Corus site in general?

Jon Bolton: As you state, obviously, the consortium broke a legally binding contract. We initially tried to take out a court injunction to compel the consortium to fulfil that contract, which we failed to do. As a result of that, we are now suing the consortium for breach of contract. Obviously, those legal proceedings are subject to a confidential arbitration process, so it would be wrong of me to comment on that, but it is likely that it will take a number of years to come to a conclusion. The timing of that, compared with the situation that we are facing at the moment, would not coincide.

Chairman: For the moment, we will leave that. Denis is going to ask the next series of questions.

Q59 Mr Murphy: Are you confident, Jon, that you will have a successful outcome to the legal action against the consortium?

Jon Bolton: We strongly believe that there was a legally binding contract and that we are in a very strong position, but as I said, it's difficult for me to comment, as that is subject to a confidential arbitration process.

Q60 Mr Murphy: Was there anything written into the contract that made it quite clear that legal sanctions would follow if the consortium walked away from it, as they did?

Jon Bolton: As I said, it was a legally binding contract. Obviously we would take action if the consortium walked away, as they did.

Q61 Mr Murphy: Have you attempted to find other partners or other steel consumers? As we speak, are you in discussions with anyone now?

Jon Bolton: Again, it is important to put the amount of effort that Corus put into this into a context. If you go back, I have already mentioned that the situation we are faced with now, we were faced with in May and actually we were faced with in 2003, and the conclusion of looking for a partner ended up with the consortium arrangement, which as I said was quite a good move for Teesside. We started facing pressures from the consortium in November 2008—the economic situation was poor then—and in fact we faced our first challenge to mothball the plant in November 2008, which we successfully argued against with the consortium. We then obviously recognised that there might be some difficulties—the strategic goals of the consortium members were changing. We signed an MOU with two of the consortium—this is on public record—which would have taken us beyond 2014. At that point we were very positive, and that was as recently as this time last year, which was January 2009. We were then quite surprised to be faced with the consortium notifying us that it was withdrawing from the contract in April. Since then we have been looking for other partners whom we can work with. For the past eight months we have been in touch with and had talks with various potential strategic partners for the business, and it is a process that came to an end, unfortunately, in December. Regretfully, we had to announce the potential mothballing. I would go on to say, the process we were following came to an end in December, but the decision is to mothball the business, so we still have some hope that, potentially, up to the point and after the point of mothballing someone could still come forward and take a strategic role in steel making on Teesside.

Q62 Mr Murphy: How many people do you think would be needed to mothball the plant?

Jon Bolton: That discussion is ongoing at the moment. You will be aware that we had a steel committee meeting with senior representatives from the trade unions and Corus just before Christmas. As a result of that, we set up various work streams, so it is work in progress at the moment. The starting point is, exactly what do you need to mothball a plant? Those numbers will come out of that process. So, at the moment, we do not have a number as such that we can quote.

Q63 Mr Murphy: What in your view would be required, nationally or internationally, to start the plant again, after the mothballing?

Jon Bolton: We have always said—the conditions that applied in 2003 still apply now—that you need a positive business environment, to enable us to make money out of making steel, but you also need someone who is willing to come and invest in the

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business. It is not just about breaking even or making a slight profit. You need someone to come along and take a strategic interest, have a home for 3.2 million tonnes of steel and actually invest in the business. If those conditions existed, there would be the ability to restart the plant.

Q64 Phil Wilson: You were on about all the press speculation about the number of job losses being 1,600 or 1,700. If you do not know how many jobs it will take to mothball the plant, are those figures in the press correct?

Jon Bolton: The numbers were broadly those who are employed—if you remember, the numbers started at 2,300, we went through the early consultation process and, as a result of that, we were able to retain 600 jobs. Those numbers have changed again, last week, with our decision to keep hold of South Bank Coke Ovens and run that as a going concern. Yes, we put an estimate in for the mothballing, but that work has to be refined, and the number will come out in due course.

Q65 Phil Wilson: In the future, one of the areas for using steel will be in renewable energy and green industry. Do you have any plans for catering for that sort of direction in manufacturing in the near future in the Teesside plants you have?

Jon Bolton: It is true that Corus is extremely interested and sees a huge opportunity in the low carbon industries—let us put it that way—and, as I say, that is a significant opportunity for the Corus businesses in the UK and in Europe. Specifically on Teesside, there have been discussions associated with opportunities. I am not trying to avoid the question, but again they have been subject to confidentiality agreements as well, so I would not want to give too many details. To answer your question, we are very interested in that and we will take an active role in those kinds of industries, as we see that there is a potential opportunity.

Q66 Phil Wilson: What kind of time scale are we talking about, if you are going to move down that line, to get to a position where you are going to be able to produce steel for wind turbines, for example, which are destined to be put out to sea?

Jon Bolton: Obviously, that is tied to the time scale for those kinds of projects being sanctioned, approved and moving forward. We hope that our time scales would coincide with those.

Q67 Phil Wilson: Would it therefore be useful for the TCP site to be ongoing, if you have that potential expansion of your business on that site for the green industries?

Jon Bolton: No, the Teesside—

Q68 Phil Wilson: Where would you get the steel from? The slab can be used for anything, from what I understand.

Chairman: Could David Anderson add to that before you answer?

Mr Anderson: I'll let you answer that question, if you don't mind.

Jon Bolton: We have to go back again—sorry to keep pulling you back—to 2003. The steel from Teesside has predominantly been used outside Europe, and recently, the external markets for Teesside steel have been in south-east Asia. We essentially export the slab. As I mentioned earlier, low-carbon industry will provide opportunities for the remaining footprint in the UK and mainland Europe. Essentially, it is an opportunity to offset some of the reductions that we've seen, particularly recently in the construction sector, and the challenges we are facing in other parts of Corus—that is where the low-carbon industries will feature.

Q69 Phil Wilson: You have a confidentiality issue, which obviously you can't talk to me about. But if you have those potential plans down the line, is it not a bit premature to think about closing this site, if in a couple of years' time, for example, there is a great need for this steel, considering that you'll end up probably having to export it or bring it from other sites within the UK?

Jon Bolton: No. Looking at the potential demand, we wouldn't anticipate having to import. It would help us optimise our operations in the UK. As I say, at the moment all the steel from Teesside is exported, so we don't anticipate that that would be an issue.

Q70 Mr Anderson: I just wanted to pick up on what Phil asked. You said that all the steel is exported, and that you are unsure of the time scales. Last week, the Government announced the bidders for the offshore turbines, of which there will be at least 6,000 offshore. The demonstration plants for CCS will be announced this year, at least three of which are on the east coast—one just up the road from Teesside. Surely that's a new market that the Teesside steel could have covered.

Jon Bolton: If you look at the rest of the units in Corus, they are being under-utilised at the moment. If you look at the situation we faced over the last two years—again, going back to the autumn of 2008—there was significant reduction in output from all the steel plants in the UK. Our current view is that the potential growing market, which again is a positive move in the UK, would help us secure the remaining businesses in the UK.

Q71 Mr Anderson: So what? Teesside is being sacrificed to support the rest of the industry?

Jon Bolton: No, that is incorrect. Let's remember, Teesside is in the situation it's in because we lost almost 80% of our turnover, and the slab from Teesside is destined for our businesses that have a need for that amount of slab. We don't need that quantity of slab in the UK and Europe.

Q72 Mr Anderson: Is where you are now a direct result of poor decisions taken in the past, including shutting the plate mill in 2001?

Jon Bolton: It's difficult for me to comment on decisions that were taken in the past.

Mr Anderson: You have been talking about one or two of those—

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Jon Bolton: No, if I go back to an earlier answer, plants that have rolling mills on their steelmaking facilities and added value potential attached are in a stronger position.

Q73 Mr Anderson: If Teesside was able to co-operate with mothballing, would you need to build a new mill to make it viable and sustainable in the future?

Jon Bolton: Again, the conditions that need to exist for Teesside to be brought out of a mothball are a positive market environment generally and someone who has a need for 3.2 million tonnes of steel and who is willing to invest in the business.

Q74 Mr Anderson: Can you advise us? There was a lot of comment made on Friday about why Tata Corus decided to turn to the second blast furnace in Port Talbot, when you actually had the availability at Teesside to cover what you need.

Jon Bolton: It is referring again back to the earlier answer. If the market for the downstream products that are produced by Port Talbot increases, it makes more economic sense to supply the steel for those mills from the site itself. If you look at the conversion costs between ourselves and south Wales, they are roughly the same, but then you have to add transport and energy costs on top of that. So it does make more sense for the plants that have an increase in demand to supply that steel locally.

Q75 Mr Anderson: I would feel a bit more happy with that answer if you hadn't just told us, effectively, that as and when we start exploiting the green business in the North East you are going to be transporting steel right around the continent to come to the North East. That is basically what you have just said.

Jon Bolton: No, there is a difference between transporting a semi-finished product and transporting a finished product. Assuming, and I hope, that those industries are based on the Teesside region, if that is where they are, the likelihood is that the product required to supply them will be a finished product supplied from other mills.

Q76 Mr Anderson: Was the TCP plant profitable in the months before the decision to mothball it was taken?

Jon Bolton: The first decision, or the second decision?

Mr Anderson: The second decision.

Jon Bolton: In the final quarter of last year, the business was making a slight loss. We made a slight profit in two out of the three months of the quarter but overall there was a slight loss.

Q77 Phil Wilson: Up until December, you were going on month-by-month contracts. I know that part of that is continuing. Can that not continue until you come up to some kind of long-term solution?

Jon Bolton: Sorry, could you repeat the first part?

Phil Wilson: Before you mothballed, you were basically doing month-by-month contracts, which was obviously saving jobs. You just said it was

profitable. Couldn't you continue until you have some long-term solution to the problems there, considering that there is the potential with the green industries that are developing?

Jon Bolton: To go back to the question that Mr Anderson asked, the business was, at times, in that quarter, making some money because there had been a recovery in prices. What happened was that we were looking to recruit orders for the subsequent quarter—because that was one of the conditions that had to meet to continue to run—but the slab price, or steel price, had dramatically reduced. If we look at steel prices in January compared to costs, we would have been loss-making in the quarter. Bear in mind, as I mentioned earlier, there are two conditions under which we would continue to operate: there would have to be a profitable business available for us to bridge a gap to that strategic solution that needed to be present.

Q78 Phil Wilson: Is Corus in negotiations to try and find a potential partner or buyer in the future? Are you still looking at that?

Jon Bolton: The process came to an end in December. We had spent from since 2003 looking for partners. We had been successful with the consortium arrangement. We thought that we had been successful with the memorandum of understanding with Marcegaglia and Dongkuk. Since announcing the mothballing in May, we have been actively looking for a partner. That process came to an end in December and we had to, regretfully, announce the mothballing. That does not mean to say that we are not open to other potential opportunities that might arise—hence why we are mothballing the plant.

Q79 Phil Wilson: How long can you keep a plant like this mothballed?

Jon Bolton: In theory, it is a question of time and money, so indefinitely. But you have to keep an eye on the ongoing cost to continuing to mothball a plant. We will just have to continue to look at the market situation.

Q80 Phil Wilson: What kind of assistance can the Government give you at this time, either with brokering agreements with potential partners or other kinds of assistance?

Jon Bolton: With respect to Government assistance, the first thing to say is that I do not think that there is anything the Government could have done to avoid the situation we find ourselves in. Suddenly losing your business model and business significantly like that—it is difficult to see how Government could have prevented that from happening. Indeed, we have never sought to blame Government for that at all. How the Government could support TCP and the steel industry is a difficult one generally, because our understanding is that, due to state subsidy rules, there is very little the Government can do to support the steel industry. Believe me, as an industry, we have tried to solicit in the past and have not been successful. So that is not possible. With regard to a transaction, I am aware

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that efforts were made, particularly by Vera Baird locally and senior trade union officials, to try to help stimulate interest from a third party. Again, it comes back to the fundamental point that whoever is interested in taking a share or a stake in Teesside has to be prepared to invest and has to have strategic need for 3.2 million tonnes. Those people have not come forward.

Q81 Phil Wilson: Why isn't Kirby Adams here? He is the CEO of Corus and we are talking about 1,600 or 1,700 jobs, so I am a bit disappointed that he isn't here.

Jon Bolton: The first thing to say is that there may have been a communication issue because Kirby Adams never received an official invitation to this Select Committee. I was invited before Christmas and answered immediately that I would attend. Given the remit of the group, which is a regional group looking at the role of regional government, regional agencies and what the region can do to mitigate the potential mothballing, we believe that I am probably the right person to attend the Select Committee.

Q82 Chairman: We never want to understate your value, but there is a serious obligation on the person who is representing Teesside to the board in Mumbai, or wherever, to be here. We need to know what the commitment is and to understand how and in what way the issues are being addressed. The absolute fact for the record is that a telephone call was made to his office and he was not available. It is important that we understand where we are with Mr Adams. That is the situation—no more, no less. We have been overwhelmed by the quality of material that has been produced by Cleveland and Tees Valley Unlimited, which have produced research papers indicating what the potential loss could be to the local community. They have also offered potential solutions. One solution was a wage subsidy. It referenced a belief that with £11 million in from the Government, whether to buy assets or training, the Treasury would benefit by some £40 million. In some people's terms, it was a no-brainer to go down that line, at least for six months, if not a year. If it was a year, we would be doubling the amounts. Could you tell us how Tata Corus would respond if that offer was clearly and carefully put on the table?

Jon Bolton: First, I agree that the quality of the research and the enthusiasm from the local agencies in preparing papers and doing what they can to support us has been excellent. In particular, I saw the paper written by John Lowther of Tees Valley Unlimited. That was a well-researched paper. However, if I look at the situation that Teesside was in, and is in, the scale of the subsidy to offset the potential losses is significant. It would far exceed the number that John suggested, which I think was based on subsidies provided to other steel industries in mainland Europe. The situation at Teesside is different. It is not about trying to bridge a wage gap. We (Corus) have been bridging a gap for the last 18 months, the operation has been subsidised by Corus

to this point. The scale of the subsidy presented is significantly less than the losses that could be incurred by keeping the plant running.

Q83 Chairman: That is a clear response, but a difficult one for us to totally understand because, as far as we were aware, the wage subsidy was one of the most critical things that could be offered to the company at this time.

Jon Bolton: It depends on the situation we are in. Obviously, all support or potential support is potentially welcome, but it has to be put in the context of the challenge that we have. Whoever ends up subsidising the steel operation on Teesside has the same fundamental business challenges as Corus has had over the past 12 months in subsidising the operation while we look for a solution. So you would essentially need to compensate for any potential loss, and that potential loss needs to be quantified. But, at the same time, what are we bridging to, and what are we subsidising for? I would be delighted if there was a way in which we could identify a strategic solution for Teesside, but you need to have something to bridge to. It is difficult to say how simply providing subsidies for wages would enable us to move forward on Teesside.

Q84 Mr Murphy: Surely, the whole idea of mothballing, rather than closure, is that you must have some indication that, one day, this plant will have an opportunity to restart again. The difference is, of course, that a wage subsidy would take you to that position, while allowing the work force to work perhaps four days a week—two days on training and two days employed directly by you. That would be much better; it would retain a skilled work force and keep the plant intact.

Jon Bolton: No. I totally support the notion of retaining skills and the need to try to do that, not just for the potential restart of the steel business, but for the redevelopment and all the development opportunities that exist in the Tees Valley. Skills retention is an extremely important area to explore. The issue, again, whether it is the restart of TCP or the start-ups of low-carbon businesses, is that you still need to have something to bridge to. I agree that in an ideal world it would be good to retain those skills on Teesside, if indeed we have mothballed the business. I have certainly been talking with Alan Clarke, the Chief Executive of One NorthEast, about how we might do that, and how it might fit in with and be supported by the £60 million support package that was provided by the Department for Business, Innovation and Skills.

Q85 Mr Murphy: So, if it was to be made, the offer of a direct subsidy to the company for wages, perhaps for two days a week for six or 12 months, would be rejected by Corus?

Jon Bolton: Again, you need to put it in context. If the purpose of that was to keep everybody employed by Corus and to enable Corus to operate, the scale of the subsidy would not be enough to compensate for the losses that are being experienced on the plant. You would still need, obviously, that potential

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opportunity or that potential strategic solution to bridge to. I think the problem is a regional one. There is something that we need to look at regionally, regarding how we retain skills in the area.

Q86 Mr Murphy: So, why mothball if you cannot see any future at all in the plant?

Jon Bolton: It is not that we can't see any future. I am not discounting it. If we were retaining skills for the potential restart of the steel business, I would be as delighted as everybody in the region that we were able to do that, if there was a viable solution. It is, if you like, taking it in phases. We have been through a very, very long process to identify whether there is any long-term strategic solution. If we haven't been able to do that, the next stage is that there still is potentially an opportunity, so you move to a mothballing scenario and see if those opportunities are available. I will cite the example of South Bank Coke Ovens. We announced the mothballing of South Bank Coke Ovens on 4 December, at the same time as we announced the mothballing of the rest of Teesside Cast Products. However, quite a dramatic change in the coke price—the economic dynamics are different from those of steel—and people approaching us with a demand for that coke has enabled us to go back and keep the plant operating.

Q87 Chairman: Is that actually supporting TCP?

Jon Bolton: It's support. If we mothball TCP, TCP as a business does not exist. Essentially, it is a positive business for the region; it keeps people employed.

Q88 Chairman: The thing that again and again confuses the Committee is that if there was a near-purchase of this company in December, with partners, how come we are in January and what's being said is, "There is absolutely no point."? How come we are looking at all the indications that the market is fragile but rising and that the demand is more defined now than it was, but we are still hearing that closure or mothballing is the only option?

Jon Bolton: No, I understand where the confusion is. Again, it is going back to the scale of the recovery versus what we have suffered versus the overcapacity in the market. If we plot capacity that is coming on stream, particularly in south-east Asia and south America, we will find that, even with recovery, we are still faced with a structural issue—there is half a billion tonnes of overcapacity in the world, and 130 million tonnes of overcapacity in Europe. So those are fundamental issues that are difficult to compensate for. There will be some recovery, but from a Teesside Cast Products perspective, unless we have someone to come in and provide a route for the 3 million tonnes that we provide, it is quite difficult. The other point to make is that, against a worldwide steel capacity of 1.6 billion tonnes, the market for slab as a stand-alone product—merchant slab—is at best 30 million tonnes. That is a double-edged sword. When times are good, there is potentially a good price that can be obtained, but when times are bad everybody is trying to sell into that limited market. So it comes back to the fact that we are trying to produce slab and make a business out of

producing a semi-finished product in the North East of England. We have been successful in doing that, which is positive for the people who work on Teesside, but economically, it is extremely difficult.

Q89 Chairman: That is why my colleague asked you about the plate mill. When it closed, we had a number of products that we could produce, and it was that that would ensure its long-term future. So it disappoints us that when, over four years, £800 million is made, nobody is thinking about the future of that community, and saying, "A plate mill would be an inevitable add-on to whatever we are doing." You are saying that it was never even considered.

Jon Bolton: Again, it isn't that it was not considered. There are two answers to that question. One is that you are right, that not having more downstream capacity available to us on Teesside obviously makes it difficult for us. However, opening up new downstream capacity is an issue when there is overcapacity of 130 million tonnes in the market. It would be detrimental to the market generally and very difficult to justify with a business case.

Q90 Chairman: We are told that with the development in India and China, even though both of them are producing steel, the demand factor will be exponential and that neither country can produce either the quality or the amount that they require. Are you saying to us, "Well, I am sorry, but that information is wrong."?

Jon Bolton: No, you are absolutely right. The growth has been exponential in south-east Asia. China itself has gone from 100 million tonnes capacity to 500 million tonnes capacity since 2000, in response to the demand in south-east Asia. South-east Asia capacity accounts for something like 60% of the global output. So there has been an exponential growth in output and demand in those regions. Again, that emphasises the regionalisation of the issue. For TCP to make sense from a Corus perspective, it has to be able to make a business case for supplying into the European market.

Q91 Chairman: There is a concern that partners left the table because the price required to buy into Corus Tata was too high. Is that the case from your knowledge?

Jon Bolton: Let me say two things. First, I was not involved in the final stages because I was part of the Teesside business that was the subject of the discussions. Secondly, the absolute reasons are subject to confidentiality and I cannot comment. However, we got to a point in January 2009 in which we had two potential purchasers, so that that did not present a barrier, and because we signed a MOU, the values that we were looking at were appropriate. So I do not believe that we were putting any barriers in place.

Q92 Mr Murphy: For the record, Jon, this is a question—I touched on it earlier—that has been raised with us many times. Can you state categorically that as far as Corus is concerned, even

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the offer of a direct wage subsidy would not be enough to keep the plant operating beyond the period currently designated?

Jon Bolton: No.

Q93 Chairman: It is in the ownership of Tata.

Jon Bolton: It is a business issue. A wage subsidy would not be enough to enable us to keep the plant running.

Q94 Mr Anderson: Two things have happened in the recent past that have an impact on this decision. One is that you decided to keep the coke ovens open. Clearly, you'll be making money out of that. Can you tell us how much money, where it will go and whether it could be used to cover the wage bill of the work force left at Teesside? Can you also comment on the debate that's been going on about the emissions allowances? Your company could get over €63 million if it trades its allowances this year. Clearly, both of those depend on the steel works not producing steel. Can you comment on what will happen to the coke ovens, where the money will go and whether there's any reality to the emissions allowance money?

Jon Bolton: The coke ovens must stand alone as a business. It becomes a coke business in its own right. Again, it is difficult for me to comment on the commercial aspects of that decision, because—

Q95 Mr Anderson: With respect, Jon, I thought that was why you were here. We asked before why Kirby Adams wasn't here. If you can't give us the answer, should we not have had somebody who could?

Jon Bolton: With respect, Kirby Adams, if he were sat here, would not be able to answer those questions, because it's subject to commercial contract. It's not something that we could comment on. Suffice it to say that obviously, the most important thing, and the reason why I am here, is to look at how we can support the region and what we can do to offset the potential partial mothballing of Teesside Cast Products and the effect on the regional economy. We are talking about a specific here which is actually a positive to the regional economy. We have been able to put a business case together that will enable us to employ over 120 people on the plant and—hopefully, and obviously subject to market fluctuations, as all such decisions are—to make a success of running a coke business on Teesside.

Q96 Mr Anderson: It's also quite a success for Tata as well, though. That quota would have gone into the jobs at Teesside. It's now going to go into the open market and make money for Tata, so you're going to make money because the place is shut. You're also potentially going to make money out of the ETS. Is that going to happen?

Jon Bolton: I understand the point you're trying to make, but I think that from a Tata-Corus perspective, Tata-Corus has a responsibility to many regions in the UK and the world. The best way they can support those regions and fulfil, if you like, their social responsibility is to have a successful business model. It is important that the businesses we

continue to run make money. On the comment on CO₂, obviously, there's been much speculation in the press. The numbers that have been quoted in the press have been considerably wide of the mark, but it is true to say that because of the European Union trading scheme, for a plant to operate, we have to be allocated by regulators an amount of CO₂ allowances. It is, if you like, almost a licence to operate that we have those. We will find out in February whether we have. We assume we'll have the allowances we need to operate this year, and a view will be taken at the end of this year as to what allowances we needed to run the plant. Remember, we still need CO₂ allowances to run. They are allocated by site, so we need them to run the beam mill, the coke ovens and the power station that remain. However, you are correct that the company has the ability to trade those allowances. That is a feature of the trading scheme. Depending on the value of those, how much money can be raised from that depends on the value of the allowances at the time they're traded.

Q97 Mr Anderson: Can I ask if you've looked seriously at the alternative put forward by the union community about transporting steel from TCP to Llanwern? Is that something you would pursue?

Jon Bolton: It is something we have considered in the past. We can look at it again, but it needs to be considered in the context of the overcapacity in the European market. For slab, read hot-rolled coil. If we take slab to a rolling mill elsewhere in the UK—in this case Llanwern—it obviously incurs an additional cost to do that. That assumes that you have utilised all the capacity available in south Wales before you do that. But then you are reintroducing more volume into a market where there is already overcapacity.

Q98 Chairman: We are led to believe that Corus has underused the strip mill in Wales and that it is probably operating well below 50% of its capacity. This obviously gives Redcar steel—Corus-Tata Redcar—the opportunity of supplying with the belief that the demand for steel over the next 18 months will increase. It is not a vast increase, but it is an increase in demand. We cannot understand why if that is the case, Corus Redcar has not looked at this option.

Jon Bolton: No, it is not true to say that it hasn't been looked at—indeed, it is something that used to happen. Again, it has to be considered in the context—I am sounding like a broken record here—of the overcapacity in Europe. The capacity at which we operate plants has to be matched to the economic demand for those products. If there were a sudden demand for those products and the market suddenly became attractive—our view is that it won't—there would be an opportunity. But, as I say, we are operating in an environment where the customer base for those products is Europe. We are trying to operate the rest of our plants at full capacity. As was decided in 2003, we don't see a viable long-term market for the 3 million tonnes of crude steel supplied from Teesside.

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Q99 Mr Anderson: Has a plant of this size anywhere been mothballed successfully before?

Jon Bolton: Our plant, which I guess you are referring to, is unique. We have a single blast furnace, which is the second largest in Europe. If you go back to, again, autumn 2008, a number of blast furnaces were mothballed around the world because of the sudden decrease in demand. So even blast furnaces in the UK, in south Wales, in Scunthorpe and in IJmuiden were mothballed, but for a shorter period. In the time scale we are talking about, I am not aware of any, but that doesn't take away the fact that we are mothballing this plant and it will be able to return.

Q100 Chairman: Did you mean a short period or a shorter period?

Jon Bolton: A shorter period.

Q101 Phil Wilson: A shorter period than what? Does that mean to say that you know how long this is going to be mothballed for, because you have just said Scunthorpe was closed, or mothballed, for a shorter period?

Jon Bolton: It was a short period. We are still operating Scunthorpe at low output and the third blast furnace that was mothballed at Scunthorpe has still not been returned to service. But the blast furnaces in IJmuiden and in south Wales have been and so they were out for, in total, just under a year.

Q102 Phil Wilson: Can I just ask a question on your mothballers? The figures that we read in the press mentioned 1,600 to 1,700 jobs. Obviously there are a lot of skills in that work force that will be laid off that you need to reopen the sites in the future. How do you go about maintaining and upgrading those skills for that to happen? What judgment do you make about who you are going to keep and not keep? How many people do you need to keep it mothballed?

Jon Bolton: It is an extremely complicated process and we also obviously have to take into consideration the wishes of individuals in this and consider what they want to do. As I say, we will be working with the trade unions to maintain as many of the skills that we need as possible—whether that involves making sure that we have some of those skills available in the remaining operating footprint or whether they can, indeed, be in the mothballing work force. As we mentioned earlier, in answer to Mr Murphy's question, how can we work with the region to ensure that those people with those skills are retained in the local area, whether through training schemes or preparation for other industries that might come in due course to the region? There is not an easy answer to that. There is a process we have to go to in balancing the needs of individuals, the existing operating plant and the skills requirement that would enable us to bring the plant back at some point.

Q103 Phil Wilson: The 1,600 or 1,700 jobs: is that just an estimate or is that a figure that you would quote?

Jon Bolton: It is currently around 1,600 jobs, after the announcement from South Bank Coke Ovens. That is the number associated with the plants that we are going partially to mothball.

Q104 Phil Wilson: That is the number associated, the people who work there, is that right?

Jon Bolton: Yes.

Q105 Phil Wilson: Therefore, you are going to have to keep some of them working there. So it could be less than 1,700?

Jon Bolton: Unless you have something else for those—no, the process I have described was about moving. The population would broadly remain the same, unless we can find another outlet or way of employing those individuals. If you look at the remaining footprint, we estimate that is the number of jobs that essentially would go. Therefore, the process that I described to you is about how we manage that process to maintain skills in the existing footprint. The number broadly would not change.

Q106 Phil Wilson: One more question about the land. The Corus site covers a massive piece of land. If worse comes to worst, it could be redeveloped and there could be other jobs. I think it was John Lowther's paper that mentioned the number of jobs that could be created there, saved or secondary jobs and so on. What plans has Tata Corus got for releasing some of that land in future—or even now?

Jon Bolton: Through the work with the response group, John Lowther's group, One NorthEast and Tees Valley Regeneration, we are looking at the various potential demands for land from Corus. There has been a challenge in reconciling that with the fact that we are mothballing the operation. While we potentially thought we had somebody taking an interest, we had to put a stop on selling blocks of land, because we did not know what land was required as part of a potential transaction. Even now, we have to make sure that we maintain an operating footprint that will enable us to operate the plant, should a strategic solution be found. Having said that, there are areas of land that will be available. We will enter into dialogue where there appears to be an overlap with the operating footprint. We are more than willing and happy to enter discussion with those interested parties to see if some kind of flexibility is possible.

Mr Murphy: May I ask one final question?

Chairman: They are an impossible lot to organise, Jon, as you can see.

Q107 Mr Murphy: What sort of long-term future, Jon, do the 2,000 other employees in the region have with Corus?

Jon Bolton: That is a difficult one. It is difficult to guarantee the future for anyone in manufacturing and the steel industry. Those jobs are very much tied to the construction sector and investment in infrastructure generally. They are very much tied to investment downstream, whether in construction

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projects or infrastructure-related projects. We have worked very hard with the employees in those businesses to reduce costs.

Q108 Mr Murphy: You said that there is not an immediate threat to the 2,000 other employees.

Jon Bolton: No immediate threat. They have worked very hard to overcome a very difficult situation because the demand price has affected TCP significantly, but I make the point that it requires the

Government and others to continue in infrastructure and construction projects in the UK to maintain the viability of our business.

Chairman: That is bang on time. I hear the Division bell. As we end, Jon, the Committee knows that Tata Corus has looked for strategic partners. We know that the market for steel is rising. We found it extraordinarily difficult to accept that there is no way through, according to the evidence that we are taking this afternoon to ensure that Tata Corus at Redcar has a future. We are not very pleased. In fact, we are not at all minded to accept it.

Jon Bolton: Okay.

Witnesses: **Rt Hon Mr Nicholas Brown MP**, Minister for the North East, **Vera Baird QC MP**, Member of Parliament for Redcar, **Brian Greenwood**, Deputy Head, Manufacturing and Materials Unit, Department for Business, Innovation and Skills, and **Dan Monnery**, Deputy Regional Director for Economy and Strategy, Government Office for the North East, gave evidence.

Q109 Chairman: Welcome, everybody. Thank you very much for being here this afternoon. This evidence session is very important to us as a Committee and, of course, as you will have gathered, it is very important to all in the Teesside region, if not the northern region. I am going to start, if it is all right with you, Minister, by asking you as the Minister for the North East what the current position is in terms of the Government's discussion with Corus and Tata.

Mr Brown: Discussion continues at a very high level. My understanding of the position, certainly from my point of view as the regional Minister, is that the best thing I could do for Redcar and for the industry is to find some way to keep the plant as a going concern. Everyone would accept that if it could be done. The question is, can it be done? I must not get people's hopes up. The prospects are not good, but there is still a sliver of opportunity. It is not my job to give up. I am the regional Minister. If I do not fight for the region, who will? So I have not given up on it, but the chances are slim. The issues have been dealt with at a very high level within Government. The fact that right at the heart of the Government there are people who have not given up on it means that there is still some prospect of hope. I have to say it looks pretty slim to me, but worth trying.

Q110 Chairman: We are grateful for that response and for the caution you express. Could you enlighten the Committee? We were aware from evidence given that strategic partners had been interested in partnering Tata Corus, buying a percentage or percentages of the company. Could you outline to us whether those discussions are still taking place with certain partners who have shown an interest in purchasing?

Mr Brown: I could say, because the rumours are all common currency, that you are in the right area, but I wouldn't want to be specific and I certainly wouldn't want to speak on behalf of anybody other than myself. At this delicate stage, it would be wrong to do so. I am more than willing, if the Committee would like, once all of this is dealt with—the

outcome will be known relatively soon; time is against us assuming that the objective is to keep the plant open, which is my objective—to come back to the Committee and answer questions in more detail. I really wouldn't want to be pressed now.

Q111 Chairman: We understand the sensitivity. Could you also give us some indication as to whether Ratan Tata or another member of the Tata family has been spoken to specifically by any of our ministerial team? The reason for that question is that we were led to believe by one of our Teesside members that the family would appreciate a contact; therefore, we would like to know whether contact has been made.

Mr Brown: I can confirm that the company, meaning Tata not Corus, has been spoken to at a very high level by the British Government at a very high level.

Q112 Chairman: Is it feasible for you to answer our concerns that the price required for the company might be an uneconomic price, which could consequently be one problem that faces a final contract between strategic partners and Tata?

Mr Brown: In my experience, it is not unusual for people selling things to want more for them than the people who are proposing to buy them want to give. That is not unusual, but I couldn't speculate any further than that.

Q113 Chairman: I am most grateful for all that information. Could I ask the assistant Regional Minister whether she has anything that she would like to add to any of the points made today?

Vera Baird: No, I don't think so—not to what Nick has just said.

Q114 Mr Anderson: Notwithstanding what we've heard from Corus, which does not seem, in my view, particularly interested in getting any aid from the Government to keep this place running, what advice have you had that state aid is not available to keep the plant producing steel?

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Mr Brown: There are things that the Government can do, but the first thing that you need is an operator that wants to keep the plant going and is looking for assistance to do so. In other words, you need an owner-operator who has a short to medium-term plan for the business. In those circumstances there are things that Government can do. We are allowed, for example, to give support for training, and a £5 million package was offered to cover that. If we were in a position where the sort of support that the Government could give would be the make or break between the company being a going concern and having to consider mothballing the plant, then I would fight like mad to make sure that we got the assistance there. I know that people always say, “Well, the EU and the prohibitions that we have all agreed to are an insuperable barrier”, but I am not sure that that would turn out to be the case if there was an operator that wanted to keep it as a going concern. I would certainly fight our corner. Can I say something to the Committee based on my experience as Agriculture Minister? I think it is a mistake to demonise the EU and always to say that the EU is the obstacle. We had very tricky issues to deal with in my three years as the Minister and I found dealing with the Commission something that was comfortable to do. They understood the issues, not just in commercial terms, but also in terms of communities—the people who relied on the industry for their employment base. They also understood all the wider social ramifications as well. If they could find a way forward, I found them amenable to discussion. I wouldn’t want the Committee to get the view that it is somehow the EU that is the barrier to support. I am not at all convinced that that is so. The difficulty we are faced with is effectively the marketplace one and the difficulties the company is having in finding a commercial way forward.

Q115 Mr Anderson: Perhaps we can park the business for the moment. From our point of view, we need to be clear that the Government have done everything they can to support us. I have no doubt that they have, but in a Westminster Hall debate in December, the Minister, Mr McFadden, basically said that the Government would not be able to keep the business open, because of state aid rules. On Friday, we heard from a number of witnesses who said that that has not been the plan in places such as Germany, Holland and France, albeit they might use different legislation from us. Also, one of our MEPs, Stephen Hughes, said he believed there were ways that we could actually tap into. Is anybody looking at that? Has anybody taken specific advice about whether the situation would be blocked in any way by state aid rules? It seems perverse that we are advised by the Government Office for the North East that you can get European aid to close a plant, but not to keep it open.

Mr Brown: I am not sure. You would have to have somebody who wanted to operate the plant as a going concern—that is the fundamental point—and had some reason for doing so. So you would need someone who knew that they had an outlet for the product, maybe as part of a supply chain, and

security. It is those sorts of areas that need to be discussed first. If there was something that the Government could do to make the arrangement work rather than fail, I would be willing to fight our corner to try to get that gap bridged. I don’t want to overstate it—there is a limit to what can be done. I do not accept that somehow the state aid rules alone are an insuperable obstacle.

Q116 Mr Anderson: What I am concerned about is that we have not explored that package. We are talking about senior Ministers going to talk to people in India. They can go to people in India and say, “Look, we know we can do this if you will do that;” at the minute, from what you are telling us, they will go to India and say, “Well, you do that and we’ll go away and see if we can do this,” which might be the deal breaker.

Mr Brown: I cannot think of an issue that should be explored that has not been explored. Is there something specific you want to put to me?

Mr Anderson: I want you to give us a way forward that I don’t know. If I had that answer, I wouldn’t be asking the question.

Mr Brown: We are trying very hard to find a way forward right at the top of Government, but it would be irresponsible of me to suggest that the prospects of succeeding were anything other than a long shot.

Q117 Mr Anderson: Is that because of state aid rules or not?

Mr Brown: I am quite happy to come back, maybe when this period is over, to talk more fully. But it is my impression—I may turn out to be wrong—that it is not the state aid rules that are an insuperable obstacle, but the workings of the marketplace.

Mr Anderson: I am really glad to hear that, but it contradicts what we were told on 16 December in Westminster Hall about what was responsible.

Mr Brown: I did not attend the debate. I am just giving you my impression, but I may be wrong. I repeat that if there was something reasonable and proportionate that we could do that would make the difference, I would fight for it. I do not believe that the European Union would be completely obdurate. I think they would take into account the need and special circumstances of the community, as well as the surrounding circumstances and the impact of the job losses. That is the most obvious point.

Q118 Mr Murphy: Could I ask, Minister, following on from that, whether you could explain in a little more detail the £5 million training package that was offered to the company?

Mr Brown: Effectively, it is exactly what it sounds like.

Q119 Mr Murphy: Would that be for the workforce to train?

Mr Brown: No, let’s be clear. It is not a wage subsidy; it has to be for training.

Q120 Mr Murphy: But training at work at Corus in the plant?

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Mr Brown: Training relevant to the industry, but the industry would have to be continuing.

Q121 Mr Murphy: And it was rejected by Corus?

Mr Brown: It wasn't accepted by them.

Brian Greenwood: The £5 million offer was accepted by Corus and £2.5 million has already been paid—

Mr Brown: Sorry, I am wrong.

Q122 Chairman: You said that £2.5 million had already been paid. Could you continue that sentence?

Brian Greenwood: The offer made to Corus in the middle of 2009 was for a total of £5 million towards the training of existing Corus staff. That money was provided by One NorthEast, by Yorkshire Forward and by the Government under Train to Gain, because it was not just for the one plant but for Corus plants in the North East and in Yorkshire and Humber. The funding being provided by the two regional development agencies, One NorthEast and Yorkshire and Humber, was paid to Corus in respect of training in December. The additional money from central Government from the Train to Gain fund is being paid over a longer period and we are working closely with Corus to develop a series of bespoke training courses and measures to support the existing work force going forward. So that funding was put in place and some of it has already been passed through.

Q123 Phil Wilson: I have a question about the European globalisation adjustment funding. The Government Office for the North East said in its memorandum that the DWP was looking at whether that could be accessed. Has there been any progress on that? I know the funds can't be used to duplicate what is already being provided.

Mr Brown: I understand that they are looking at it, but Jobcentre Plus and the emergency response packages really do what the fund is intended to promote, so I don't think they will give us the money for duplicating what we would do anyway, but they are exploring whether any use could be made of it. There is also the added complication, as the Committee will know, of the famous British rebate and our own relationship with the European Union on schemes of this kind. Although the headline funding is European something like 60% or 70% of the money comes from the tax base anyway.

Q124 Phil Wilson: Do you know how much money we are talking about?

Mr Brown: I don't. But I suspect that when all the sums were done, even if we were able to access it and, remember, you would get all the rules that come with it, you'll find that it is a relatively small sum of money. Remember that we do the things that it is supposed to promote anyway. We have a pretty well developed response to situations of this kind in the Department for Work and Pensions.

Vera Baird: If I can add to that and make the position even clearer. It is not available now. It is available after redundancy and after redundancy only. It is not money that could come into play in any measure to save those redundancies.

Q125 Phil Wilson: Can I change the subject a little to basic industrial strategy? We have heard from Corus that basically the whole market has been flooded with the kind of steel it produces, especially the European market. It is over capacity. But then last week the Government made all those announcements on green industries and the new green industrial revolution. We want to see the building and manufacturing of wind turbines that we are going to put out at sea in the North East. That could be in a couple of years' time. From what I understand, Tata Corus are talking to potential partners for dealing with that. What is your view on the potential moth-balling or demise of the TCP site there, taking into consideration the massive potential for green industrialisation in the north-east of England? Is there any way that we can bridge the gap? There is a problem with overcapacity now but perhaps there won't be in two or three years' time.

Mr Brown: You would need someone to be standing at the other side of that gap. You would need to know that it was a gap that was being breached, and these are private sector judgments. The Government stand ready to help but we cannot take the whole situation over. Is there potential in the offshore wind farm industry for the United Kingdom? I very much believe that there is. We have just had the third round of licensing announcements for the offshore sites. The total numbers that are being spoken of are very large indeed. There is no large offshore wind farm domestic industry in the United Kingdom at the minute, yet we are going to be the largest constructors of these devices. There is an enormous amount of fabrication involved. To give you an indication of the scale of these projects, it was described to me as being like putting the millennium wheel on top of the Eiffel tower. There is an enormous amount of fabrication work, which, as you will know from your own experience, is the sort of work that comes very naturally to Tyneside and Teesside, so that is work that we could really bid for. I think there are great prospects for us here. It is in its early days, but as part of the £60 million package, which is aimed at diversification, I know it is something that is being looked at very closely by the response group.

Q126 Phil Wilson: Is there anything more the Government could do to add some strategy to the whole situation we have there? We have the TCP plant, which could potentially be moth-balled, or even closed, further down the line. Is there anything the Government could do, considering we are now entering a new era of industrial activism, according to Lord Mandelson, to help nudge private sector companies into saying, "Hang on a minute. We might have a problem with this plant at the moment, but in a year or two we won't have."?

Mr Brown: If you are reverting to the question of whether the plant can be kept open, we think we are in touch with just about everyone it would be worth talking to. If anyone knows of anyone else, or they are not sure whether we are, please tell me and I'll make sure that the avenue is explored. On the question of whether there is such a framework in which people might look at those things, I think there is. The Government have done a lot, as have

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the site owners, the Crown Estate, who have been very progressive and keen to get involved in the emerging new industry. The Government's targets and our expectations have all been clearly stated. We know that there is a lot of international interest in coming to the UK to take part in this new industry. It is an exciting opportunity for us. Will it involve the use of steel? Yes it will.

Q127 Chairman: Have the Government developed a relationship or conversation with the trade unions over the whole strategy that could take the plan forward? We hear from Community and the GMB and, with some creative thinking, looking at Llanwern and Redcar, or even Port Talbot and Redcar, we can see how together they could begin to have a variety of products that they could manufacture to ensure the viability of each plant to the other. Are the Government talking with Community and the GMB about how and in what way they see, and how the Government could support, the future of steel, especially Redcar steel?

Mr Brown: In my two years as regional Minister I have never refused a meeting with a TUC-affiliated trade union when they have asked to come to see me. Every meeting I have been asked for I've held. I'm afraid I'm not an authority on what goes on in the Government Departments—I just don't know—but I've responded to every idea that has been put to me.

Q128 Chairman: Do we know if BIS has? As the Minister for the region, do you know whether it has had an open-door policy?

Mr Brown: I assume so.

Q129 Chairman: I would like to take an idea that was published by Tees Valley Unlimited in its document sent to the Committee one step further and hear how and in what way you believe it could be valuable. The argument by Jon Bolton about wage subsidy was quite clear: if the Government looked at the whole area of wage subsidy—it could be asset purchase or whatever way, so that state aid rules were not in any way undermined—an £11 million input over six months would see the Treasury gaining £40 million-plus. Superficially, just looking at the figures, it seems a no-brainer not to accept the analysis and see that working practically. Have you as the Minister for the region looked at the proposition, with Tata or within the ministerial team, and come to a conclusion about its efficacy or otherwise?

Mr Brown: My answer would be very similar to the one I gave to an earlier question in this area. If there were something that could be done to bridge the gap and help the plant survive as a going concern—the crucial point is not just to buy it a little bit of extra time but to keep it going as a going concern—I would be more than willing to look constructively at what could be done, and to talk to others and do what I could to fight for such a proposal. I met John Lowther. I meet him regularly, not just to do with Corus but to do more widely with the Teesside issues that he champions. He plays a constructive part in all this. The figures that he has produced are hotly

disputed by the Department. The assumptions are that everyone will remain unemployed and not move on into other work, and of course he does not address the point about a going concern. Who would be the owner-operator? What would be the medium-term prospects for the plant?

Chairman: I accept that statement totally because, like you, we have all read the paper carefully.

Mr Brown: If the Committee would like the Department to produce its own response and say where it thinks the figures sit, I am more than happy to ask officials to do that. As you know, I am not a Minister in the Department, so I cannot assert that over them, but I will ask it of them. In fairness, the Committee should see the Department's calculation. But, even so, the key point is who would operate the plant as a going concern in the medium term.

Q130 Chairman: Minister, we would not be sitting here—take it from me—asking you questions if strategic partners had not been sitting around the table in December looking at how and in what way they could buy into Corus Tata. We are convinced from information that we have—we wish it was more on the record than off the record—that people are interested and that the steel market is rising. That is why we are asking these questions. We know. We do not want false hopes to be built up in our communities. We want them to have realistic hopes, and to believe that any Government would be supporting them, and that is what we are doing.

Mr Brown: I think that you are absolutely right to do so. We are all on the same side in this, but I am restricted in what I can say.

Q131 Mr Murphy: Have any discussions taken place, Minister, with the previous consortium partners, individually?

Mr Brown: The answer is yes, if you mean the consortium that was purchasing this. Vera, you might want to say something about your discussions with the Italians.

Vera Baird: With the original consortium that was engaged in the off-take agreement until April?

Mr Brown: Yes.

Vera Baird: Of course. I went to Italy with Michael Leahy and Terry Pye from Community and Unite unions respectively to ask the leading business in the consortium, Marcegaglia, to come back and try to negotiate terms of re-engagement in the contract with Corus. It did agree to come back, but in the end it did not strike a deal with Corus to renew the off-take agreement or to pursue the MOU that they had had. As I think the Committee knows, the proposal was that either one or more of the consortium partners would buy either the whole or a share of the plant to safeguard their supply of the good-quality steel that they were buying.

Q132 Chairman: Did you receive an explanation as to why the deal fell apart?

Vera Baird: Do you mean when the off-takers left the agreement in the first place? My understanding, which was fairly primitive, was that it was a price issue. The contract was at a price but market price

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fell well below it in the recession. That was my primitive understanding of it. What was disappointing about that, from my point of view as a relative outsider—of course, I had not negotiated any of the commercial terms—was that they had made a profit, and it looked like a very handsome profit, over the four years that they had had the off-take agreement with Corus. It was a shame that, as soon as the price dropped, it thought that it should walk away as opposed to negotiate within the four corners of the agreement whether there was some other way in which all the parties could cope with the price going down. None the less, that it is not what it did. As I said, Mick Leahy, Terry Pye and I used our best endeavours to get it back, to renew.

Chairman: Very disappointing.

Q133 Phil Wilson: I want to ask about the land at Corus. What progress has been made on projects that would bring capital investment and jobs on land presently owned by Corus? Are you looking at that aspect?

Mr Brown: There are discussions going on now between One NorthEast, the response group and Corus. Corus is being cautious about it because it might have needed the land for its own operations. Indeed, it is talking about mothballing the site rather than closing it so it has to have half an eye—perfectly reasonably—on what it would need for re-opening it. But it seems that the whole curtilage of the site is much larger than anything you would reasonably need for operating the current business. Discussions are going on about releasing land, what will be paid for it, what it would cost to clean up and what it could be used for. As you know, that it is one of the work streams that is expected to be pursued out of the £60 million that was recently announced.

Q134 Phil Wilson: In one of the documents, I think that One NorthEast said that 3,000 jobs could be catered for in the area, and a potential 10,000.

Mr Brown: I have seen those figures as well. In my speech last week at the local authorities conference in the North East, I said that crucial to all this was getting on with it, and firming up the specific proposals for which money is to be used and showing where the jobs are—not generalising what might be, but suggesting something that will happen and getting on with it. Time is against us. Part of the tragedy is that, in my opinion, there is no way we will be able to get sufficient jobs on stream to absorb the losses that are heading towards us. We must keep the time gap as narrow as possible if the community of Teesside is to have an employment base.

Q135 Chairman: We already have a 6.4% unemployment rate. It is very serious for us. The industry is very serious, not just because of the 1,700 families, Minister, but because the company pays very well, and that is so very valuable to the economy of the North East.

Mr Brown: Remember that I have been through these situations before. I was the Member of Parliament for the constituency in which Swan Hunter and NEI Parsons were based. Admittedly, those redundancy rounds came in stages. At one time, 3,000 people were made redundant on Tyneside as a result of the closure of Swan Hunter's yard, but we were part of a conurbation and had the advantage of being able to absorb over time far more people than anyone could reasonably expect of the current economy of Redcar and east Teesside. There is a specific element of the tragedy that is happening on Teesside. There are alternative responses, but the only responsible response is to do what we are doing and put money in to pump-prime the economy and provide vital jobs that people can do.

Q136 Chairman: And keep discussions open with Corus Tata.

Mr Brown: We are doing that, but I am desperate not to give false hope.

Q137 Chairman: No, but it is critically important to our community that it knows that we are fighting as hard as we can, and from an actual evidence base.

Mr Brown: We are still trying. Time is against us.

Q138 Mr Anderson: Can you be a bit more specific about the areas where you expect the 3,000 jobs coming up to the North East to be created?

Mr Brown: There are two really strong strings to the bow. One is the neighbouring Wilton chemical complex where there are some prospects. The other is making effective use of that part of Corus's land that is not being used for the steel industry. If that land could be reclaimed and brought back into use, there are a range of prospects, such as the new North sea operations: fabrication work for offshore wind and the possibility of decommissioning as well as commissioning some of those great installations that are now reaching the end of their life in the North sea. All those possibilities are being looked at. My call to One NorthEast and indeed to everyone involved in this, is to firm up the proposals and get a clear sense of direction as quickly as we can. But these industries are all labour intensive.

Q139 Mr Anderson: Who are the partners you have worked with?

Mr Brown: I don't want to get into things that are commercially confidential. I am not sure what is in the public domain and what is not, but work is going on, with reasonable prospects of success. The sites will have to be restored first though—there is clean-up work to be done. Even if ownership changes, they will then have to be cleaned up, which is why it is going to take time.

Q140 Chairman: So, from your understanding of the clean-up of the Corus land, is that the responsibility of Tata Corus?

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Mr Brown: That is one of the things we are talking about. It would affect the sale price.

Q141 Mr Anderson: The Mayor of Middlesbrough put it to us on Friday that this was all about political will or, as he sees it, lack of political will. He quoted the fact that in 1984 the Government had the political will to destroy the coal mining industry. Now we have a Government who are committed to doing whatever it takes to defeat terrorism. Would you agree with him that the Government do not have the political will to do what it takes to save Corus?

Mr Brown: I most certainly would not agree with that proposition. I am just trying to remember what he was doing in 1984. *[Interruption.]* If anyone has a decent suggestion they want to make, and says to me, "Pursue this, and it might help the situation," I am up for it. It is not my job to give in.

Q142 Mr Anderson: I just want to raise the issue that is raised constantly with us—you will have heard this elsewhere. We stepped in to save the banks, we nationalised Northern Rock without compensation, we bent European rules on TSB Lloyds. Why is this different? Why is it okay to look after fat cats in the City, who then go and stab us in the back again? These good people up there have done the business and made a profit—I just wonder why we let them go to waste.

Mr Brown: I am a Labour MP too, and I do hear that a lot. The answer, hard though it is, is as follows. The debt crisis, which started in the United States and rushed around the world as a liquidity crisis, with each bank not sure what the other bank had and them stopping trading with each other, had the potential to tip not just this country but the whole of the developed world's economy into a recessionary spiral, which could have been even worse than what happened in the late 1920s and early 1930s. We have constituents who can remember what the 1930s were like. They were not called the "hungry '30s" on Tyneside for nothing. Letting the banking system collapse, which is what some people say should have happened, would have been disastrous. The people who would have felt the backlash of that disaster most would have been people of ordinary, or less than ordinary, means. I strongly believe that the Government, unpalatable though it is, did the right thing in stepping in to underpin the banking system. It was a private sector failure, but the state stepped in—not because we wanted to, but because we had to. Why did we have to? Because the consequences of not doing so would have been very much worse. We are not the only Government to have taken that point of view. Right the way around the world, different Governments of different political characteristics came to the same conclusion. We all ended up doing the same thing. I suppose the exception would be the Bush presidency in the United States, which decided not to intervene in Lehman Brothers. There are those who would

argue that even just not intervening there made the situation worse, rather than better. In retrospect, one wonders whether he would have taken the same decision again. That is why we stepped in for the banks. You say, "Why not everything else? If we can do it for one thing, why not do it for another?" I know the British Government are underpinning quite a lot of economic activity in this country at the minute. The same will be true of other great nation states. But there is a qualitative and quantitative difference between the banking system and individual, very practical operations, such as the steel industry, the shipyards and coal mining, which we are familiar with. They are not the same thing.

Q143 Mr Anderson: What would you say about the failure of the private sector in this situation? Earlier, we heard quite clearly that the private sector company involved here does not want to find a way out, and it did not get one.

Mr Brown: I understand what you are saying, but I am not sure that I would go that far yet.

Q144 Chairman: We say it because we are quoting the executive comment that was presented to the Mumbai board: "The long-term fundamentals for the steel industry remain good. The position of Teesside Cast Products is resolved. We are on track to realise more than £1 billion cost savings this year, because we have met our financial targets. Steel demand in Europe and North America started to recover from an exceptionally low level. We expect the trend to continue. The recovery remains fragile, particularly in the UK and in the construction markets, but we believe we are now over the worst in Europe and can look forward to a return to a positive financial performance". That was presented to the board of Tata in November, so we want to believe the words that are spoken. That is why we have taken evidence—to resolve, and to ensure that whatever can be done is done, to ensure that Redcar Corus Tata remains in action.

Mr Brown: That is a shared objective for me and the assistant Minister, who is, after all, the constituency Member of Parliament. Everything we think we can do, we are trying to do. But I cannot assert my political decision over someone else's commercial judgment.

Q145 Chairman: Could we thank you? We particularly put on record our thanks to Vera Baird—this has been nine months when she has worked assiduously to achieve support for a positive outcome—and to you, Minister, for the way in which you have taken up with her the hopes of our community. We are delighted that you are still in there, fighting.

Mr Brown: Chairman, thank you very much for that. It was very telling, when I met the local

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authorities when the news first came through about what was to happen in Redcar, that the leaders of all the local authorities in the region, as an act of solidarity, said that they would stand by Redcar local authority and do everything that they could

to help Redcar get through. As you know, that has not always been the case in our region. There is a lot of support for trying to get something done.

Chairman: Thank you very much, thank you everyone.

Written evidence

Memorandum from the Government Office for the North East (NEC 01)

EXECUTIVE SUMMARY

1. This memorandum outlines the Government's role in response to the decision of Corus Group plc to mothball some of the facilities at Teesside Cast Products (TCP). In particular, this will cover the following broad areas: an outline of the conditions relating to the decision to mothball parts of the TCP operations at the Teesside site; the work and plans developed by the Response Group; the Government's support for Teesside provided by BIS and One North East; and the wider implications for the regional and local economies.

2. Key points in the memorandum are:

- The Government fully appreciates the impact of the decision taken by Corus on the local community on Teesside, but ultimately it was a commercial decision taken by the company.
- The establishment of the Response Group will ensure that the full range of information, advice, and support will be available to those facing redundancy.
- European State Aid rules prevent practical financial measures by the Government to help TCP or other steel plants to stay open and would likely be declared illegal by the European Commission.
- As part of its commitment to specifically support Corus and its workforce Government offered £5 million training support to help Corus in both the North East and Yorkshire and Humber.
- The Government's £60 million package announced on 8 December will address immediate issues arising from the TCP announcement and will equip Teesside to realise its potential to be part of the low carbon manufacturing base.

TEESSIDE CAST PRODUCTS AT REDCAR

3. On 4 December 2009 Corus announced the mothballing of some of the facilities at TCP with the loss of 1,700 jobs. It is estimated that around a further 1,000 jobs could be lost in the Corus supply chain and 400 jobs in the wider economy.

4. The Redcar Blast Furnace, Lackenby steelmaking and the South Bank coke ovens will be mothballed at the end of January 2010. Corus intends to keep open a number of operations, including the Redcar Wharf, Redcar Coke Ovens and some of the power generating capacity.

5. Earlier in the year Corus also announced the restructuring of the Long Products Division which resulted in the loss of 428 jobs at the Teesside Beam Mill in Lackenby, Hartlepool, Skinningrove and Darlington plants.

6. Corus considered mothballing the site in May 2009 when a ten year off-take agreement was cancelled by overseas consortia¹ which was purchasing around 78% of the steel slab production. Corus announced a 90 day consultation period with trade unions over potential redundancies. The decision to mothball TCP was taken against the backdrop of the global recession and the extreme downturn in the price and demand for steel.

7. Increases in internal orders, successfully securing additional short term export orders and a temporary rise in the world market price of steel slab enabled TCP to keep operating, initially until the end of October, and then to the end of December. The commercial decision to mothball parts of the TCP site was finally taken by Corus on 4 December. The Government understands that the opportunities for Corus to find a buyer for some or all of the TCP plant did not materialise.

8. In addition to the Teesside Beam Mill, Corus have other sites in the vicinity, at Hartlepool (Pipe Mill) and Skinningrove (Special Profiles) which are largely unaffected by the December announcement and Corus will continue to employ more than 2,000 people in the Teesside area.

THE GOVERNMENT RESPONSE

9. Since the initial announcement in May regarding the off-take consortia, the Government has worked to encourage the consortia to maintain their dialogue with Corus. On 22 May the British Consul General in Milan accompanied Vera Baird MP and trade union representatives to a meeting with Marcegaglia. The UK's posts overseas also made contact with other representatives of the consortia, as appropriate, to explore further what opportunities there might be to get the parties back to the negotiating table.

¹ The consortia comprised Marcegaglia (Italy), Dongkuk (Korea), Ternium (Argentina) and Steel Invest Trading SI (Switzerland)

10. Pat McFadden, Minister for Business, Innovation and Skills spoke personally to Antonio Marcegaglia on 24 June, as the lead representative of the off-take consortia, to better understand their position and to encourage the consortia and Corus (Mr McFadden had also spoken to Kirby Adams, the Chief Executive of Corus) to find a solution to their contractual dispute.

11. As a result of these representations, further private discussions were held between Corus and the Consortia in July. Unfortunately they were unable to find a solution involving a new commercial agreement.

12. EU State Aid rules for the steel industry are stricter than for other sectors and prohibit the granting of aid to steel producers except for the purposes of research and development, environmental protection and implementing plant closures. Some training support can be provided within the provisions of the General Block Exemption Regulations (GBER). Therefore, any practical governmental financial measures to help TCP or other steel plants to stay open are likely to be declared illegal by the European Commission.

13. A critical issue for Corus has been the fall in demand for steel. The Government has kept up demand for steel by bringing forward capital spending on construction (which accounts for about half the steel used in the UK) and committing £400 million to the car scrappage scheme to underpin the vital automotive sector, another very large user of steel.

14. As part of its commitment to specifically support Corus and its workforce, the Government offered £5 million training support to help Corus in the North East and Yorkshire and Humber. This is from existing resources but ring fenced for Corus and is made up of £2.5 million Train to Gain, £1 million from One North East and £1.5 million from Yorkshire Forward (the Regional Development Agencies). This is in addition to training and apprenticeship support that Corus has already received from Government across a number of its sites, including in the North East. The £1 million aid from One North East and the £1.5 million from Yorkshire Forward was paid to Corus on 11 December 2009.

15. Part of the funding will support the development of a bespoke training package across Corus sites in the North East and Yorkshire and Humber regions. This will help Corus gain accreditation for its own training programmes across a number of key areas of the business including steel working. The Government's commitment to supporting the up-skilling of the Corus workforce will help the company's recovery as the economy improves.

16. The Government is engaged with Corus to try to secure the future for as many of its employees as possible. The Prime Minister and the Minister for Business, Innovation and Skills met with Kirby Adams, Corus' CEO on 16 July. As a follow up to the steel summit that Lord Mandelson attended with the All Party Parliamentary Steel and Metals Group on 14 May, the Minister for Business, Innovation and Skills spoke at the All Party Parliamentary Group meeting on 20 July highlighting the fiscal stimulus measures that the government had taken that would also maintain demand for steel.

17. The Prime Minister, Secretary of State for Business, Innovation and Skills, Minister for Business, Innovation and Skills, and the Minister for Regional Economic Development and Coordination have regularly spoken to Corus, the trade unions and local MPs. On 8 December the Secretary of State for Business met a representative group of local stakeholders and launched a £60 million package of measures to secure immediate investment to support the region's industrial transition to low carbon and advanced manufacturing that will benefit the local workforce and community. The Minister for Regional Economic Development and Coordination also attended the emergency Corus Response Group meeting in Redcar on 9 December. The latter was followed by meetings with representatives from trade unions and Teesside senior management. The Minister for the North East and his Parliamentary Assistant have also engaged with the management and workforce through meetings in London and through visits to the site.

18. Ministers are continuing to engage with Corus and its parent Tata Steel at a senior level because, if TCP does not reopen, finding alternative uses for the plant, land and infrastructure will be vital either by Corus or for new uses by new owners. The Secretary of State for Business, Innovation and Skills spoke to B. Muthuraman on 22 December and local MPs met with the Prime Minister on 30 December. A meeting with the Secretary of State for Business, Innovation and Skills, Minister for Business, Innovation and Skills, Minister for Regional Economic Development and Coordination and Kirby Adams will take place shortly.

19. The Government fully appreciates the decision taken by Corus, but recognises it was ultimately a commercial decision by the company.

CORUS RESPONSE GROUP

20. The Corus Response Group was established by One North East in May 2009 following the announcement of the termination of the ten year off-take agreement. Its aim is to provide support to Corus and workers, in the company and in the supply chain, and also to prepare for all possible future scenarios.

21. The Group is chaired by One North East and representatives include: Corus, Vera Baird MP, Business and Enterprise North East (BENE), Job Centre Plus, Learning and Skills Council, North East Chamber of Commerce, Confederation of British Industry, Engineering Employers Federation Northern, Redcar and Cleveland Borough Council, Teesside Works Multi Union Chair, Communitas, Tees Valley Regeneration, Tees Valley Unlimited, and the Government Office for the North East.

22. The Response Group established a set of workstreams, led by the relevant regional partners. Its key activities and outcomes are:

Workforce

Led by Job Centre Plus, partners have opened a fully staffed resource centre to provide counselling, training and Business Link services, including business start-up advice. This service is operational for workers at the Beam Mill, Hartlepool, Skinningrove and Darlington plants.

A more comprehensive package of support, developed in consultation with plant management and trade unions, is on standby to be rolled out at Steel House in Redcar in January. This includes a resource centre hosting employment experts to put in place support for the affected workers, including a one-to-one assessment of employees needs and current skills to identify options for them in the labour market and benefits and tax advice for those who may want to start up their own businesses.

A support telephone number (Job Centre Plus hotline) was announced for affected employees, alongside a BENE helpline number for suppliers, when the mothballing announcement was made.

Supply Chain

Through BENE, partners have worked to identify Corus and TCP supply chain companies. A dedicated contact and advice line has been set up in Business Link for suppliers and it has visited suppliers when requested. The analysis of the information on the wider supply chain has been shared with other regions where firms may be affected. It also feeds into the Workforce group.

Investment Acceleration

Partners in Tees Valley are working to identify projects that could possibly be brought forward within the City Region. The North/South Tees Study commissioned by One North East, identifies future investments and any barriers to these. This sub group has also been involved in discussions with Corus to explore what land use opportunities exist in the area.

Strategic Economic Impact and Community Impact

Tees Valley Unlimited, in conjunction with One North East, is developing a Transition Plan to a Low Carbon Economy. The work will include various studies to identify key strengths and opportunities for the industries situated in the Tees Valley, and those which could develop and emerge in the future, drawing on the existing clusters, expertise and skills of the city region. The Minister for the North East is also engaging with Tees Valley Unlimited in developing their Low Carbon Transition Plan.

Communications

A communications plan is in place and One North East is leading on all communications activity on behalf of the Response Group.

PROVISION OF REDUNDANCY SUPPORT

23. Jobcentre Plus has been working closely with Corus management in recent months to consider the Rapid Response Service offer, which includes Train to Gain as standard. This work has identified the staff numbers, skills and future requirements to ensure that every person affected by redundancy will be offered the best possible package of support to find new work and opportunities. Between the provision that has been available from the partners, European Social Fund (ESF) contracts and an additional Jobcentre Plus contract put in place to support manufacturing redundancies in the Tees Valley area, there are no immediate gaps in provision of support for Corus employees.

24. In addition, the Department for Work and Pensions (DWP) along with other Departments, has been working closely with One North East to look at how the European Globalisation Adjustment Fund (EGF) may be used to add to the measures that have benefited from ESF investment and that are already available to the Corus Response Group (duplication is prohibited and the EGF Regulation requires complementarity with normal Member State action). The EGF is an EU instrument that began in 2007 and was revised this year. It provides part funding for Member State responses to large redundancies, now at 500 persons or above. It is not a fund available for direct aid to plants to keep them open, but intended to directly support those workers that have been made redundant. Eligible actions under the EGF are largely active labour market measures including training as already provided in the UK through Jobcentre Plus and Train to Gain.

25. If it can be shown that an application to the EGF would be of added value by differentiating from the provision already provided then this would be given the fullest consideration. Match funding is required for EGF applications and DWP and other Departments would have to examine the costs.

TEES VALLEY INDUSTRIAL PROGRAMME

26. On 8 December 2009 the Secretary of State for Business, Innovation and Skills announced a package of measures that will prioritise £60 million of projects under development. This is to secure immediate investment to support the region's industrial transition to low carbon and advanced manufacturing that will benefit the local workforce and community.

27. This funding comprises £30 million of new money from the Government's Strategic Investment Fund, and £30 million from One North East. The overall package will create around 3,000 jobs and sustain over 10,000 jobs in the long term.

28. This package will be structured in 2 parts:

- £30 million will address immediate issues arising from the TCP announcement, including providing around £10 million for apprenticeships and support for people to start businesses and up to £20 million investment in the nearby Wilton International site, the other major employer in the vicinity.
- The remaining £30 million will equip Teesside to realise its potential to be part of the low carbon manufacturing base. This includes investment in redevelopment of industrial land and infrastructure. It also includes investment to establish bio-based materials, to reduce energy use of industry in the area, for initiatives on carbon capture and storage and support for technology transfer and new business practices.

29. The programme will be run jointly by One North East and BIS through the Tees Valley Industrial Programme Board. The Board which held its first meeting on 18 December 2009 will manage the programme by:

- Identifying priority actions for funding on Teesside
- Allocating funds to projects and recommending final approvals
- Driving progress on project delivery
- Managing the budget
- Evaluating results

SUPPORT FOR THE WIDER ECONOMY

30. Before the news from Corus about TCP, the Government was already demonstrating its support for the industry and wider economy of the surrounding area of Tees Valley. Much of this is support for new economic opportunities through New Industry, New Jobs (NINJ)² which set out a strategic vision for Britain's recovery, including the Government's role in ensuring British firms and workers can compete successfully for the jobs of the future. It identifies key areas where Government action can have most impact. The £950 million³ Strategic Investment Fund to support advanced industrial projects of strategic importance, is part of this approach.

31. Partnerships for Growth, published in December 2009, sets out the Government's priorities the cross-cutting policies identified in NINJ and priorities for interventions in key sectors such as low carbon, advanced manufacturing and life sciences. It also sets out how national, regional and local levels need to work together to support these priorities and ensure sustainable economic growth.

32. Priority areas where the region is developing internationally successful activities include:

- The Centre for Process Innovation (CPI) at Wilton which develops products, processes, services for businesses in the process and manufacturing sectors.
- The Printable Electronics Technology Centre (PETEC) at Sedgefield that will establish the region as a global leader in the application of printable electronics research.

33. Regional Development Agencies have a key role to play in delivering on the ground and One North East is working with regional stakeholders to focus on new economic opportunities on a range of sectors to create new jobs and businesses for the future.

34. Existing Government support for industrial opportunities in the area include substantial support for the chemical sector at Wilton in the North East, including:

- £12 million for investment in a new Industrial Biotechnology facility, plus £2.5 million to help small companies use it.
- £11 million towards SABIC's large low density polyethylene plant.

² Published 20 April 2009. <http://www.berr.gov.uk/files/file51023.pdf>

³ £750 million in Budget 2008 and £200 million in PBR 2009

35. Other recent investment in the Tees Valley includes:

- Government has earmarked £71 million through the Regional Funding Advice (RFA2) towards the early provision of new, and improvements to existing, rail stations, and a Bus Network scheme.
- During 2006–08 over £31.5 million for Housing Market Renewal, with a further £50 million to be invested over the next three years. The Kickstart Housing Delivery programme will support the construction industry with £11.4 million approved and £12.7 million earmarked. The funding is targeted at currently stalled sites, to support construction of high quality mixed tenure housing developments.

6 January 2010

Memorandum from Community Union (NEC 02)

Community—the Union for Life—represents the vast majority of workers at Teesside Cast Products that are at risk of redundancy and also has significant membership among contractors who work at TCP. Community represents the majority of workers in the UK’s steel industry. The union has dealt with significant steel plant closures over the past 30 years and fully understands the devastation that is caused to steel communities. In some cases the union has successfully produced alternative proposals that have prevented plant closure—most recently at Corus Packaging Plus in Trostre. Community was formed from a merger of the Iron and Steel Trades Confederation and the Knitwear, Footwear and Apparel Trades Union in 2004.

SUMMARY

- Our central concern is to persuade Tata Corus to maintain production at TCP to allow time to put in place a sound business structure.
- At this stage, we are not concerned with the apportionment of blame for what has happened. The time for a search for culprits will be if and when the plant has been mothballed. The legal action by Corus against the consortium will not save the jobs of our members.
- The select committee’s press release asking for submissions says that “Corus will curtail production”—if Tata Corus is being honest in its statement that TCP is to be mothballed, then there is no need for any significant job losses because mothballing requires the retention of sufficient numbers to be able to get the plant up and running quickly—the process of mothballing is so defined.
- The immediate focus should be on supporting Tata Corus in finding customers for slab, or for coil products via the Corus Strip Products (CSP) business. The select committee and local and national government agencies would be well-served to seek all possible ways to reduce the cost-base of TCP while this process takes place.
- In the long-term, keeping people in work would be far more cost-effective than redundancies, retraining and re-employment.
- Therefore, at this stage we do not want to get into a debate about how the regional economy will be affected and we understand that the select committee will receive submissions from others that will address this issue. Suffice to say that such a significant loss of skilled jobs in an area like Teesside will have detrimental, and potentially long-term, economic and social effects. Previous steel plant closures have shown that one steel job can sustain up to four other jobs in the supply chain or local economy.
- The TCP Blast Furnace is one of the “greenest” sources of iron in Europe. Its mothballing may well result in the equivalent tonnage of iron being produced from a blast furnace which generates more CO2 per tonne of iron, maybe even significantly more CO2.
- The major TCP “stakeholders” are the owners, Tata Corus, the steel sector trade unions, all levels of Government and its agencies, local politicians and the local community. Unfortunately, and arguably the most important stakeholders are absent—customers or buyers.
- The unions and the company have set up a task force to look at all alternatives to mothballing—its first meeting will take place on 8 January.
- Thus far there has been a distinct lack of information forthcoming from Tata Corus to allow the unions to come forward with alternative proposals. Tata Corus has merely said that the market situation and the cost of production is such that the decision was inevitable. Community does not accept that view and understands that some buyers/customers were still interested right up until the announcement.

- Community stands ready to meet with other interested parties—either as customers or buyers. However, the unions cannot sell the product or the plant—we can only ask that all pressure is brought to bear to ensure Tata Corus remains open to any forthcoming possibilities to secure the future of the plant and avoid mothballing.
- Furthermore, the union sees a role for government assistance either at national or regional level that might bridge any gap that exists which would prevent a deal to secure TCP's long-term future.

INTRODUCTION

1. Community's aim is to delay the mothballing of the TCP blast furnace while time is spent investigating all possibilities for creating a long-term future for the plant.
2. The 1,700 direct jobs plus contractor jobs are not the only jobs at threat—there will be job losses through the supply chain, the distribution chain and the local economy.
3. To date the number of jobs at risk has not been discussed with the unions. However, Community's initial reaction is that the figures are more akin to a closure than to an effective mothballing of operations. Proper mothballing would leave enough people in place to pick-up production as soon as an opportunity arises.
4. Therefore, keeping people in work must be a priority while alternatives are sought or the market recovers.

THE SLAB MARKET

5. In 2001, the ISTC opposed the decision by Corus to close Teesside's plate mill. The union argued at the time that it would limit the plant's ability to compete in the global steel market as the plant would only be able to produce steel slab (a commodity product), which would be sold on the global export market.
6. Steel slab prices are subject to significant market price fluctuations both up and down. The market is relatively small at c30mt per annum. Teesside's capacity is 3.5mt.
7. In 2003 Corus said it no longer saw a strategic role for Teesside within its business. Corus signed a deal with a consortium in 2005, who took c80% of Teesside's slab at cost. The four companies (Marcegaglia, Dongkuk, Duferco, Ternium) in the consortium agreed a 10-year deal and made substantial profits estimated at £800 million in the first four years of the arrangement. The companies pulled out of the deal in May 2008 as the slab market deteriorated. It's arguable that Corus made similar profits with its c20% share.
8. Teesside steel slab is at the high-end of the slab market, producing high-quality slab with multiple specifications. However, the slab market in general, and Teesside in particular, is vulnerable to fluctuations in the cost of raw materials.

AN ALTERNATIVE APPROACH

9. Tata Corus, as a global player, could however take Teesside slab and roll it at its mills in Llanwern, South Wales.
10. The global market for hot and cold rolled strip products is greater than that for slab by a factor of 20. Rolled strip products account for well over half of the global steel output of one billion tonnes.
11. Corus has an under-used strip mill in Wales that was mothballed in late 2008 and is now operating at well below 50% of its capacity. TCP was for several years the major slab supplier to Llanwern at approx 1.8mt/annum. Demand for steel is anticipated to increase (albeit modestly) in the next 18 months to two years,
12. The steel unions now ask Corus to carry out an urgent serious study to assess the feasibility of selling the major part of the TCP output as hot and cold rolled products via the available spare capacity within Corus Strip Products.
13. Pending the outcome of this review we ask Corus to repeat the exercise carried out earlier this year of using TCP slab to supply the three CSP Hot Strip Mills at Ijmuiden, Port Talbot and Llanwern.
14. Tata Corus would then be able to compete in a much larger global market for hot or cold rolled product, that exceeds 500m tonnes. Teesside can break-even operating at a capacity of 3mt per annum, which matches that of the Llanwern mills. Tata Corus should put its claims to be a global player to the test and seek to sell the extra 2mt of rolled products this could produce.
15. Given that Corus already owns both Llanwern and TCP, what thought has Corus given to re-uniting these two internationally competitive items of plant, and then to deploy energetic sales methods to selling hot rolled coil and the associated CR products, and possibly recover some of the markets lost down the years is a question that needs answering.
16. The cost of transport from TCP to Llanwern is a marginal consideration. If it makes sense now to ship TCP slab around the world—and it does—then it makes even more sense to transport it to Newport.

THE UK STEEL SECTOR TRADE UNIONS

17. The Unions are not in a position to buy slab which is what the situation requires. Our role is confined to one of persuasion, of lobbying and of the most effective marshalling and organisation of those who wish to keep TCP going. We are in a position to lobby to provide support for plausible politically feasible measures designed to enable Corus to continue production.

18. The TU will give the widest possible publicity to what Corus intend to do which is to mothball and maybe close one of the most important and expensive plants in the UK, and, moreover plant which is in its very prime. Our publicity will make it clear that the final word in this or indeed in any subsequent major policy decision will be that of Mr Ratan Tata.

19. The Unions doubt if the Government or Prime Minister would relish the prospect of being accused of being a party to, if not the prime mover in, a significant act of industrial vandalism.

REGIONAL AGENCIES AND POLITICIANS

20. The most effective contribution of these groups would be to avoid internal wrangling and to give all possible support to plausible proposals and actions that might emerge from the work of the Task Force together with giving full support to persuading the Government to give political and financial backing to measures to secure the future of TCP.

THE GOVERNMENT

21. Like the steel unions the Government does not buy steel slab. The sole purpose of the TCP complex is to make continuously cast sections for subsequent rolling operations. All discussions on the matter should have this simple point in mind at all times.

22. The Government is well-placed to follow the example of other EU Governments to give the maximum possible financial and political support to Tata Corus to give TCP the precious time to identify and put in place a robust business future. In particular the unions note the support provided in other EU member states for the employment costs of both Corus and its continental competitors.

23. In the event that production cannot be maintained and TCP is mothballed then the steel unions will demand that the Government funds the retention of all the TCP employees. This was done in other EU countries last year so that companies could emerge relatively unscathed from the recession.

24. This approach would not be prohibitively expensive (employment costs are a relatively small % of total costs) and it would provide a strong incentive to both Corus and to the Government to get TCP back into production sooner rather than later.

25. The Government has contributed to the present business difficulties of the UK steel sector. We would cite its failures over energy costs, the structure of the EUETS, and its failure to follow the example of its fellow EU Governments in maximising the scope to use public procurement to promote UK business.

26. We also note that Mr Kirby Adams has strongly attacked the high business rates in the UK as yet another handicap imposed by the Government.

27. Our members have noted and have been unimpressed by the lavish support given by the Government to the banks following their collapse in 2009. Furthermore, the problems of the steel sector arose as a direct consequence of the unseemly combination of ineptitude and personal acquisitiveness that characterised the financial sector. It is not the case that demand for steel products fell, but rather that the credit facilities essential for the conduct of business disappeared into the pockets of the financial community.

CONCLUSION

28. If the outcome of the work of the task force and the efforts of national and local politicians fail to change the declared Corus intention to mothball the plant, this will not only be a major blow to the wider Teesside economy, even though it will certainly deliver such a blow. It will also reduce the Basic Oxygen Furnace Corus steel making capacity in the UK by around 25%, and would represent yet another melancholy milestone in the decline of the UK steel sector. The Steel Unions may be forgiven for doubting if the loss of TCP could be compensated by a reinvigorated financial sector.

6 January 2010

Memorandum from One North East (NEC 03)

This submission is presented by One North East as Chair of the Corus Response Group and draws upon contributions provided by Jobcentre Plus, the Learning and Skills Council North East, Business and Enterprise North East, Tees Valley Regeneration and Tees Valley Unlimited.

It is acknowledged that this is a fast moving agenda and much of the activity described in this submission is developing rapidly. One North East would therefore be happy to provide an update on progress at a future oral evidence session.

SUMMARY

- The Corus Response Group was established in May 2009 at the first indication of potential redundancies at Teesside Cast Products. The group held regular meetings over the following eight months, working to secure the future viability of Teesside Cast Products as the top priority.
- Contingency plans were put in place for all possible future scenarios, with work undertaken in six workstreams to map the impact of the potential closure and to put in place support measures for those affected should closure occur.
- A comprehensive package of support for people potentially losing their jobs is on standby to be rolled out at Steel House in Redcar in January should it be required. This includes a resource centre hosting employment experts who will undertake individual skills assessments to identify peoples' best options in the labour market, as well as providing benefits and tax advice for those who may want to start up their own business.
- One North East and Government have developed the Tees Valley Industrial Programme, building on the work jointly undertaken by One North East with sub-regional public and industry partners, based on the development of the area's world-leading Process Industries to accelerate the transition to a lower carbon advanced manufacturing area. This is being supported by £60 million in funding—£30 million of which is to be allocated from One North East and ERDF resources, and £30 million of new funding from the Department for Business, Innovation and Skills' Strategic Investment Fund.

1. INTRODUCTION

1.1 *Responding to the Recession*

The activity of One NorthEast (ONE) in responding to the recession fits with the wider strategy and activity of the Agency set out in our submission to the North East Regional Committee's inquiry on Industry and Innovation in the North East of England. This submission focuses specifically on work in response to the circumstances of Teesside Cast Products (TCP) and the wider potential impact on the Tees Valley economy.

1.2 *Overall we have adopted a three pronged approach to supporting industry in the region:*

- Responding to the recession.
- Preparing for the upturn.
- Putting in place longer term strategic plans for the regions economy through the Integrated Regional Strategy.

1.3 *Activity in response to the recession has focused in three key areas:*

- Measures to improve access to finance and wider support for business, including: investment funds providing finance and helping firms to grow; health checks, debt management and product development advice; short term loan finance for large and small companies; investments to encourage Research and Development activity; and employment support and talent retention measures. And under the banner of *Real Help for Business and People Now* leading a coordinated campaign to raise awareness of the finance and funds available to firms and help for people, providing a coherent story of the support on offer in the region during the recession.
- Strategic leadership in particular in response to economic shocks, for example leading the Response Groups established to support Northern Rock, Nissan and Corus.
- Preparing for the upturn and maintaining focus on our longer term economic ambitions is a priority for the Agency. New Industry New Jobs sets out the Government's strategic vision for Britain's recovery. Consistent with ONE's approach to building on regional industrial and academic strengths ONE has a key role to play in delivering this strategy and helping to prepare industry for the upturn. Activity includes:
 - the new £125 million JEREMIE venture capital fund—Joint European Resources for Micro to Medium Enterprises Initiative,
 - investment totalling £12 million from the Strategic Investment Fund for open access demonstrator facilities for industrial biotechnology at Wilton,

- leading the region's Low Carbon Economic Area, specialising in ultra low carbon vehicles. The Agency is working with Nissan to roll-out electric vehicle infrastructure in North East England, and played a fundamental role in Nissan's decision to bring its new £220 million rechargeable battery plant to Sunderland. It is hoped that electric vehicle production will also be confirmed in the North East, and
- investment in NaREC to develop and operate five leading and accredited Energy Technology Development facilities: National Marine Energy Test Facility; UK Turbine Blade Test Facility, National PhotoVoltaic Technology Centre; the Charles Parsons Power Laboratory, and National High Voltage Laboratory in Hebburn.

1.4 *Response Groups*

Throughout 2008–09 ONE has initiated 94 large scale redundancy response groups, an increase on the 33 cases handled in 2007–08, highlighting the impact of the downturn in the region. In situations where there is wider regional impact the Agency Chief Executive chairs public and private sector Response Groups as in the case of Northern Rock, Nissan and Corus.

1.5 Response Groups work closely with plant management to help keep companies operating and provide strategic help with their future plans. Where staff are affected they ensure every directly affected employee and the wider supply chain has the best possible chance of finding new work and opportunities. Historically, resettlement rates have been in the region of 70–80% after six months. ONE and its partners are striving to maintain these in the current economic circumstances, which is extremely challenging.

1.6 *State of the Economy*

ONE has made a significant contribution to the economic growth and regeneration of North East England. Economic growth in the North East has been above the national average in recent years, although the current recession has impacted upon business activity across sectors and the region's economy.

1.7 The region has entered the recession with a more diverse industrial base than in previous years and is in a relatively much stronger position to survive the conditions and thrive when the economy does recover. This underpins the North East's relative performance, which has more closely tracked the national picture than, for instance, the 1980s when the structural decline in heavy industry left the region more exposed by its reliance on primary and manufacturing sectors.

1.8 There have clearly been recessionary effects on industrial activity in Tees Valley, most recently with the job reductions at Corus and a challenging environment for petro-chemicals. Tees Valley's industrial mix is heavily dependant on a few sectors, some of which are inter-linked, with the economy based on the largest integrated heavy industrial complex in the UK comprising: a petrochemicals cluster; an energy hub based on large scale gas and bio-fuels processing; a world class engineering design and plant maintenance cluster; and Teesport, which manages 10% of all UK industrial port traffic, and its related industries. This makes Tees Valley more vulnerable in a recession than other parts of the region.

1.9 The claimant unemployment rate in both Tees Valley as a whole and specifically in Redcar and Cleveland (6.3%) remains above both regional (5.3%) and national (4.1%) rates. Claimant unemployment had fallen in the quarter to November in all parts of the North East apart from Tees Valley which has seen an increase of 600 over this time (not seasonally adjusted).

1.10 Tees Valley has seen a similar rate of total unemployment increase since the start of the down turn to Tyne & Wear, but lower percentage increases than County Durham in particular and the UK as a whole.

1.11 The metal manufacturing sector employs approximately 26,200 people in the North East, and contributed an estimated £1.1 billion to the regional economy in 2007, accounting for 2.5% of the total regional economy. Iron and Steel predominated with a £315 million contribution to the sector's GVA, employing 5,200 people.

2. CORUS RESPONSE GROUP

2.1 The Corus Response Group (see Annex 1) was established by One North East in May 2009 following Corus' announcement of the unilateral termination of a 10 year Off-Take Framework Agreement by an overseas consortium, which purchased around 78% of the plants steel slab production.

2.2 Regional partners met for the first time on 12 May at a Response Group meeting, chaired by the Agency's Chief Executive, to explore ways to secure the future of TCP as the top priority. Contingency plans were put in place to prepare for all possible future scenarios, following the region's agreed model to support people potentially at risk of losing their jobs.

2.3 The Corus Response Group established a set of workstreams, led by the relevant regional partners:

- Workforce—to prepare a contingency plan for the opening of a fully staffed Information Centre for Corus employees and on-site contractors, providing advice, guidance and Business Link services, including business start-up advice;
- Supply Chain—to contact and support regional supply chain companies and their directly affected employees, and provide wider UK supplier/customer support through the RDA network;
- Communications—to develop a communications plan, co-ordinate media releases, PR and partnership briefings;
- Investment Acceleration—to provide an analysis of the market offer, identifying projects that could be brought forward within the City Region and work as the inward investment lead;
- Strategic Economic Impact—to conduct economic impact analysis; and
- Community Impact—to consider community impact and future skills planning.

2.4 Vera Baird, MP for Redcar, met with Antonio Marcegaglia, Chief Executive of Marcegaglia and lead partner in the overseas consortium, on 22 May to explore possible commercial solutions to preserve production at TCP. Meanwhile, Corus continued to make every effort to find a buyer for TCP between May and December 2009.

2.5 Increases in internal orders, export contracts and rises in world market prices for steel enabled TCP to continue manufacturing steel for the duration of the 90-day consultation period, 8 May until 7 August, with the consultation period initially extended until the end of September 2009. The Response Group's top priority remains to support Corus in their attempt to secure the future of TCP as a viable business. Regular engagement with senior BIS officials and monitoring developments following high level Ministerial engagement with the TATA group have been important strands of activity. Work on detailed contingency plans continued in order to offer the best possible package of support to workers potentially losing their jobs.

2.6 In June the restructuring of the Corus Long Products Division resulted in the loss of 427 jobs at the Teesside Beam Mill in Lackenby, Hartlepool, Skinningrove and Darlington plants. While this activity was separate to the situation at TCP, Response Group assistance was provided to ensure that employees affected by the announcement were given every opportunity to find new work and access new opportunities. There were fewer than 40 compulsory redundancies and all employees who left were given the opportunity to attend information sessions. The partnership has delivered 80 skills transfer analysis sessions to individuals and two people have moved into work so far. Tracking will continue for all workers who have attended a skills training analysis session.

2.7 TCP was unable to secure orders at an acceptable price beyond December 2009 and, with Corus having incurred losses of approximately £130 million and unable to find a buyer for TCP, it was announced on 4 December 2009 that TCP's Redcar Blast Furnace, Lackenby steelmaking and the South Bank Coke Ovens would be partially mothballed at the end of January 2010, resulting in the loss of around 1,700 jobs from its Teesside workforce, around 600 fewer than envisaged earlier this year. Corus will continue to have a substantial presence in Tees Valley, employing more than 2,000 people at operations in Harlepool, Skinningrove, the Teesside Beam Mill and Teesside Technology Centre.

2.8 On 8 December the Agency's Chief Executive and Director of Business and Industry, Leader and Chief Executive of Redcar and Cleveland Council, Mayor of Middlesbrough and UK Director of Public Affairs, SABIC UK Petrochemicals, attended a meeting with Lord Mandelson to discuss the situation on Teesside. Following this meeting, a £60 million investment package for the wider development of Tees Valley and including additional support for apprentices and enterprise development was announced—£30 million of which is to be allocated from ONE and ERDF resources and £30 million from the Department for Business, Innovation and Skills' Strategic Investment Fund.

2.9 The package was secured following discussions with BIS immediately after the announcement by Corus on 4 December and a submission by ONE to BIS on 5 December. This submission was influenced by the Tees Valley Unlimited low carbon transition plan and the recently published NEPIC 10 point plan for the Process Industries.

2.10 An emergency meeting of the Response Group was called on 9 December, attended by Rosie Winterton, Minister for Regional Economic Development and Coordination. The £60 million Tees Valley Industrial Programme and immediate rollout of a comprehensive package of support for employees were discussed.

3. OUTCOME OF THE WORKING GROUPS

3.1 *Workforce*

Over recent weeks, led by Jobcentre Plus, partners delivered group and one-to-one counselling, advice on training and job opportunities and Business Link services, including business start-up advice to workers affected by the restructuring of the Corus Long Products Division involving Beam Mill, Hartlepool, Skinningrove and Darlington plants. There were fewer than 40 compulsory redundancies and the partnership has delivered 80 skills transfer analysis sessions to individuals; two people have moved into work so far.

Partners have worked to analyse staff numbers, skills and future requirements to ensure that every person affected by redundancy, including those with specific needs such as those retiring and apprentices, will be given the best possible tailored advice and support.

A wider comprehensive package of support, developed in consultation with plant management and trade unions, is on standby to be rolled out at Steel House in Redcar in January if required (see Annex 2). This includes a resource centre hosting employment experts who will undertake individual skills assessments to identify customers' best options in the labour market, as well as providing benefits and tax advice for those who may want to start up their own business.

Job CentrePlus services will also be available to affected workers in the supply chain.

3.2 *Supply Chain*

Through Business and Enterprise North East, as the primary conduit, partners have worked with Corus/TCP to identify their direct suppliers and TCP annual spend from contracts. All suppliers have been contacted through Corus and provided with details of a dedicated contact and advice line that has been set up in Business Link to offer support.

Multiplier analysis, using information provided by Corus in July 2009, has shown that the majority of the 346 main suppliers, with spend totalling £355 million, are based outside of the region, lessening the impact on Tees Valley and the regional economy. In the North East 98 supplier companies were identified with spend totalling £57.8 million. This compares to 13 international companies (£27.8 million spend) and 235 national (£269.1 million spend).

The analysis of information on the wider supply chain has been shared with other regions where firms may be affected and also informed the Workforce group.

Business Link, in conjunction with the North East Chamber of Commerce (NECC) hosted a supplier event at TCP, which was attended by over 80 suppliers, providing information directly from Corus and Business Link, with the emphasis on the support available.

Further contact is currently being made with suppliers and through them their own suppliers, via Corus, with the offer of direct face-to-face support reiterated. This is being done in conjunction with Local Authorities, NECC, Engineering Employers Federation, ONE and Job CentrePlus.

3.3 *Communications*

A communications plan is in place with the agreement that ONE will lead on all communications activity on behalf of the partners involved in the Response Group. This includes working with the unions and Corus to coordinate shared messages and statements, which has been critical due to the large interest shown by national and regional media.

Both the Chief Executive and Director of Business and Industry at ONE have carried out a number of interviews with regional and national media on Response Group activity.

ONE has distributed several press releases on behalf of the Response Group, updating media on its activity and leading the response to the news in December that the TCP plant was to be partially mothballed.

A communications plan is in place to communicate response group activity to internal audiences at Corus and external audiences such as wider stakeholders and media.

3.4 *Investment Acceleration*

Partners in Tees Valley and the Agency have focused on an existing investment enquiry pipeline of 20 projects. This list was prioritised into three areas:

- Projects which had the potential to directly impact on the Corus operation, i.e. land acquisition and operating synergies both current and future.
- Projects with the potential to create jobs in Redcar and Cleveland.
- Projects with the potential to deliver jobs in the Tees Valley.

Jointly these 20 projects have the potential to deliver approximately 4,000 jobs and would bring approximately £5 billion of private capital investment into Tees Valley. It was recognised however that most of these projects were long term and the timing of these projects being announced did not match that of the Corus situation.

The success of three of these projects, with a capital investment value of £4 billion and the potential to create 900 jobs, depended on successful land negotiations with Corus. A moratorium imposed by Corus on all discussion associated with land acquisitions while a buyer was sought for TCP meant that these projects could not progress. Discussions with these projects recommenced once the negotiation with the original consortium ceased. All three projects met with Corus and have subsequently re-submitted their proposals for the acquisition of land. It is expected that Corus will respond to these proposals in the New Year.

3.5 *Strategic Economic Impact and Community Impact*

Using the North East Economic Model (NEEM) ONE has analysed the possible economic impact of a potential 1,700 job losses at TCP on the region's economy. It is estimated that this would result in:

- 3,200 job losses in total of which 1,700 were from TCP, 1,100 in Corus' supply chain and 400 in the wider economy (a multiplier effect of 1.9).
- Total GVA lost equal to £150 million from the regional GVA level of £40 billion.

Tees Valley Unlimited, with ONE and industrial partners is developing a Transition Plan to a Low Carbon Economy, linked to the Tees Valley Industrial Programme.

4. TEES VALLEY INDUSTRIAL PROGRAMME

4.1 On 8 December Alan Clarke, Chief Executive, ONE, attended a meeting with Lord Mandelson, alongside a number of local representatives from industry, local government and agencies to discuss the situation on Teesside. Following this meeting, a £60 million investment package for Tees Valley was announced—£30 million of which is to be allocated from ONE existing resources and £30 million from the Department for Business, Innovation and Skills' Strategic Investment Fund. This funding does not displace activity planned under the Corus Response Group activity.

4.2 The TVIP builds on work undertaken over the last 12 months by Government, ONE, sub-regional partners and businesses to develop a comprehensive strategy to achieve competitiveness, prosperity and growth for the Tees Valley.

4.3 This Programme is aimed at supporting the wider business base in Tees Valley to stimulate the economy and accelerate its move to a low carbon, advanced manufacturing base. The TVIP is a two year programme and will create an estimated 3,000 new jobs in the short to medium term and sustain 10,000 jobs long term. As such it represents a major commitment to the long term future of the area.

4.4 The programme will address three key issues:

- The first, linked closely to Corus Response Group activity, will address the immediate issues arising from the Corus Redcar partial mothballing, including providing around £10 million for apprenticeships and support for people to start businesses and support for business investments to stimulate new job creation.
- The second will address the need to protect and build upon Tees Valley Process Industry assets at the major sites of Wilton, Seal Sands and Billingham, with up to £20 million investment to strengthen, diversify and sustain its competitiveness and employment. It also includes investment to establish bio-based materials, to reduce energy use of industry in the area, for initiatives on carbon capture and storage and support for technology transfer and new business practices.
- The third will equip Tees Valley to move beyond traditional heavy industry to realise its potential to be part of our low carbon manufacturing base. This includes support for major business investment, also closely linked to this redevelopment of industrial land and infrastructure which will stimulate and remove barriers to this investment.

4.5 The Tees Valley Industrial Programme has eight workstreams of activity in development (see Annex 3):

- Apprenticeships;
- Enterprise and Business Support;
- Engineering Diversification;
- Innovation;
- Energy Efficiency;
- Carbon Capture and Storage;
- Business Investment; and
- Business Infrastructure.

4.6 A Programme Steering Group is being set up to support and oversee programme development and deployment, made up of business representatives, Local Authorities, alongside ONE and BIS. Details of programme management and delivery are under development and further information will be provided once available.

4.7 The TVIP will be closely aligned to existing strategies and plans to support the Tees Valley, in particular the NEPIC 10 Point Plan (through the NEPIC Leadership Board) and the North/South Tees Study (through Tees Valley Unlimited).

5. NEXT STEPS

5.1 Local MPs, senior politicians and the unions are continuing to work to see if there are opportunities to secure the future of TCP.

5.2 TCP management and unions are working through contingency plans with Job CentrePlus for 1,700 job losses.

5.3 ONE, BIS and partners are working on the development of the Tees Valley Industrial Programme for deployment in Quarter 1 of 2010¹¹.

5.4 Preparation is underway for the next meeting of the Response Group on 7 January.

6 January 2010

ANNEX 1: Corus Response Group

CORUS RESPONSE GROUP

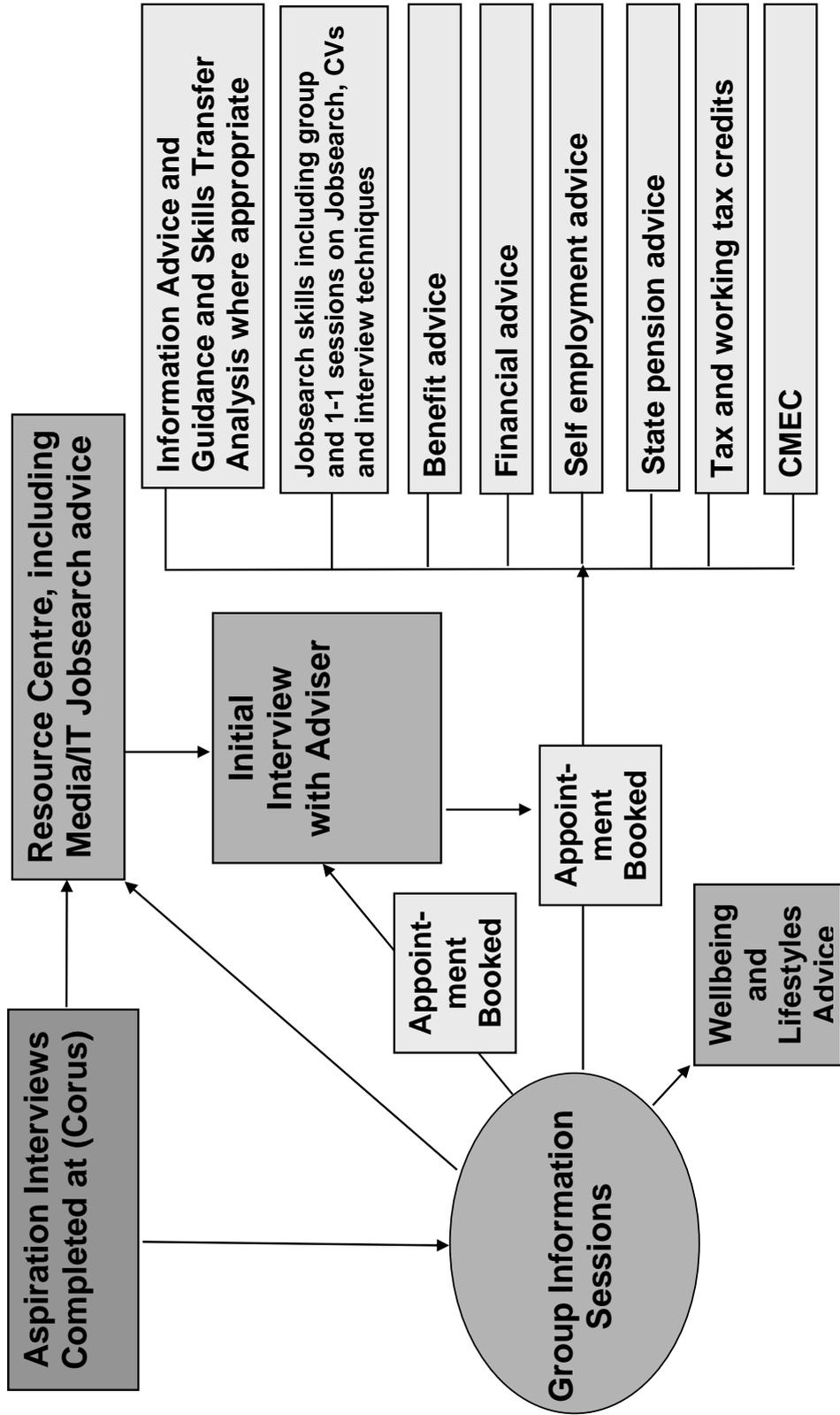
Chair: Alan Clarke, One North East
Deputy Chair: Ian Williams, One North East

Representatives: Jon Bolton, John Baker, Dave Nichol, Rob Simpson, all Corus; Vera Baird, MP; Alastair MacColl, Jo Boaden, BENE; Jan Thirlaway, Chris Livingstone, Paul Chapman, Job CentrePlus; Gillian Miller, LSC; James Ramsbotham, Andrew Sugden, NECC; Liz Mayes, CBI; Alan Hall, Tony Sarginson, EEF Northern; Cllr George Dunning, Amanda Skelton, Redcar & Cleveland Council; Sandra Cartledge, Middlesbrough Council; Geoff Waterfield, Multi Union Chairman, Teesside Works; Emma Wallace, Communities; Steve Redman, GMB; Neil Kenley, TVR; John Lowther, Linda Edworthy, Tees Valley Unlimited; Stacy Hall, Michelle Lowes, Gordon Arnott, Byn Littleton, all One NorthEast; John Rundle, Government Office for the North East.

Activity: The group has been established to support Corus and steel workers in the company and supply chain. Two key actions:
 i) supporting Corus with its attempts to secure the future of Teesside Cast products
 ii) – Prepare on a contingency basis for any downsizing or mothballing – analysing staffing numbers, skills and future requirements. This work will assess supply chain, strategic economic impact including future development of the immediate area.

WORKFORCE	SUPPLY CHAIN	COMMUNICATIONS	INVESTMENT ACCELERATION	STRATEGIC ECONOMIC IMPACT	COMMUNITY IMPACT
John Baker HRD, Corus; Jan Thirlaway, JCP	Baird Cross, Corus Ian Williams, ONE	Rob Simpson, Corus Stacy Hall, ONE	Neil Kenley, TVR	John Lowther, TVU	John Lowther, TVU
SUPPORT Paul Chapman, JCP Lesley Cannon, JCP Ann Boville, JCP Michelle Lowes, ONE John Leer, TVR Gren Irving, BENE Paul Tkaczyk, BENE Gillian Miller, LSC Redcar & Cleveland Rep Communitas	SUPPORT Melanie Winter, ONE – (via RDA network SRP network) Gren Irving, BENE Lesley Cannon, JCP NECC, CBI, EEF Northern	SUPPORT Gordon Arnott, ONE All partners (ONE to co-ordinate with Corus)	SUPPORT Simon Goon, ONE D Cramond, ONE Alastair Howarth, ONE Jon Bolton, Corus Redcar and Cleveland Council SEMPCO PD Ports	SUPPORT Alan Welby, ONE P Mooney, ONE D Cramond, ONE Jon Bolton, Corus Redcar and Cleveland Council PD Ports	SUPPORT Middlesbrough Stockton Darlington Hartlepool Redcar and Cleveland Councils
ACTIVITY Information Centre; Benefits/HMRC/Tax credits Skills Transfer Analysis; Info, Advice, Guidance; CV writing workshops; Interview Techniques; Business start up advice; Job focussed training; Job search, incl. unadvertised vacancies; Employee tracking; Jobs Fairs Apprenticeships	ACTIVITY Contact with and support of regional supply chain companies directly affected Through RDA/BERR network and JCP nationally, provide wider UK supplier/customer support	ACTIVITY Communications plan Co-ordinate media releases, PR, partnership briefings Good news stories, business start ups Redeployment figures	ACTIVITY Analysis of Market Offer Inward Investment Lead Marketing Public Sector Contracts	ACTIVITY Economic Impact Analysis Area & Site planning Infrastructure Support	ACTIVITY Community Impact Future skills planning

ANNEX 2: Workforce Delivery Response from Partners



ANNEX 3: Tees Valley Industrial Programme

TVIP PROGRAMME BOARD	
ONE NORTH EAST	
TEES VALLEY INDUSTRIAL PROGRAMME STEERING GROUP	
APPRENTICESHIPS	<p>SUPPORT</p> <p>To maintain and expand upon apprentice provision including high level and graduate apprenticeships.</p> <p>Specific activities may include additional support for employers taking on/safeguarding apprentices; employment placement opportunities for apprentices facing redundancy.</p>
ENTERPRISE AND BUSINESS SUPPORT	<p>SUPPORT</p> <p>To establish new businesses, including those by redundant workers.</p> <p>Specific activities may include enterprise coaching, high growth mentoring and start up support.</p> <p>This will be closely integrated with existing Solutions for Business portfolio and Business Link activity.</p>
ENGINEERING DIVERSIFICATION	<p>SUPPORT</p> <p>To enable the area's design engineering industry to diversify into new activities.</p> <p>Specific activities may include training, technology transfer and the development of new business practices.</p> <p>This will be closely integrated with supply chain and new market opportunities.</p>
INNOVATION	<p>SUPPORT</p> <p>To enable new and collaborative innovation projects.</p> <p>Specific activities will build on innovation capability assets and technology platforms; to enable and embed new industrial investments through business development and research activities.</p>
ENERGY EFFICIENCY	<p>SUPPORT</p> <p>To enable industry to implement energy management solutions.</p> <p>Specific activities will enable industry to invest in energy demand reduction and efficiency measures.</p> <p>This may include making use of existing energy e.g. heat that is currently a waste product.</p>
CARBON CAPTURE & STORAGE	<p>SUPPORT</p> <p>To enable development of a shared CCS facility for industrial emitters.</p> <p>Specific activities will enable commercial investment in CCS projects, support development of infrastructure and look at alternate CO2 treatment.</p>
BUSINESS INVESTMENT	<p>SUPPORT</p> <p>To secure additional immediate business investment by supporting specific industry projects.</p>
BUSINESS INFRASTRUCTURE	<p>SUPPORT</p> <p>To enable vital site preparation to attract specific investments. It will enable work to assemble and remediate land, install infrastructure and services.</p> <p>This will facilitate significant private sector investment.</p> <p>Additional to this will be support for Northern Way work to identify detailed costs for rail gauge enhancement from Teesport to Darlington</p>
APPRENTICESHIPS	<p>OUTCOME</p> <p>150 apprenticeships</p>
ENTERPRISE AND BUSINESS SUPPORT	<p>OUTCOME</p> <p>30 new businesses created 300 jobs created</p>
ENGINEERING DIVERSIFICATION	<p>OUTCOME</p> <p>100 businesses assisted 500 jobs safeguarded 500 individuals trained</p>
INNOVATION	<p>OUTCOME</p> <p>5 applied R & D projects involving 12 companies 6 new products £50m additional investment attracted 100 jobs directly created</p>
ENERGY EFFICIENCY	<p>OUTCOME</p> <p>20 Businesses assisted £40m investment attracted</p>
CARBON CAPTURE & STORAGE	<p>OUTCOME</p> <p>20 Businesses engaged £1bn additional investment attracted 10,000 jobs underpinned longer term</p>
BUSINESS INVESTMENT	<p>OUTCOME</p> <p>2000 Construction Jobs Direct jobs 800 Indirect jobs 500</p>
BUSINESS INFRASTRUCTURE	<p>OUTCOME</p> <p>40 hectares land brought into use £300m new investment attracted 1000 jobs created</p>

Memorandum from Corus (NEC 04)

BACKGROUND AND HISTORY

The existing Teesside iron and steelmaking facilities of Corus were constructed mainly in the mid to late 1970s, having since been progressively upgraded. At the heart of the operation is the Redcar Blast Furnace which, with a 14m hearth, is the second largest furnace in Europe. The plant was built to be a cost efficient, high volume facility making some 3.5 million tonnes of steel per year.

In 2003, following a strategic review of steelmaking in the UK, Corus consolidated its steelmaking activities, focussing on sites where downstream capacity existed. This review meant that the steelmaking capacity at Teesside was no longer core business for Corus and an alternative business solution was necessary.

A deal concluded in December 2004 to supply semi-finished steel in slab form for 10 years at the cost of production to a consortium of 5 offtakers, including approx 20% staying within Corus, drove the business to develop products and services to meet their differing strategic needs. The companies that formed the consortium of offtakers are steel companies that, at the time, did not have sufficient upstream (ie steelmaking) capacity to service their own steel rolling facilities. Teesside Cast Products (TCP) has developed into a unique steelmaking business with the capability to produce a wide range of steel slabs for the international market. It is operated by a highly skilled and experienced workforce and is located in a region that understands and supports the needs of the business.

FACTS THAT LED TO THE PARTIAL MOTHBALLING OF TEESSIDE CAST PRODUCTS

Teesside Cast Products steelworks suffered a very severe blow in April 2009 when the consortium of overseas buyers (offtakers) suddenly decided to withdraw from the binding 10-year contract to purchase slab at cost of production. Under the agreement, the consortium members were contractually obliged to buy almost 80% of TCP's output, but they broke the contract less than half way through its course.

The consortium deal was brokered in December 2004. It was a 10-year deal that would expire in December 2014.

The consortium's unilateral decision to terminate a legally binding contract forced Corus to open consultations with the workforce in May 2009 about possible job losses in the event that the company had to mothball TCP (see below for how we are defining this). In the eight months since the consortium announced its intent, Corus has been working extremely hard to find solutions that might offer TCP a viable future.

To buy time, and at considerable expense to the company, Corus at first filled the plant's production schedules with internal orders. This was at a significant cost to Corus, TCP lost £130 million during the first half of the financial year (April–Sept).

Later Corus TCP began to secure other external orders sufficient to allow a month-to-month existence to continue, but these only lasted until the end of December 2009.

Since April Corus and Tata Steel have worked extremely hard to secure a long-term future for the plant. The company has held extensive talks with other parties in all possible steel consuming countries but no alternative scenarios have emerged that would provide TCP with a profitable, sustainable long-term future. The company required two conditions to exist to keep the plant open: viable business fundamentals (volume demand and acceptable prices) and a Strategic Partner with capital to invest. These were not achieved.

With the two key criteria remaining unmet the position of TCP in its current form was therefore unsustainable. On 4 December Corus announced that parts of the TCP plant, including the Redcar Blast Furnace, Lackenby steelmaking and South Bank Coke Ovens, will be mothballed at the end of January 2010. Corus will continue to operate the Redcar Wharf, the Redcar Coke Ovens and some of the power generating capacity. The mothballing will result in the loss of 1,700 Corus jobs, which is 600 less than those announced in May 2009.

What do we mean by mothballing?

The company has decided to mothball the plant and not to close it for good. Mothballing involves shutting down production operations in a controlled manner that preserves the capital investment and allows the plant to be restarted at some point in the future, should circumstances require it. A small workforce will also be maintained on site to keep the plant in a reusable condition.

The market and demand for slab

The market for slab is extremely narrow. Slab is consumed only by other steelmakers with insufficient or no melting capacity of their own.

The severity of the economic downturn has caused the international steel market to decline sharply (down 6% globally in 2009; World excluding China down 25%), this combined with continued capacity expansion in China and the CIS has meant that globally there is excess capacity of 350–400mt of crude steel. This is expected to persist for several years.

With finished steel demand declining by between 35–40% in 2009 in the combined EU27, CIS and other Europe region, around 130mt of the overcapacity now exists in this region alone. However most CIS producers, including slab producers in the Ukraine enjoy significant cost advantage due to their self-sufficiency of iron ore and coking coal, whereas TCP relies on imported iron ore and coking coal purchased on the open market.

Amplifying the severity of the situation, demand for merchant slab has fallen by a far greater amount as steel makers with upstream melting who previously also needed to purchase slab from the merchant slab market attempt to maximise internal capacity utilisation by ceasing external slab purchases. This has resulted in the global market for slab falling by 31% to 19mt in 2009, some 37% below the 2007 peak level of 30mt. At that time, the TCP offtakers represented some 30% of that demand.

With global overcapacity expected to persist for several years, the slab market is expected to remain depressed for a considerable time and any limited recovery in demand that does occur is likely first to be taken by slab producers with a considerable cost advantage, mainly from the CIS but also Brazil. CRU's latest forecast is that the merchant slab market will be 24mt in 2010 (21% below 2007 levels), by comparison TCP's available capacity would be 12% of the global market.

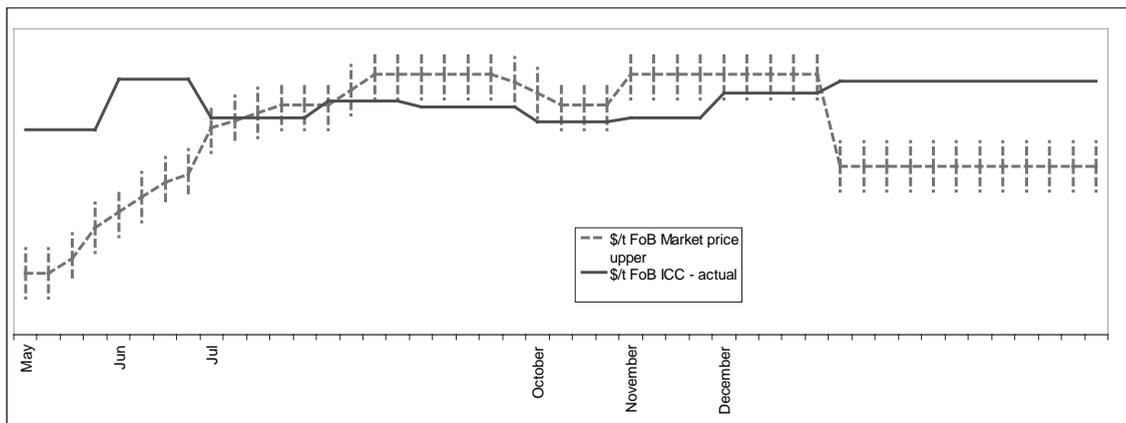
It is this considerable drop in demand for steel and steel products that caused the offtakers to walk away from their obligations as detailed in the offtake agreement.

In addition to the fall in demand, the market price for steel has also recently fallen.

TCP managed to secure orders for the December quarter that made its continuing operation viable while a long-term solution was sought. However no viable orders were secured for the March 2010 quarter.

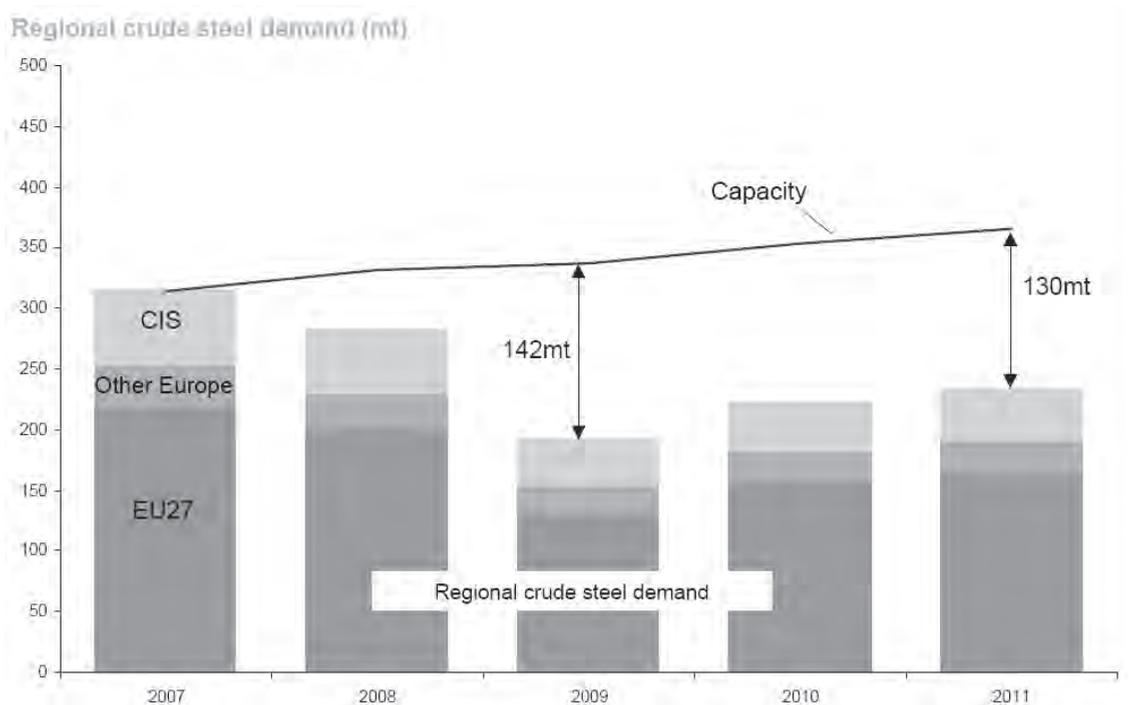
The charts below, illustrate the issues faced by Corus.

Graph illustrating Industrial Cash Cost and International Market Prices for slabs in 2009



(Source: Corus).

Graph comparing European/CIS Regional Crude Steel demand and capacity



(Source: Corus).

OUR EMPLOYEES

Corus will remain a major employer with over 2,000 employees in Teesside and the North East. Corus will do all it can to support affected employees and their families and the following package of support has been set up.

Since the first announcement in May, the business has worked hard with trades unions on a robust consultation process that involved many work streams. Due to the work carried out, opportunities were identified to enable Corus to continue to operate some of the plants rather than mothball the whole works. This has resulted in securing 600 jobs that otherwise might have been lost.

In addition in August, the business embarked on individual counselling for all affected employees and also ensured all resident contractors were also spoken to.

As part of the Corus Response Group, Corus has spent a great deal of time working with associated service providers to pull together an extensive contingency package should mothballing occur.

This package includes a fully equipped facility that will be manned by Jobcentre Plus at Steel House, this facility will be for the use of all employees affected in addition to contractors and it will provide a range of services including: advice and guidance and skills transfer analysis, job search skills, benefits advice, financial advice, self employment advice, state pension advice and advice on working tax credits and child maintenance and enforcement commission.

These services can be accessed in January, prior to that group briefing sessions on the services offered will be given to groups of people.

POTENTIAL FOR RESUMING IRON AND STEELMAKING AT TEESSIDE

Corus will continue to maintain the plant so that it can be restarted if conditions allow but that is unlikely to be for some considerable time. Corus cannot give any guarantee that it will reopen, but mothballing rather than closure retains the option that it might.

There are signs of recovery in demand for some finished steel products, but none in the niche, semi-finished slab market. There is simply insufficient regular demand in the world to make the operation of a large single blast furnace site like Teesside, which is 80% dependent on exports, sustainable. As previously mentioned for the plant to be viable it also needs a strategic partner who is willing to invest.

 INFLUENCE OF CURRENT CO₂ PRICES ON THE DECISION TO MOTHBALL TEESSIDE

Much has been written attempting to link the decision to mothball (ie temporarily close) Teesside Cast Products and the allocation of CO₂ to the site under the current phase (Phase 2) of the EU Emissions Trading Scheme (EUETS).

In particular, it has been suggested that by ceasing to emit a potential six million tonnes of CO₂ a year, Corus will benefit from carbon allowances which could be worth up to £600 million over the three years before current allocations expire at the end of 2012.

This is not the case.

CO₂ allocations are issued in accordance with the UK National Allocation Plan in phase 2 of the EUETS. They are regulated by the Environment Agency and are a matter of public record. The primary purpose of the allocation is compliance with the legal obligations under EUETS. At the time the Phase 2 allocation was determined, the amount available to Teesside was estimated to be about sufficient to meet the site's compliance requirements. The rules governing issue of allocations include provision for the regulator to reduce the amount issued if they consider a site has closed and will not re-open, but this takes place in the year following closure. The question of how much CO₂ will be issued to Corus in respect of the Teesside site in the period 2011–12 will depend on how much of the site continues to operate and on the prospects of being able to restart the furnace. This has been and will continue to be a matter of discussion with the regulator.

Press articles have speculated that the full allocation of 6 million tonnes of CO₂ will be issued and not needed for compliance in the three years 2010–12 and will be “worth up to £600 million”. This fails to take account of the need to surrender at least a part of the allocation in compliance with the emissions from any activities that remain on the site and which are covered by the same greenhouse gas permit. It also implies that each tonne of CO₂ could be sold now for around £37/tonne (€40/tonne), which is around three times the current price of CO₂ on the EU market. No credible market projection is suggesting that CO₂ will be valued at such a high level until well beyond 2012.

It has also been asserted that Tata Steel plans to increase steel production from 53 million tonnes to 124 million tonnes over the same period and that by replacing inefficient old plants with new ones which emit only “European levels” of CO₂, Tata Steel could claim a further £600 million under the UN's Clean Development Mechanism.

Again this is simply incorrect.

It is a matter of public record that Tata Steel has steel plant development programmes, some of which have yet to begin construction. These plans were well known well before Tata Steel purchased Corus. None of these developments would be in replacement of TCP for which the market is the international slab market, not the domestic Indian market for strip products.

Whilst it is true that companies in India can access funding under the UN's Clean Development Mechanism (CDM), such projects must meet strict rules on additionality in order to qualify for issuance of CO₂ credits. Any credits issued would be in relation to the marginal improvement in emissions not total emissions. The basis is emission reductions, and yields Certified Emission Reductions (CERs).

As a result, a new steel plant development would almost certainly not qualify because it would be assumed to be installing the latest technology, which does not qualify for credits under the CDM. In addition, CERs presently trade at a discount to European CO₂ Allowances (EUAs), therefore, the figure of a “further £600 million” is simply a fantasy.

Future CO₂-related risks and uncertainties

Any future partner for TCP will need to take into account the present uncertainties contained in the EUETS post 2012 (ie Phase 3), which might mean that TCP will have to purchase CO₂ permits to make up the gap between any free allocation and the amount emitted during production.

This is currently very difficult to estimate because the gap will be determined by a combination of factors, including the performance of the plant compared to a benchmark of the average of the top 10% sites in the EU, plus the level of ambition of the EU on overall emission reductions by 2020. The other unknown is the price of CO₂ in the EU post 2012.

Based on EUETS Phase 3 proposals as presently understood, we estimate the shortfall in free allocation could be between 20% and 40%. For TCP, with a Phase 2 allocation of some 6.9mt CO₂ per year, this could mean a shortage of 1.4 to 2.8 million tonnes. The price of EU allowances in 2013–2020 is predicted to be €30–40/tonne of CO₂, but could be higher towards the end of the Phase. This implies a need to purchase allowances costing €42 million–€112 million every year from 2013 onwards.

This is a risk Corus cannot underwrite.

7 January 2010

Memorandum from Tees Valley Unlimited (NEC 05)

This submission is presented by Tees Valley Unlimited, a sub-regional public/private partnership comprising the Local Authorities in the Tees Valley and the Private Sector. The role of Tees Valley Unlimited is to develop and coordinate the implementation of a long term economic strategy for the Tees Valley. The existing Tees Valley strategy—the Tees Valley City Region Business Case—is currently being revised.

SUMMARY

This submission explains the changes that have affected the steel industry in the Tees Valley over the last decade. Given the competitive advantage of Teesside Cast Products for quality steel and security of supply in times of shortages, together with the expected rise in demand and steel prices in 2010, the submission proposes that Government should explore with Corus and its parent company Tata Steel a package of support which keeps the Redcar operations operational for a year to enable new contracts to be found.

The submission welcomes the £60 million package to help develop the low carbon economy in the Tees Valley. The package will enable us to fund much preparatory work in the Tees Valley to enable an £8 billion pipeline of investment to be delivered. Nevertheless there will still need to be significant public sector resources required to realise the pipeline of investment. For example, the Tees Valley must be one of the pilots chosen for a carbon capture storage network if we are to retain our current industrial base and our major competitive advantage. Resources will be required for infrastructure to help de-risk future investments. A carbon capture storage network would be of major financial benefit to Corus.

Finally whilst the low carbon economy is important to the future development of the Tees Valley, we need to:

- (a) continue to diversify the economy through the development of the advanced engineering, logistics and digital/multi-media sectors;
- (b) continue the growth in service employment through the gap funding of office projects through regeneration monies;
- (c) continue the regeneration of town centres, improving the retail offer and the cultural facilities available to residents;
- (d) encourage entrepreneurship and new business formation through a programme of enterprise centres and business support; and
- (e) ensure a modern transport system through the development of the Metro.

1. INTRODUCTION

1.1 This submission:

- (a) sets out briefly the changes taking place in the steel industry from 1970 to the present day;
- (b) puts forward a proposal for further investigation by Government and Corus to keep Teesside Cast Products open; and
- (c) sets out the long term vision for the Tees Valley economy.

2. CHANGES IN THE STEEL INDUSTRY 1970 TO THE PRESENT DAY

2.1 The table below shows the major structural employment changes in the Tees Valley economy since 1971.

	1971	2001	2007	Change 2007 from 1971
Primary	6,700	4,100	3,100	- 3,600
Manufacturing	128,000	39,200	31,200	- 96,800
Construction	21,600	15,900	19,900	- 1,700
Services	119,300	193,100	211,100	91,800
Total	275,600	252,300	265,300	- 10,300

2.2 The table shows that whilst by 2007 the Tees Valley had replaced the jobs lost since 1971, nearly 100,000 jobs had been lost in manufacturing and replaced by the same amount in service industry. The implications for the Tees Valley in overall economic performance is the GVA of the Tees Valley fell from 88% of GVA in 1971 to 78% in 2007. The reason for this is that a manufacturing job in the steel and the chemical industry contributes £70,000 an employee to GVA whereas a job in warehousing contributes £30,000 an employee to GVA. If the gap in the economic performance of the Tees Valley and the UK is to narrow, then the retention of manufacturing jobs in steel, engineering and the process industries is essential.

2.3 A major element of the job losses in the manufacturing sector has been the loss of jobs in steel-making due to the globalisation of the steel industry. At times when world steel prices fall below the cost of producing steel in the UK, there is usually some restructuring of the steel industry.

2.4 In 2002–03 Corus reviewed its steel operations in the UK. It made the decision to concentrate its steel making operations for its internal use at Scunthorpe and Port Talbot. It decided to form a separate company Teesside Cast Products, to run its Redcar operations with a view to exporting most of the steel produced at the plant. At the time there was a world shortage of steel and a contract with a steelmaker who could guarantee a security of supply at a negotiated price and not divert production for its own use was a major competitive advantage. Hence a consortium of Marcegaglia of Italy, South Korea's Dongkuk, Switzerland's Duferco and Alvory of Argentina entered into a 10 year agreement to take 80% of the steel produced at Redcar. In addition Corus signed a memorandum of understanding with Marcegaglia and Dongkuk to sell them an 80% stake in the Teesside plant. Until early 2009 it was considered that the Redcar operation had a secure future.

2.5 In 2009 the consortium decided to terminate the contract primarily because the world price of steel had fallen below the price Corus was charging the consortium for steel. Given 80% of the market for Redcar's steel had disappeared almost overnight, the decision to withdraw from the contract caused major problems for Corus.

3. THE FUTURE OF STEEL IN THE TEES VALLEY

3.1 The key competitive advantage of Tees Valley as a place for steel making is the quality of steel produced in the UK and the high level of specification that can be made for pipes, tubes and beams. However steel produced in the Tees Valley has difficulty in competing in price with steel made in the Far East. The steel industry in the Tees Valley has a future whilst it can maintain these competitive advantages.

3.2 In relation to Teesside Cast Products the decision to mothball the plant is partly based on the world price of steel being below the cost price of producing steel at Redcar. From 2003 until early 2009 the world price of steel was considerably above the cost of producing steel at Redcar. Therefore, it would be reasonable to expect steel prices to rise once the recession is over. The World Steel Association represents 180 steel producers including 19 of the world's 20 largest steel companies. In 2010 it expects the demand for steel world wide to rise to 2008 levels due to increases in demand in Asia, Middle East and Africa. There is projected to be a 12.4% increase in demand in the European Union and a 17% increase in North America in 2010. In a recent article in the *Financial Times*, the Chief Executive of Corus is quoted as forecasting a 8% increase in demand for steel in Europe. Already world steel prices have risen by \$50/per tonne to \$450/per tonne on increased demand in December 2009 and steel makers are likely to raise their prices in January 2010.

3.3 Tata Steel itself is expecting to move to 100% capacity of its European operations (excluding TCP) by the end of its financial year. Corus has been making a loss in the last year but expect to post a profit of 500 to 600 million dollars in 2010–11.

4. RETAINING TEESSIDE CAST PRODUCTS—A PROPOSAL

4.1 Given the competitive advantage of the Redcar plant of producing high quality steel, security of supply for export at a negotiated price, rising steel demand and rising steel prices, it should be possible for Corus and its parent company Tata Steel to develop a long term business plan which secures the future of the Redcar works and to give it time to find alternative markets. Government may have to help in the short term to help reduce any losses or help with supporting long term investment. Redcar and Cleveland Borough Council commissioned consultants to look at the cost of a two day per week wage subsidy for 12 months similar to a scheme provided by the German Government. The cost of such a scheme would be £10–12 million compared to the annual cost of £40 million the Treasury would lose in national insurance and income tax contributions and extra costs in Job Seekers Allowance and Employment Support. More importantly it would buy time to find a buyer.

4.2 Corus itself is a major CO₂ emitter in the Tees Valley. The £60 million package from the Government includes resources to prepare a business case for the Tees Valley to be a pilot carbon capture and storage network. Corus could have a considerable competitive advantage if it was, as is intended, part of the network. Government could explore with Corus the long term benefits in its cost structure CO₂ sequestration could bring as part of its package of support.

4.3 The economic impact of not finding a solution to the TCP issue would be the loss of 3,200 jobs of which 1700 were from TCP, 1,100 in Corus' supply chain and 400 in the wider economy. Total GVA lost would be £150 million. The cost to the Exchequer in terms of lost national insurance and income tax contributions and extra welfare payments would be £40 million/year.

4.4 Tees Valley Unlimited would recommend that the proposal set out in 4.1 should be further investigated with Corus and Tata Steel.

5. THE FUTURE OF THE TEES VALLEY ECONOMY

5.1 Despite the problems of Corus and the petrochemical industry at Wilton, there has been significant investment in the Tees Valley economy. At Wilton, Ensus's £250 million investment in a new bioethanol plant will come on stream shortly and SABIC have opened their low density polyethylene plant which is the world's largest plant of its type. In August, Tesco opened their import centre at Teesport providing 800 jobs. The industrial biotechnology sector in Billingham is expanding, the Boho providing accommodation for

digital/multi-media businesses in Middlesbrough has opened and there are still a number of call centre developments taking place. Finally, engineering firms are winning contracts. For example, CTC Marine Projects based in Darlington, has an £80 million contract portfolio of sub sea power cable installations in the UK, Korea and the Middle East. JDR Cables in Hartlepool have a contract to supply 124 miles of cables to wind turbines off Cornwall and Heerema have won a contract to construct two substation platforms for the Sheringham field providing employment for 1000 people in Hartlepool over the next year.

5.2 The traditional strengths of the Tees Valley economy have been based on being the largest integrated manufacturing complex in the UK founded on steel, petrochemicals, the port, advanced engineering and oil and gas. These traditional strengths are still important assets but they need to adapt to changes in the world economy. In the investment pipeline there are £8 billion of potential schemes including a £4 billion oil refinery which refines heavy oil from the North Sea, the Progressive Energy clean coal gasification plant with carbon capture and storage, the Northern Gateway Container Terminal, £1 billion investment in two combined heat and power plants, three new biomass power plants, one of which will be the UK's second largest, various recycling plants and a second nuclear power station. However, it is important to recognise that these developments will not come on stream for 3 to 5 years. Many of the skills required to operate these plants are transferable from steel or chemical plants with some retraining. Hence the importance of finding a solution to the TCP problem in the short term.

5.3 To enable these developments to take place, Tees Valley Unlimited prepared a Low Carbon Economic Transition Plan setting out how Government can help the Tees Valley deliver the pipeline of projects. About half of the £60 million package of investment announced by the Government in December will help fund the preparatory work to deliver this investment. For example, it will:

- (a) enable us to prepare a detailed business case to Government to become one of four pilot carbon capture and storage pilots in the UK. Within the Tees Valley there are 18 out of the 21 major CO₂ transmitters in the North East. The availability of a carbon capture network and storage network will give the Tees Valley a major competitive advantage when carbon emissions trading is fully introduced in 2013. Indeed Corus as a major CO₂ emitter would benefit considerably from such a network. Conversely the lack of such a system will reduce the competitiveness of industry in the area and lead to further major job losses. Hence the vital importance of carbon capture and storage to the future economy;
- (b) enhancing the rail gauge from Teesport to Darlington to enable increased rail container usage;
- (c) producing proposals to reduce energy costs for industry by harnessing excess heat and steam;
- (d) creating a technical panel of Government regulatory agencies for the Tees Valley to speed up planning applications and regulatory procedures;
- (e) develop new delivery vehicles with the private sector for the delivery of infrastructure notably a pipeline network, strategic land acquisitions to safeguard pipeline corridors or strategic sites for development;
- (f) fund feasibility work for projects;
- (g) invest in an energy network that produces certainty of energy supply and uses excess heat and steam for industrial use to help resist global fluctuations in energy prices; and
- (h) develop strategic plans for connections to the national grid and the local electricity network.

5.4 If we are successful with our transition plan, we could add £3.5 billion GVA to the UK economy over the next 10 years, supply over 2,200 megawatts of secure low carbon electricity to the National Grid, reduce carbon emissions from industry in the Tees Valley by almost 50%, create 2,000 direct and 4,000 indirect jobs and retain the steel, petrochemical and advanced engineering industries in the Tees Valley.

5.5 However, the £60 million programme will not by itself bring this investment. First some of these projects require land from Corus and it is important that Corus release land to enable future developments to go ahead. Second, the Government will have to find resources to help fund some of the major projects arising out of the plan. For example, it is absolutely vital that the Tees Valley is designated as one of the carbon capture and storage pilots. It will be necessary for Network Rail to fund gauge enhancements to the East Coast Main Line from Doncaster to Edinburgh if Teesport is to fully benefit from gauge enhancements. Furthermore there will be a need for resources to de-risk developments in relation to connections to sub stations and the national grid.

5.6 Whilst the low carbon economy is a key element of our future economy, there are still other actions which need to be taken. There is still a need to continue with the regeneration of our towns. The rise in service employment in business services, and retailing has been part funded by the major regeneration projects such as Teesdale, Morton Palms, Hartlepool Marina, etc. The expected reduction in regeneration expenditure after the election would hinder our efforts to diversify our economy and provide more office floorspace of a modern standard in the Tees Valley to provide service jobs. There is still significant potential to develop the logistics industry at Wynyard, the airport and Darlington. The growth of the university sector has been vital to the regeneration of the Tees Valley. The University of Teesside through its expertise in digital/multi-media has helped to create a new industrial sector in the Tees Valley which we are building on through the innovation connector programme.

5.7 It is still important that we encourage entrepreneurship in the Tees Valley. Business formation rates are improving but are still half the national average. We need to build more incubation centres in the Tees Valley. The evidence is that business formation rates grow significantly if we can build purpose built accommodation. For example, the business formation rate in Hartlepool is the best in the Tees Valley following the construction of the Brougham Enterprise Centre and the Innovation Centre. Despite the recession both buildings are at capacity and an extension is to be built next year.

5.8 Finally we still need to ensure that our town centres continue to be transformed. In Middlesbrough, MIMA has greatly improved the cultural offer of the Tees Valley and we need to support culture and sporting venues in our towns. We need to continue to improve our retail offer and ensure that our public transport system is modern and efficient. The inclusion of the Metro in the Northern Rail franchise document in 2013 is vital to the future economy of the Tees Valley.

7 January 2010

Memorandum from North East Chamber of Commerce (NEC 06)

SUMMARY

- Steel production at the Teesside Cast Products blast furnace represents an iconic industry of interest and concern to businesses across the Tees Valley whether directly involved in the supply chain or not.
- Efforts to secure a sustainable future for the Teesside Cast Products (TCP) facilities must remain the immediate and top priority.
- A number of questions remain over the events of the past eight months since the announcement of the cancellation of the international consortium's "offtake" contract to buy steel from TCP. These include apparent inaction over certain potential UK and EU funding streams; deferral or loss of possible land purchases; and the impact of the new £60 million investment by the Department of Business and Industry, and One North East.
- These questions must not be allowed to distract from concentration on measures needed to maintain the strength of the Tees Valley economy if the proposed mothballing and closure of TCP goes ahead.
- A perception of a lack of coordinated action between politicians, policy makers delivery agencies has developed. Strong and concerted leadership by all decision makers in Tees Valley and the North East is needed to address current and future challenges.

ABOUT THE NORTH EAST CHAMBER OF COMMERCE

1. The North East Chamber of Commerce (NECC) is the North East's leading business membership organisation and the only regional chamber of commerce in the country. We represent more than 4,500 businesses located in an area co-terminus with Government Office for the North East. Our members are drawn from all sizes of business across all sectors and employ about 30% of the region's workforce.

2. Through our network of local and sub-regional committees covering every one of the twelve local authority areas in the North East, together with NECC Council, we are regularly in contact with all types of businesses. We also carry out the quarterly North East Business Barometer survey, the largest of its kind in the region.

3. NECC has, since May 2009, been part of the Corus Response Group. This has worked closely with Corus management in the North East to try to identify a sustainable future for TCP; as well as to make preparations for the eventuality should the Redcar facilities be closed.

ISSUES FROM THE PAST EIGHT MONTHS

4. Steel-making has been an iconic Teesside industry for generations and, since before the days of British Steel, has employed many thousands of people in the area. The current challenges facing Teesside Cast Products facility are not only a parochial concern to the company itself, its employees and its supply chain. Instead the prospect that the blast furnace may be closed, and iron ore no longer transformed into steel on Teesside, represents an emotional and economic shock to the wider Tees Valley community.

5. Efforts to secure a sustainable future for the TCP facilities must remain the top immediate priority so long as there remains a prospect of achieving this goal. Corus management in the North East should be recognised for their substantial efforts to do so, working with the Corus Response Group, over the past eight months. It must also be recognised that Corus has substantial interests in the Tees Valley, outside of those of its TCP subsidiary, that contribute significant jobs and wealth to the area. Every effort must be made to retain these facilities.

6. Since 2003, TCP has maintained a sustainable business supplying a consortium of four international businesses that had contracted with TCP until 2014 to “offtake” 80% of steel produced at the plant. Relations between TCP and the offtakers were such that two members of the consortium were negotiating to purchase an 80% stake in the facility. The current plan to mothball the TCP facilities from the end of January 2010 is a direct result of the international consortium’s decision to renege on this long-term agreement to buy steel produced on Teesside, and subsequently the potential company purchase.

7. A number of unanswered questions remain about many of the decisions taken in the past eight months. Greater transparency regarding these will assist in understanding how steel production might be maintained at the site in future.

8. One such area where a lack of transparency has contributed to the concern regarding the motivation for mothballing the TCP plant is the contribution played by the EU Emissions Trading Scheme and other international programmes to incentivise industrial users to mitigate their production of carbon dioxide. NECC understands that the ability to capitalise upon this scheme is complicated and is unlikely to have motivated any decision to mothball the plant. However, further investigation should be undertaken in this regard and in any event, the Emissions Trading Scheme must be administered in such a way that prevents any UK manufacturing facilities being closed simply to enable the “export” of carbon credits.

9. It is unclear why a similar scheme to the ProAct scheme—used successfully by Corus to aid its business at Port Talbot in Wales—has not been taken up in the North East. This should be investigated and reported upon further.

10. The hiatus over recent months has stalled investments that required the purchase of land owned by Corus in Tees Valley for other business uses—potentially creating new employment in the area—and is a missed opportunity. This process should be expedited, particularly where it can enable developments which would not affect the future viability of the steelworks.

11. The region’s response to the initial proposal in May 2009 to mothball the TCP facilities was the creation of the Corus Response Group on which the North East Chamber of Commerce was represented. The priority for the group, in concert with the management of Teesside Cast Products, was to secure a sustainable on-going future for the blast furnace and related facilities.

12. However, businesses across the Tees Valley have shared with NECC that this was not the wider perception, that where efforts were undertaken by those outside the TCP management they were perceived as piecemeal and uncoordinated and as a consequence the group was assumed to be “preparing for the worst”.

13. This perception has been compounded by the lack of clarity regarding the £60 million package of support for industry in the Tees Valley announced on 8 December. Initial Ministerial fanfare has, in the month since the announcement, seen little or no further details be shared with the wider business community. It remains unclear what the priority for this proposed investment is and what, if any, will be focused upon the steel industry in the Tees Valley.

14. Questions also remain as to how the funding arrangements to support this package of investment will affect delivery of other initiatives in the North East. NECC notes that £30 million of this money will be diverted from One North East’s existing budget and is not “new money” from central Government.

THE FUTURE FOR TEESSIDE INDUSTRY

15. Identifying answers to the above issues is important to assess whether a sustainable future for steel production on Teesside is viable, and to learn lessons for future industrial policy in the region. However, care must be taken not to distract attention from the measures needed to maintain the strength of the Tees Valley economy if the proposed mothballing and potential closure of TCP goes ahead.

16. Implementing these measures will require strong and concerted leadership in the Tees Valley and wider North East. Decision makers must work together effectively to identify the future policies needed to enable business success in the area. In this regard it is unfortunate that the spring 2009 bid for forerunner City Region status for the Tees Valley proved unsuccessful.

17. The £60 million package announced on 8 December is unlikely to be sufficient to support the longer term transformation of the Tees Valley economy. It is therefore vital that resources already committed by One North East and other economic development and regeneration bodies in the Tees Valley are effectively coordinated and efficiently delivered. Considering the scale of the challenge, national Government must be prepared to consider making discrete new investments in the area and not simply diverting funding that has been committed elsewhere in the North East.

18. The specific priorities for these initiatives are ambiguous. It is important that the regeneration bodies in the North East engage fully with the business community that will shape the future of the region, at the earliest opportunity. The governance and accountability for these arrangements must also be clear, including the role for existing organisations in the area including Tees Valley Unlimited.

19. The priorities for use of this money should be: developing the infrastructure which enables business growth; providing training to ensure Corus employees have the necessary skills for future employment in the Tees Valley; and supporting enterprise to develop a successful business community for the future.

20. Every effort must be made to enable skilled workers to find new employment within the region. Training will clearly be needed for some employees who are made redundant in order to develop skills required to re-enter the workforce. This will require careful assessment of likely future industry needs in Tees Valley, in which businesses will need to be closely involved. It is unlikely that simple extension of existing training programmes will be sufficient to adequately provide for future needs. It may be that some will need to be prepared for entirely different sectors; this must be faced up to if assessments show it is unlikely that sufficient vacancies in similar industries are forecast in the immediate future.

21. Enterprise support should focus on assisting businesses which are most likely to provide long-term employment opportunities which will replace those lost at TCP. This should include support for expansion of existing businesses. Furthermore, in order to minimise any follow-on economic and employment impact from closure of TCP facilities, targeted one-to-one support should be offered to businesses in the supply chain in order to find new markets and make any internal changes needed to access them.

22. NECC has worked hard over the past eight months to identify suppliers to TCP within our membership. However, we remain concerned about the “invisibility” of some Tier 2 suppliers, particularly those outside established business networks. A concerted effort must continue to identify all businesses likely to be affected in order to help them access appropriate support.

23. This should be undertaken in collaboration with agencies working in North Yorkshire. There is a clear economic inter-dependency between Tees Valley and North Yorkshire and therefore an imperative that agencies in each area recognise the need to offer the same support in both.

24. Infrastructure improvements should include work to ensure land which becomes available as a result of potential closures at TCP is made suitable for new business developments. Upgrades to National Grid capacity in Tees Valley should also be progressed to enable investment in exciting energy generation projects proposed for the area to come to fruition. It must also be ensured that the major asset of Teesport can be fully maximised, particularly through much needed rail gauge upgrades. It should be noted that not all the improvements needed to address this last issue are within the North East region.

25. These investments should be in parallel to efforts to support the continued growth of the petrochemicals and other process industries in the Tees Valley which will become even more crucial to the prosperity of the area.

26. Alongside this, every effort must be made to capitalise upon the opportunities presented by the new generation industries that will meet the challenge presented by climate change and to which the Tees Valley is ideally suited. The manufacture, construction and installation of renewable energy generation facilities—from wind turbines, to nuclear power generation and energy-from-waste facilities—offers considerable potential.

27. The Tees Valley must also be among the areas chosen for pilot carbon and capture and storage projects when the Government makes its decision on the initial tranche of successful projects later this year.

28. The development of the Tees Valley must take account of all available assets. If the proposed mothballing of TCP becomes a reality then there must be a real and enduring prospect of it returning to full scale production. Once such a return is no longer a credible option then it is important that every effort is made to bring the land assets on the site back into productive industrial use. The site being mothballed for decades, as has been seen with the former nylon plant at Wilton, will not serve the ambitions or the regeneration of the Tees Valley.

7 January 2009

Memorandum from Friends of the Earth (NEC 07)

1. The recent announcement by Corus to mothball its plant in Redcar is a set back to the economic development of the area involving the potential loss of skills and considerable impact on the lives of those affected by the decision.

2. However, this announcement presents the area and the region’s decision makers with the opportunity to retain skills and develop the site to play a major part in the development of a low carbon economy for the UK. Potential exists for an advanced manufacturing site for components for the offshore wind and marine renewables industry enabling it to make best use of the existing infrastructure serving the site, the local engineering expertise and the proximity to some of the key areas for offshore development.

3. This will solidify the small steps to date to reconfigure the region’s manufacturing and business base to being more sustainable and also enable the UK to reap the economic benefits from the growth in the international market for renewable energy and ensure that components manufactured on Teesside are exported into this market rather than renewable energy developers importing materials from overseas.

EMPLOYMENT OPPORTUNITIES IN THE RENEWABLE ENERGY INDUSTRY

4. Through our Big Ask campaign, Friends of the Earth inspired a publically and politically popular exercise in persuading the UK Parliament to pass the Climate Change Act 2008. Our campaign was supported by a significant number of North East MPs. This world-leading legislation requires Government to set a binding target to reduce carbon emissions through a series of five year budgets.

5. As part of implementing the legislation, the Government has set targets for the first three budget periods and has adopted an interim target of a 34% reduction in emissions by the 2018–22 budget period (on 1990 levels). This will increase to an intended budget of 42% upon securing an international agreement on emissions reduction.

6. The UK Low Carbon Transition Plan, published by DECC in July 2009, sets out how the UK Government intends to meet this interim target. This document identifies the transformation of the power sector as a key strand in making these reductions.

7. At the same time, the Government published its Renewable Energy Strategy which maps its intention for at least 30% of the UK's electricity demand to be generated from renewable energy by 2020.

8. Alongside this, the UK is required (under the EU Climate and Energy Package) to generate 15% of its energy requirements from renewable sources by 2020.

9. The Renewable Energy Strategy included detailed estimates for the amount of energy likely to come from different technologies. These technologies included:

- A further 25GW from offshore wind in addition to the 8GW already committed.
- A total of about 14GW from onshore wind.
- A growing contribution from other marine technologies, namely wind and tidal energy which is likely to increase rapidly post-2020 as the technology matures.

10. The Renewable Energy Strategy identified economic benefits of £100 billion of investment opportunity and over half a million jobs created arising from this growth in renewable energy.

11. The Regional Spatial Strategy for the North East (published in 2008) identified to key areas for offshore development in the coastal waters around the region. These were the Strategic Offshore Area off Blyth and a further area off the Tees Estuary.

12. However, there is a significant risk that many of these economic benefits will be lost to the UK if we do not have the research, development and manufacturing capacity in this country.

13. In April 2006, the British Wind Energy Association (BWEA) and Renewables East published a report, "Offshore Wind: At a Crossroads", which identified a number of key UK supply chain constraints which could hamper the roll-out of offshore wind over the next decade. These included:

- supply of wind turbines;
- availability of installation vessels; and
- supply of subsea cables.

14. The manufacturers' organisation, EEF, recently called on the UK Government to increase the level of support to the manufacturing sector citing the example of the London Array, the world's largest offshore wind development, where over 90% (in value) of the manufactured components are being imported.

THE POTENTIAL FOR TEESSIDE

15. The mothballing of the Corus plant at Redcar is a significant blow to the economic development of the area and a human tragedy for the employees of Corus who will lose their jobs. As a major employer and business in the area, it could potentially have a much wider knock-on effect as local suppliers to Corus will be detrimentally affected by this closure.

16. Friends of the Earth has been actively involved for a number of years calling for a more economically and environmentally sustainable development on Teesside. This has been characterised through our support for the development of the Impact group, a network of disadvantaged local residents concerned about the environmental damage from industry on Teesside.

17. Our vision for Teesside is for economic growth and development which contributes to environmental sustainability and tackling climate change rather than, as has been the case in the past, has a deleterious effect on the local and global environment.

18. There is significant potential and opportunity to be grasped for the area to be at the heart of a UK-based supply chain for the renewable energy industry. Through the transformation of the Corus site into a major research and manufacturing base to supply the rapidly expanding domestic and international markets in renewable energy generation particularly in the areas of offshore wind and other marine technology.

19. There are several factors which make Teesside a prime candidate for investment of this kind. These are detailed below:

20. *3.6 Transport infrastructure.* The Corus site has an excellent infrastructure established for handling large volumes of steel products initially by rail and then onto the Steel Export Terminal at Tees Dock. It should be investigated as to whether this facility can accommodate offshore installation vessels in its present form or can be adapted to do so at reasonable cost.

21. The use of Tees Dock could enable either loading directly onto installation vessels for deployment of turbines in the North Sea or shipment of turbines further afield to supply the international market either through direct deployment or through trans-shipment.

22. *Skills and expertise.* There is a vast amount of skills and experience in steel-making and processing on Teesside developed through Corus and others. This could be used as a strong platform to develop a world-leading turbine manufacturer, supported by Government funding, on the Corus site. This would be ideally placed to create a synergy with the already existing local offshore skills base used in the development of the North Sea oil and gas fields.

23. This would enable Teesside to reap the economic benefits identified in the Renewable Energy Strategy. A Carbon Trust report, *Offshore Wind Power: big challenge, big opportunity* estimated that 70000 new jobs could be created from the offshore wind industry alone.

24. *Existing research centres and industry.* There has already been substantial investment put into developing renewable energy capacity in the North East.

25. The New and Renewable Energy Centre (NaREC) at Blyth has been established as the national centre to accelerate the deployment and grid integration of renewable energy. It recently announced, amongst its initiatives, its intentions to construct an offshore wind turbine test facility to test turbine blades of up to 100 million in length. It is also engaged in the research and development necessary to bring forward marine technology such as tidal stream and wave energy.

26. The relative geographical proximity of NaREC to the Corus site will enable the manufacturing enterprises on Teesside to integrate more closely with the research and development functions at NaREC.

27. There is already some activity in the development of offshore and marine technologies in the region. For instance,

- The recent investment by DECC to support the development of blades for a 10MW offshore wind turbine by Clipper Wind at Blyth.
- The Low Carbon Energy Manufacturing Technology Centre, based in Middlesbrough, which offers open access innovation and technical support to SMEs in the North East engaged in the energy sector.
- A grant for £1.5 million awarded jointly by BIS and DECC to Tees Alliance Group for the development of an automated tubular production facility at Haverton Hill.

28. Proximity to areas of offshore development. In 2003, the UK Government launched Round 2 of offshore wind generation. This was concentrated around three key strategic areas; the North West, the Greater Wash and the Thames Estuary. Developments on the East Coast (the Greater Wash and Thames Estuary areas) would be easily accessible from the Tees and a rapidly expanded offshore wind manufacturing site would be ideally placed to service these areas of development.

29. Of potentially greater significance is the announcement in early January 2009 of the key areas of development for Round 3. These developments include further afield sites with the largest being at Dogger Bank. This will generate 9GW of electricity and comprise of 1800 turbines. It is difficult to imagine a place more ideally suited to service this development than Teesside.

30. Further developments on the East Coast have been approved under Round 3 including the Moray Firth (1.3GW), Firth of Forth (3.5GW), Hornsea (4GW) and the Norfolk Bank.

OTHER MARINE TECHNOLOGIES

31. Much of the debate around renewable energy has been focussed on wind energy as the main source of power. It is true that wind is likely to be the major contributor of renewable energy over the next decade but investment decisions about the Corus site should look beyond 2020 to ensure that the proportion of energy achieved from renewable sources continues to grow. The Carbon Trust estimates that beyond 2020, wave and tidal stream technologies could account for up to 20% of the UK's electricity supply.

32. The development of marine energy technologies are not as mature as offshore wind but significant progress has been made on the pathway to commercial large-scale deployment with the world's first wave farm being commissioned by Pelamis Wave Power in the summer of 2008.

33. It would be potentially beneficial to the future long-term development of the Tees and the wider region if investment is made at an early stage to develop a marine technologies manufacturing capacity on the Corus site.

COMBINED HEAT AND POWER

34. The industrial processes across the range of industries operating on Teesside produce significant quantities of heat. It is recognised that some progress has been made in ensuring the successful development of combined heat and power on Teesside.

35. Friends of the Earth welcomes this approach and would encourage One North East to investigate further the potential for the expansion of sustainable CHP systems in the area, particularly its application to the heating of local residential properties.

RECOMMENDATIONS

36. Friends of the Earth recommends that the following actions as a matter of great urgency:

37. An investment plan is drawn up, in collaboration between One North East and the Department for Business, Innovation and Skills, directed towards the existing infrastructure at Corus as much as possible and developing further infrastructure to kick-start manufacturing capacity for components for the offshore and onshore wind industry.

38. The plan should include indications of how inward investment in maturing marine technologies can be deployed as soon as possible to ensure rapid rollout of these sources of renewable energy.

39. Immediate steps are taken to secure this funding from appropriate sources. This should include One North East leading on securing funding from the European Regional Development Fund.

40. Discussions should begin with PD Ports to ensure that the Steel Export Terminal has the capacity to handle the large components required by the offshore wind industry.

41. Discussions should begin with NaREC to ensure that the appropriate levels of support are available to inward investors on the Corus site.

42. The region's MPs should seek to secure cross-party support for this proposal to ensure the long-term certainty of the project which will be essential to secure the level of inward investment required.

11 January 2010

Memorandum from Ray Mallon, elected Mayor of Middlesbrough (NEC 08)

INTRODUCTION

1. This statement deals with the economic, social and political realities of the closure of Teesside Cast Products (TCP) at Redcar. While the plant is sited within the Redcar and Cleveland Borough many of the consequences of closure impact upon Middlesbrough people and the town's economy.

EXECUTIVE SUMMARY

2. My statement argues:

- TCP is not a "lame duck" but an industry which needs assistance to come through the current recession.
- The economic and social cost of closure are enormous.
- The Government's response up to now has accepted closure and concentrated on inadequate palliative measures.
- There are options open to the Government if it wants to be proactive.
- The political costs to the Government of inactivity could be high.

Is TCP A "LAME DUCK"?

3. Making steel is within the "life blood" of Teesside but retaining TCP is not about history or tradition but about economic sense and social justice.

4. The plant makes good quality steel at a cost which is competitive in normal economic circumstances. Today's economic circumstances are exceptional. When, as predicted by the Government, the UK economy comes out of recession the demand for steel and hence its price will increase making TCP profitable again.

5. The Country has given up its manufacturing base too easily. Keeping TCP's capacity makes economic, social and, in carbon footprint terms, environmental sense.

6. In reality if TCP is 'mothballed' it is unlikely ever to reopen. This interim status will of course remove the need to immediately address clearance, reclamation and remediation of the site. The cost of such work would be enormous and it is unlikely Tata Steel, the site's owner, would be committed to meeting these costs without significant Government subsidy. Teesside already has one of the largest areas of unused land in Europe and therefore aside from its cost there would be no economic justification for such expense in the foreseeable future. The decaying blast furnace at Redcar would become an enormous monument to the area's industrial decline and a testimony to the Government's inactivity.

WHAT ARE THE REAL COSTS OF CLOSURE?

7. The economics of allowing TCP to close are the economics of the 'mad house'. The financial cost of losing 1,700 direct jobs, 1,100 jobs in the supply chain and 400 jobs in the wider economy will cost the Exchequer some £40 million per year in lost National Insurance, income tax and welfare payments.

8. In addition the social and community cost of closure are equally enormous. It is easy for the Government to sigh and say that Teesside has seen nearly 100,000 such job losses in the last 30 years and has still survived.

9. Despite the achievements in rebuilding the area's economy of the last few years, through a range of initiatives, in reality much of the new job creation has been in the public sector which will now be under severe pressure, or in the poorer paid or part time elements of the service sector. The communities in Redcar and Cleveland and Middlesbrough most directly affected by this closure are still some of the most deprived parts of arguably the poorest region in the Country.

10. The economic and social consequences of long term unemployment result in alienated communities which while doggedly resilient lack the capacity to raise aspirations, improve educational attainment, achieve even average health statistics and are plagued by prevalent anti-social behaviour and petty crime.

11. Saving TCP will not stop this. But standing by and letting it close will add significantly to the problem. It makes a job market where there are already 13 people for every job even more competitive. Ironically because the TCP employees will have skills, recent work experience and no doubt special assistance they will actually make it tougher for everyone else.

THE GOVERNMENT'S RESPONSE

12. At a meeting on the 8 December 2009 with Business Secretary Lord Mandelson, and attended by representatives of the local authorities and RDA the Secretary of State started with the assumption that TCP would close. The outcome of the meeting had been pre-determined, a press statement already prepared and a press conference already arranged to coincide with the closure of the meeting itself.

Since that meeting, and as a result of pressure from our local MP's and others, it appears that ways of keeping the plant operational are now actively being considered. This approach must be maintained with the full commitment of all involved and the Teesside public kept fully informed.

13. Following the meeting on the 8 December 2009 the Government announced the palliative of a package of £60 million of support. Some £30 million of the resource comes from the RDA's and ERDF budget and therefore will either delay or defer other priority projects in the region. The BIS funding comes from its Strategic Investment Fund, a £750 million fund to target key strategic sectors to secure future growth and strength in the economy. Given Teesside's needs and potential in key sectors it has already a legitimate claim on a significant slice of this resource.

14. Therefore while this resource can be helpful it is in no way related to the requirement to save TCP. In addition we also believe the money will be held in the existing funding regimes with their own application and decision process—hardly a dynamic response to an urgent need. There is also a suspicion the "extra" resource will have to be spent by March 2011 which is obviously unacceptable.

15. While a separate point I also have concerns that the £60 million will essentially fund the preparatory work required to bid for additional investment in areas such as a carbon capture, transport infrastructure and energy related initiatives but in reality the very much more significant funds required to implement these projects will not be available in the current economic circumstances. I would rather we spent the £60 million on some practical actions which will give even greater support to existing and newly created firms rather than invest in effectively further consultancy work however high its calibre.

HOW SHOULD THE GOVERNMENT RESPOND?

16. The Government should:

- Publically support at the highest levels the objective of retaining the manufacturing capacity at TCP.
- Distance itself from those, even within its own party, who say that this is a private business and so it cannot intervene. So were the banks and so is the car industry. If it is important enough the Government can, and has, taken action.

- Work with the plant's owners to make continued production in the interim period financially attractive. This could take place in a number of ways including:
 - A wage subsidy scheme on the German model.
 - A production cost guarantee with Government meeting the difference between production costs and sale price for a defined period but for that period to terminate as soon as steel prices exceed Redcar's production costs for a period sufficient to indicate sustained recovery.
 - In addition the Government could consider the forward purchase of production for a defined period for resale when recovery occurs. While a gamble this could actually return a profit to the Government but would have the benefits of creating available stock to assist the recovery as well as supporting UK manufacture.
 - Use the carbon permits situation as a financial reserve. If as reported the Government could stand to make up to £90 million in the auction of carbon permits released by the closure of TCP then the Government could make this resource available to support an interim package but with the knowledge that if even with these efforts the plant eventually closes this investment could be recouped.
 - The above are examples. Surely the collective wisdom within Whitehall could within any EU State Aid or other rules find innovative ways of assisting this important business through temporary difficult trading conditions. This however requires a mindset that wants to save the plant rather than accepting its closure.
- Work with the owners to consider its longer term investment requirements.
- If necessary work with the owners to find a buyer who would show a commitment to continued production with these incentives.

THE POLITICS OF CLOSURE

17. For too long both main political parties have considered Teesside as politically irrelevant. Either its political support could be taken for granted and therefore why bother or so unlikely to be changed that it was not worth the effort.

18. If as predicted the outcome of the election this year will be close then the five seats in the area could become vitally important. Local people may well record their annoyance at what they see as a "kick in the teeth" for one of their basic industries in comparison to the many other sectors which have received support. Local people want to see real and decisive action from the Government.

CONCLUSION

19. Teesside is resilient. It has had to be. TCP is an important part of our industrial infrastructure. It can, and should, be saved. Continued inactivity by the Government will have enormous economic, social and community implications and it will undoubtedly reap the political fall-out.

8 January 2010

Memorandum from Redcar & Cleveland Borough Council (NEC 09)

1. EXECUTIVE SUMMARY

- The effect of the Corus closure creates a social and economic crisis for Redcar and Cleveland on a similar scale and significance to the closure of the coalfields in other areas 20–25 years ago.
- With our Borough already having relatively high levels of unemployment and multiple deprivation, the consequences will be severe.
- The Corus closure announcement comes on top of recent significant redundancies at Skinningrove, Teesside Beam Mill, Wilton and at PD Ports.
- The economic forecasts for our other business sectors also highlight on-going challenges.
- We believe that early intervention now is essential to protect existing jobs, create new opportunities, and look after the workforce affected by this situation.
- We consider there are four priority responses to the situation.

Priority 1

- Our first priority is to keep steel making within Redcar to provide employment for the workforce, suppliers and to ensure that the spending remains within the local economy. We believe that, subject to this being acceptable to Corus and the UK Government, we would recommend that the UK Government provide a wage subsidy for a twelve-month period, an approach adopted in Germany.

Priority 2

- Running in parallel with maintaining steel production within Redcar, we have an urgent need for regeneration in the Borough. Our local economy is starting to diversify but this needs to happen quicker. We need assistance to harness our entrepreneurial talent within the Borough so that this translates into new higher growth enterprise.
- We need funding to accelerate key projects within our Regeneration Masterplan that will deliver economic growth and improvements to our towns and villages.
- Some of the £60 million that has been announced in December under the Tees Valley Industrial Programme will help us deliver key economic projects, but there remains an urgent need to fund additional activity.
- We are proposing that an additional £40 million on top of the £60 million already pledged is provided to help diversify the local economy.
- We also want to ensure that £60 million is not redirected from other projects within the Tees Valley, as this will undermine other important regeneration activity.

Priority 3

- We want to ensure that those people affected by the redundancies are looked after properly and that we learn the lessons from other large-scale redundancies.
- We want to ensure that people have sufficient resources to allow free travel to training courses and job interviews, free places on training courses and resources to set up new businesses as research has shown that these interventions can be the most worthwhile.
- After the immediate impact of the mothballing, we believe it is important that resource continues to be made available so that workers and their families have access to counselling support in the medium-term.

Priority 4

- Several major inward investment projects are reliant on the release of Corus land.
- These projects could create some 3,000 new jobs over the next three to four years in recycling/renewable and energy sectors.
- While we recognise that this is a commercial matter between Corus and the respective businesses, it is in the national interest to ensure that these sites are made available to off set the impact of the redundancies and to help in the restructuring of the local economy.
- We would welcome assistance to help release Corus land that is vital for inward investment projects.
- In the longer-term, we would welcome funding to help with the potential cost to the public sector of remediating the land, should Corus close.

2. INTRODUCTION

2.1 The partial mothballing of Corus Teesside Cast Products is due to happen at the end of January 2010.

2.2 This will have a catastrophic impact on the local economy and could tip the balance for fragile communities in the Borough. The need for intervention is compelling from European, national and regional agencies.

2.3 Our economy is one of contrasts. The Borough is home to a world-class economic powerhouse alongside high-quality agricultural land and a national park and heritage coast that provides the basis of a visitor economy. The traditional employment base of Redcar & Cleveland has been manufacturing based on steel and chemicals, which is also fragile at the moment, and heavy engineering, which has been declining in recent years.

2.4 Employment in industry and manufacturing in Redcar & Cleveland fell from 16,800 in 1991 to 7,150 in 2007, a dramatic change but consistent with other areas once dominated by industry. In contrast to other parts of the country, where new employment in financial services, business, retail and distribution replaced lost manufacturing jobs, in Redcar & Cleveland such employment has not been forthcoming.

2.5 The chemical industry based at Wilton International is vitally important to the local, regional and national economy. There is a great interdependency in this cluster, where business and products are strongly related and in many cases, dependant on shared infrastructure. Cleveland Potash Limited, in East Cleveland, is one of the world's leading potash producers. Teesport, the third largest port in the UK is planning to expand to create the Northern Gateway and bring new jobs to the area.

2.6 Almost half of all Super Output Areas (SOAs) within Redcar & Cleveland fall within the top 20% of most deprived areas nationally. While the Borough has improved its ranking in the Index of Deprivation becoming 50th, there was a deterioration in the concentration of deprivation, where the Borough is ranked 12th nationally.

2.7 The global recession has underlined the need to take a new approach to our local economy responding to challenges and identifying new economic imperatives.

2.8 There is a great opportunity for growth and prosperity if the Government supports us to act now.

2.9 Over the last 18 months, we have been preparing a Borough-wide Economic Regeneration Masterplan, partly funded by the regional development agency One NorthEast, and a major study on the constraints associated with bringing forward major investments in the South Tees industrial heartland is well-advanced.

2.10 If resources are made available now to deliver the key economic initiatives within the Economic Regeneration Masterplan, this will bring real and considerable benefits to Redcar & Cleveland and the wider economy—but it needs kick-start funding.

2.11 Our intention through the proposals within the Economic Regeneration Masterplan, is to diversify the economy over the next 15 years by increasing service sector employment, while maintaining industrial employment taking advantage of low carbon and renewable opportunities—building on our expertise in these sectors.

2.12 If kick-start investment was made available by the relevant agencies, over the next 15 years the economic stimulus that could be created would include:

- 7,900 new jobs;
- 360 new businesses;
- 7,000 new homes; and
- £4.5 billion private investment.

2.13 These proposed changes in employment would provide a broader range of opportunities, from highly skilled jobs in a range of sectors, to entry level and part-time employment, spread across the Borough.

2.14 The key changes could be:

- industrial employment supported by an acknowledged reputation for expertise in renewable technologies and taking advantage of opportunities to contribute to the low carbon economy;
- a major tourism industry in both Redcar and East Cleveland; and
- a more diverse business base, much of it located in a thriving Redcar town.

2.15 We also want to be able to underpin these changes with a housing market offering more choice, a better transport system providing access to employment and significant investment in the environment.

2.16 We are already advancing some of the projects within the Economic Masterplan, with business cases submitted and others underway. It is crucial that these are given support by the respective agencies such as One NorthEast and the Homes and Communities Agency. It was also unfortunate that we did not secure Sea Change Funding as part of the final Round 3 for the £30 million improvements proposed for Redcar Seafront that will reposition the visitor and economic offer of the town. This is something we would like to pursue further with Government.

2.17 Importantly, additional resources need to be made available to deliver the transformation potential of the Economic Masterplan.

2.18 The preparation of the North/South Tees Study, the emerging Tees Valley Low Carbon Transition Plan and the Tees Valley Unlimited Business Case all add weight to an investment approach to unlock new markets and facilitate growth and enterprise.

2.19 The acceleration of key projects and delivery of services to assist the workers and businesses affected by the situation is vital. The speed of the intervention is also key, as (Audit Commission) research suggests that the more support that is given up-front will result in less cost to the public purse in the long-term.

3. KEY ISSUES

Impact

3.1 Redcar & Cleveland has an unemployment rate at 6.2% compared with 4.1% nationally. The partial mothballing of Corus Teesside Cast Products is 40% of the industrial base, the backbone of the local economy.

3.2 Without significant assistance for training and job creation projects our unemployment rate could double.

3.3 Our estimates of the impact at this stage are based on 1,700 direct jobs (900 affect Redcar & Cleveland) and using a 2.4 multiplier, the total jobs lost to the area would be 4,000 with an impact on GVA of a reduction of £200 million per annum.

3.4 We believe that this could be a conservative estimate because in addition to the Corus job losses, a total of 1,000 people in 35 contractor companies work on the site. It is unlikely that these companies could absorb the closure of the facility by re-deploying staff elsewhere.

3.5 A notable feature of the Corus workforce is the age profile, with an average age of 49. It is likely that a significant number of staff would have been retiring over the next three to five years, creating new opportunities for others.

3.6 We consider there are four key priorities in responding to the Corus situation.

Priority 1—keeping steel-making within Redcar

3.7 Our first priority is to keep steel-making within Redcar so as to provide employment for the workforce, suppliers and their spending remains within the local economy.

3.8 We believe that, subject to this being acceptable to Corus and the UK Government, we would recommend that the UK Government provide a wage subsidy for a twelve-month period, an approach adopted in Germany.

3.9 We would propose that a one year wage subsidy is considered based on the need to maintain steel production in the Tees Valley and the UK, the likely return of demand in the medium-term; and the cost to the public sector being reasonable in light of the long-term loss of Exchequer income if Corus was to be partially mothballed. This would allow Corus time to secure new orders and a new buyer.

3.10 If a subsidy was put in place and Corus retained its workforce, this would also allow us valuable time to bring forward new projects to create jobs.

3.11 There are a number of direct consequences to the UK Treasury/public sector as a result of the blast furnace closing. These are:

- the loss of both National Insurance and Income Tax from the direct jobs, many of which are above the local average;
- a reduction in indirect taxation, such as VAT, as consumer expenditure is reduced; and
- a reduction in business rates and other business taxes paid by Corus and its suppliers.

3.12 As well as a reduced income base, a number of additional costs/payments will also directly arise from immediate closure such as Job Seekers Allowance, Employment and Support Allowance, Housing Benefit, Family Tax Credit and Council Tax Benefit.

3.13 Other indirect and secondary costs will fall to the public sector due to the blast furnace closure. This would include the effects of reduced expenditure on the supply chain and by the workforce resulting in further rounds of employment losses, and therefore tax income losses.

3.14 There is also the cost to the public sector of remediating the land. The costs of remediation and servicing strategically important sites will outweigh any land value—in order to secure new investment, regeneration agencies will have to contribute to land remediation. We will of course seek to recover costs through the principle and legislation surrounding “Polluter Pays”.

3.15 The total costs to the Exchequer estimated in the first year and over five years are set out in the table below. This includes estimates of diminishing welfare and employment support as the workforce finds new employment.

Costs To The Public Sector (Exchequer, National and Local Government)

	<i>One Year</i>	<i>Five year</i>
Corus Direct		
National Insurance	£10.000m	£50.000m
Income Tax	£12.500m	£63.000m
Employment support ¹	£3.343m	£10.699m
Total Corus Direct	£25,834m	£114,699m
Corus Contractors (1,000 jobs)		
National Insurance	£3.000m	£15.000m
Income Tax	£2.800m	£14.000m
Employment support ¹	£1.671m	£5.347m
Indirect Secondary job losses²		
National Insurance	£3.000m	£15.000m
Income Tax	£2.800m	£14.000m
Employment support ¹	£1.671m	£5.347m
All Total	£40.785m	£192.393m

¹ Assumes Jobs Seekers Allowance, Employment Support Allowance, and information, training and guidance for one third of the redundant workforce.

² Assumes a further job loss of circa 1,000 jobs from reduced expenditure. Note the effect of other benefits, for example family tax credit and free school meals are not included in these calculations.

3.16 The economic costs of the mothballing of Corus are considerable. This includes a significant reduction in National Insurance, Income Tax, business taxes as well as the cost of Job Seekers Allowance and employment support adding to the overall cost to the Exchequer which we calculate to be £40 million in the first year and £192 million over five years.

3.17 A wage subsidy could be provided either by additional monies from Government or re-provision of funds from the LSC, One NorthEast and the European Social Fund. There is also the potential for support to be provided by Government by foregoing Income Tax and National Insurance contributions.

3.18 We suggest that the net costs of providing a two day per week subsidy for 12 months is less expensive than providing an Income Tax and National Insurance holiday and much less expensive than the permanent loss of a job at circa £43,500 over five years.

3.19 The subsidy would reduce Corus' weekly costs and may assist them in competing for orders and securing a new buyer.

3.20 We believe there is a compelling economic rationale for the provision of a wage subsidy. We recognise that it would be a new type of intervention in the UK. We also appreciate it is dependant on the return of market demand, Corus being competitive in a global market, and it fitting in with the plans of Corus.

Priority 2—Urgent need for regeneration

3.21 Running in parallel with maintaining steel production within Redcar, we have an urgent need for regeneration in the Borough. Our local economy is starting to diversify but this needs to happen quicker. We need assistance to harness key economic strengths so that this translates into new higher growth enterprise.

3.22 The Tees Valley Industrial Programme that was announced in December 2009 is a £60 million investment over the next two years to support the region's industrial transition to low carbon and advanced manufacturing. It represents a major commitment. It is estimated that the overall package will create an estimated 3,000 new jobs in the short to medium-term and sustain over 10,000 jobs long-term.

3.23 While this investment is clearly welcome, we believe that Government, Public Sector Agencies and Redcar and Cleveland Council must respond to this immense challenge with a longer-term programme of support and intervention to tackle the short-term imperatives as well as facilitating the long-term structural economic and social changes which will secure the future of this community. Therefore, additional resources will be required.

3.24 We are proposing that an additional £40 million, on top of the £60 million already pledged, is provided to help diversify the local economy on strategically important high growth projects identified within our Regeneration Masterplan.

3.25 We do have some concern that the Tees Valley Industrial Programme could be spread too thinly and does not address the concentration of problems that currently exist within the Borough—which will worsen in the short term.

3.26 We have economic projects that we could accelerate, in addition to any potential projects that could be delivered as part of the Tees Valley Industrial Programme.

3.27 Some projects are already in the system with One NorthEast, such as the new Creative Industries Hub in Redcar, or are being prepared for submission. The projects that could be accelerated include for example:

- Incubation and move-on accommodation—1,450 jobs created, 150 new businesses;
- Shopping improvements in Redcar—750 new jobs created, 60 new businesses;
- Rural Enterprise Hubs—300 jobs created, 150 new businesses;
- Enterprise Island, Greater Eston—300 new jobs created, 60 new businesses;
- Low Grange Urban Centre—290 jobs created, 22 new businesses;
- Redcar Entrepreneurs (intensive support package)—220 jobs created;
- Vertical Pier, Redcar Seafront—160 new jobs created, £10.4 million additional expenditure in the local economy;
- Low Grange Urban—1,000 new homes;
- Redcar Hotel—74 jobs, £4.3 million of additional expenditure in the local economy;
- South Bank Eco Village—300 new homes;
- BOBS (Best of British Sculpture along the coastline)—an additional 100,000 visitors per annum;
- Skills for Tourism—100 people trained every year; and
- Skills Work—construction training for 60 people every year.

3.28 We secured LEGI funding in 2006, and the enterprise programme has now created hundreds of new business across the Borough. The funding for this programme comes to an end in just over 12 months so there is an ideal opportunity to extend its funding envelope so that it can immediately help people start-up a business or grow an existing business. We are also working with a number of potential joint venture partners to create incubation spaces across the Borough that requires additional investment.

3.29 Some of our projects are well developed and ready to be delivered within the Economic Regeneration Masterplan. These include our Growth Point proposals for Greater Eston and the Sea Front improvements at Redcar.

3.30 Our plans to use Growth Point to accelerate the provision of infrastructure and new homes to support economic growth in South Tees are advancing but with additional investment could make a more significant economic impact.

3.31 The £30 million improvements to Redcar Seafront in partnership with the Environment Agency are vitally important to reposition Redcar, create jobs, increase our visitor numbers, support existing businesses and create new ones and we still require some of the funding package.

3.32 Over the last two years, we have strengthened our in-house delivery teams and our partnership working so that we have the right skills sets to deliver economic regeneration projects. We have been successful in securing funding to deliver key economic initiatives—but this is only the start compared to what is now required. We plan to strengthen our teams and delivery arrangements further to ensure that we can react to the Corus situation.

3.33 We also want to ensure that the £60 million that has been pledged is not redirected from other projects within the Tees Valley, as this will undermine other important regeneration activity.

Priority 3—helping those people affected

3.34 The Multi Agency Task Force that was established during 2009 has now put in place arrangements to support those who are facing redundancy with an on-site facility now open to provide help with CV writing, looking for a new job etc.

3.35 We want to ensure that those people affected by these redundancies are properly looked after. After the immediate impact of the mothballing, we believe it is important that resource continues to be made available.

3.36 The research that was undertaken following the MG Rover closure in 2005 found that the most helpful support for the workers was assistance in providing:

- free travel to training courses and job interviews;
- free places on training courses; and
- support in setting up a new business.

3.37 The MG Rover closure research also highlighted that flooding the labour market with significant numbers of unemployed also had a significant detrimental impact on those most removed from the labour-market as there was increased competition for the available jobs.

3.38 We want to ensure financial support is provided to allow workers free travel to training courses and job interviews, free places on training courses and resources to set up new businesses.

3.39 In addition, a tailored approach to workers' needs and resources, not only professionally but also psychologically, needs to be acknowledged.

3.40 We believe resources need to be made available to ensure that workers and their families have access to counselling support. This should not just be in the immediate period after the mothballing but into the next two to five years as the impact on people unfolds.

Priority—help with releasing Corus land

3.41 Several major inward investment projects are reliant on the release of Corus land. These projects could create some 3,000 new jobs over the next three to five years in the recycling/renewable and energy sectors.

3.42 While we recognise that this is a commercial matter between Corus and the respective businesses, it is in the national interest to ensure that these sites are made available to reduce the impact of the redundancies and to help in the restructuring of the local economy.

3.43 We would welcome assistance to help release Corus land that is vital for inward investment projects.

3.44 There is also the potential cost to the public sector of remediating the land. While we would seek to recover the costs through Polluter Pays principle, we need to ensure that funding is available initially to reclaim land and provide infrastructure so that these key sites can be transformed into new uses to make an economic contribution.

4. RECOMMENDATIONS

Our recommendations are:

1. We believe that, subject to this being acceptable to Corus and the UK Government, we would recommend that the UK Government provide a wage subsidy for a 12-month period to keep steel making in Redcar.

2. An additional £40 million, on top of the £60 million already pledged, is provided by a range of agencies to help diversify the local economy on strategically important high growth projects identified within our Regeneration Masterplan. This is an investment-led approach to secure significant economic value. We also want to ensure that the £60 million Tees Valley Industrial Programme is not funded by resources that are to be redirected from other projects within the Tees Valley.

3. After the immediate impact of the mothballing, we believe it is important that sufficient resource is made available to allow workers free travel to training courses and job interviews, free places on training courses and resources to set up new businesses as research has shown that these interventions can be the most worthwhile. Resources also need to continue to be made available to ensure that workers and their families have access to counselling support in the medium-term.

4. We would welcome assistance to help release Corus land that is vital for inward investment projects and funding to help with the potential cost to the public sector of remediating the land.

11 January 2010

Memorandum from Northern TUC (NEC 10)

1. INTRODUCTION

The Northern TUC is the co-ordinating body for trade unions in the North East. Representing over 400,000 members, the TUC articulates the views of the trade union movement; advocating workers interests in pursuit of a fair society and an economy that serves the common good. This submission reflects the collective position espoused by trade unions acting on behalf of the workers at Teesside Cast Products and is unanimously endorsed by TUC affiliates. The TUC appreciates the Committee's efforts to expedite support for the Corus workforce and mitigate job losses in the North East. Directly affected by Corus's decision to mothball the Teesside plant are the livelihoods of more than 1700 workers and their families, whose welfare lies at the heart of this debate. Securing their continued prosperity is paramount and closely interwoven with the future of steel manufacture on Teesside. Steel making is an inherent feature of the region's industrial fabric and will remain of key strategic importance nationally, giving meaningful expression to Government's industrial activism agenda and aiding the transition towards a low carbon economy. While the current situation is critical, the TUC would encourage Government to devise a long-term industrial strategy; setting the resolution of immediate problems in the context of sustainable economic gains to be won by the UK retaining its existing stake in steel production.

2. SUMMARY

- In summary, evidence submitted by the TUC exhibits the importance of retaining the steel industry on Teesside to sustain jobs, stimulate growth and augment national prosperity. To achieve these objectives the TUC advocates:
 - Strengthening and enforcing a tougher regulatory regime to embed conditions that are conducive to sustainable economic growth. A revised framework should balance investment incentives and industry obligations to better manage resources of key strategic importance.
 - Delay mothballing the plant for at least 12 months and pay a wage subsidy pending an increase in the steel price or new buyer coming forward. If necessary Government should consider instigating compulsory purchase provisions or bring the plant into temporary public ownership.
 - Produce an asset plan and map steel industry supply chains and markets to systematically identify new export opportunities.
 - Widen the economic and social benefits of public procurement.
 - Put corporate social duties on a statutory footing to prevent corporations from abdicating their responsibility to the workforce and surrounding community in the event of plant closures.
 - Replicate EU best practice and disseminate learning from previous plant closure studies. Fund a labour market tracking study to assess labour market outcomes arising from the Task Force, Rapid Response Group and emergency assistance package.

The Importance of Steel making on Teesside

3. Iron and steel making in the Tees Valley is concentrated at the Redcar complex (which includes the Redcar blast furnace) and the special steel mills at Skinningrove, West Hartlepool and Stockton. The Tees Valley is the second largest producer of steel in the world; one of three main sites in the UK and the industry is pivotal to both the national and sub-regional economy. GVA measures for the metals and minerals industry offer a good proxy for demonstrating the importance of the steel industry to the regional economy. In 2008 the metals and minerals industry was valued at £850 million; making it the fifth most valuable sector in terms of North East exports. In 2007 the manufacture of metals was worth £966 million to the region's economy in GVA, which represents 14% of all the GVA generated through manufacturing and is the second most valuable manufacturing sector after chemicals.⁴

4. Research shows that the broader footprint of Corus' activities on the local and regional economy is also significant. The company's annual investment, including £50 million on maintenance and site service alone, stimulates a direct and indirect supply chain multiplier of 1.7 in the local economy.⁵

5. Despite recent decline, the sub-region still has a greater dependency on manufacturing than the national economy; moreover, an analysis of employment clusters for the Tees Valley shows the continuing importance of eminently high quality iron and steel production in the UK. In fact, declining manufacturing employment in the Tees Valley is connected to the major rationalisation of the UK steel industry and helps to explain the output gap between the sub-regional and national economy. Overall, an estimated 10,000 jobs are dependent upon steel making on Teesside. Approximately 3,000 workers are employed across three production divisions: 1,700 in TCP, 200 in the beam mill and 1,000 in engineering services. A further 700 workers are employed indirectly within the region's supply chain. In the North East 586 firms provide goods and services to the Teesside operations.⁶

6. The Tees Valley Low Carbon Economic Transition Plan⁷ describes Corus' unilateral decision to mothball the TCP plant as a significant threat to the economic base of the area and a major factor impinging on the growing GVA shortfall, now estimated at some £2.8 billion.

The Case for Steel

7. Although the steel industry is emblematic of a glorious industrial age, it is also crucial to national prosperity and the future restoration of sustainable economic growth. There is a growing consensus among policy thinkers that the worst global economic crisis for a generation has partly been caused by a flawed strategy for growth predicated on unprecedented levels of consumption and an over reliance on service sectors. This gives rise to a perception of the UK as a consumer rather than a producer nation. In order to engender greater economic stability, the nation's economic base should consist of an appropriate mix between manufacturing sectors that produce goods and services demanded by a sustainable society. The TUC is encouraged by the Government's industrial activism policy and commitment to *Building Britain's Future*. Nonetheless there are aspects of this doctrine the TUC believes merit further appraisal. While the TUC is unequivocal in supporting Government's ambition to become a hi-tech, low carbon manufacturing nation, this goal will remain elusive unless early action is taken to prevent further industrial decline, particularly in the steel industry. Talking "unashamedly about the reindustrialisation of the British economy"⁸ is welcome news. However, it is important we do not lose sight of the significant contribution made by traditional manufacturing to the national wealth that will remain a dominant feature of the industrial landscape for the foreseeable future. Steel will continue to supply these industries, including automotives and aerospace, but also possesses considerable potential to satisfy demand in emerging low carbon sectors such as offshore wind, as well as renew key transport and public service infrastructure.

8. Short-term, it is vital Government avoid inadvertently de-industrialising the economy by narrowly limiting the scope of its interventions in relation to major closures. The economy has been slower to recover from recession than other industrialised manufacturing nations. This in part has been attributed to a weakened manufacturing base. Steel is necessary to nourish industrial growth. With the right investment, Teesside could become a global leader in low carbon steel production that would lend the TCP site a competitive edge in a worldwide market place. Therefore it is important the UK achieves an appropriate balance between supporting existing industries adapt to changing conditions in the transition to a low carbon economy and providing the necessary stimulus for contemporary manufacturing to prosper.

9. Trade unions believe the closure of Teesside Cast Products should not go unchallenged. Its fate should not be decided solely on grounds of financial efficiency, especially in an unfavourable economic climate with so many jobs at risk. The steel industry has always been cyclical and Corus itself made substantial profits from an off take deal that subsequently collapsed and precipitated the decision to mothball. The unions

⁴ Information supplied by NERIP.

⁵ Sadler, D (2001) *The Steel Industry in the Tees Valley and its Supply Chain in North East England, a Report for the Teesside Task Force*. Department of Geography and International Centre for Regional Regeneration and Development Studies, University of Durham UK and (2004) *Cluster Evolution, the Transformation of Old Industrial Regions and the Steel Supply Chain in North East England*, Regional Studies 38 (1): 55–66.

⁶ Dawley et al, *Mapping Corporations, Connecting Communities: Remaking Steel Geographies in Northern England and Southern Poland*. Downloaded from <http://eur.sagepub.com> 21 December 2009.

⁷ Tees Valley Low Carbon Economic Transition Plan: A Proposition to Government.

⁸ Business Secretary Peter Mandelson quoted in *The Guardian*, 21 December 2009.

remain to be convinced that the plant cannot continue to be profitable. Key is how the gap should be bridged when the market is low. The TUC appreciates Government has an obligation to set realistic economic objectives and rectify the social cost of plant closures. Given this predicament, the TUC is concerned to ensure that a morally better alternative to closure is actively considered by all parties and not relinquished solely by the fulfilment of collective responsibility to minimise job losses arising from prospective mothballing. Indeed the job losses involved are more akin to a closure.

WHAT CAN BE DONE TO PREVENT CLOSURE?

International Co-operation to Address Systemic Steel Industry Problems

10. Steel production is a global business. The industry is dominated by multi-national corporations operating on an international scale. Former nationally owned or nationalised companies have mutated into transnational producers of steel. Increasingly co-ordinated interventions are required to promote the effective governance of an industry that is of universal economic importance. (Dawley *et al* 2008) The steel industry provides materials used by manufacturers worldwide. Not only is the industry a key driver of related economic activity, it has a strategic role to play in promoting the efficient functioning of a global economy. The present crisis on Teesside indicates there are a number of underlying issues to be addressed bilaterally by Government and the steel industry to prevent market failures from not only producing decline that detrimentally affects local communities, but also maligning economic performance as a whole. These challenges can be summarised as follows:

11. The global steel industry has undergone rapid change and a turbulent period of restructuring in response to unpredictable market conditions, technological change and competitive pressures.

12. A series of cross border mergers and acquisitions means the steel industry is now concentrated in the hands of a few giant global companies. Investment decisions and production locations are determined by the corporate strategies of these industry players. Business objectives are heavily influenced by shareholder interests and the company's value on the stock market. Consequently these factors drive and shape market behaviours. While profitable in the short-term, they also promote volatile conditions that distort the sustainability of putative economic outcomes.

13. Fluctuating steel and commodity prices impact on profit margins and has intensified pressure to shift production to lower cost locations thereby accelerating the decline of steel communities in the UK. In contrast to its competitors, Teesside Cast Products is renowned for producing the finest quality steel slab in the world. Whereas lower cost competitors may deliver savings on raw materials, inferior grade steel increases manufacturing production and property development costs due to quality control problems. The knowledge, skills and expertise of the steel workforce on Teesside cannot be easily matched elsewhere.

14. Persistent over capacity is another major issue driving down the price of steel and contributing to rising unemployment in the industry as plants are rationalised to further reduce costs. The number of countries producing steel has risen and flooded the market with cheap steel. A slump in demand caused by the recession compounds this problem and accentuates pressure on an already fragile market for steel slab.

15. Allowing one of only three steel blast furnace production sites in the UK to be temporarily mothballed will only serve to exacerbate problems that require a long-term solution irrespective of whether Teesside Cast Products remains open.

16. Research suggests corporate tactics also warrant further examination to minimise the risk of economic and social harm to nations, regions and localities affected by the decisions of global entities. (Smith *et al*, 2002; Hess and Yueng, Dawley 2007)⁹ The impact of investment decisions should be assessed on broader measures of success than profit maximisation and competitive advantage. Teesside Cast Products is an illustrative case in point. Formerly part of British Steel, the Teesside plant was merged with Dutch steel producer Hoegovens and is now run by Corus. Since these developments occurred the most profitable aspects of the production process have steadily been removed from Teesside and consolidated in other parts of the UK and abroad. In fact unions argued at the time that the closure of the necessary steel mills would have a detrimental impact on Teesside's long-term future.

17. Its remaining production is integrated with other steel making sites. As a result of this integration the plant is predicted to make a considerable profit for Corus when demand for steel recovers as the economy picks up. The steel workforce on Teesside have also refined the production process, achieved productivity targets and saved time to improve profitability.¹⁰ Although the slab from Teesside could be more profitable for Corus if it was rolled (at Llanwern in South Wales) and sold as Hot Rolled Coil, for which there is a bigger global market and could be transported via existing rail infrastructure.

18. The company is believed to be ambivalent about its long term plans. Corus cites the failure of four international slab buyers to fulfil their obligations under a 10 year contract signed in 2004 as the principal reason influencing its decision to partly mothball the Redcar Steel Complex until a buyer is found or there is a significant upturn in the price of steel. Though legal action is being taken against the consortium, the dispute is protracted and time consuming to resolve. However, industry speculation suggests a sale may be

⁹ Yeung, H W-C (2001) *Regulating "the Firm" and Sociocultural Practices in Industrial Geography ii* Progress in Human Geography 25: 293–302.

¹⁰ <http://www.epolitix.com/mpwebsites/mpspeeches/mpspeechdetails/newsarticle/steel> Accessed 23 December 2009.

deferred to minimise further adverse competition in an already stiff market place. In this instance it is unlikely the plant would re-open because it is notoriously difficult to bring a steel furnace back on line once it has been mothballed. Furthermore, in the event of mothballing, continued uncertainty over the site's future is likely to delay fresh inward investment and regeneration plans.

19. The TUC suggests that public policy could play a stronger regulatory role in facilitating better management of key industries and deliver improved outcomes from corporate decision making in terms of economic growth, social justice and access to employment. Arguably this would enable national Governments to exercise a greater degree of control over strategic economic resources, particularly if strengthened by an international covenant. There is a view gaining currency that policy makers should “rethink economic and industrial strategy from the perspective of communities living through transformation”¹¹ and the “often painful process that has been experienced within European industries in the last few decades.” A renewed approach would be characterised by an explicit focus on the welfare of people and places.¹²

RECOMMENDATIONS ON OPTIONS TO AVOID CLOSURE

Delay Mothballing

20. Delay mothballing the plant for at least 12 months and pay a subsidy to the workforce pending an upturn in the steel price or Corus finding a buyer for the plant. This will create the time and space necessary to re-establish steel production on a stable footing, enable the public sector to advance regeneration plans and secure additional inward investment on Teesside. In the event of long term closure, steel workers need to be given sufficient opportunities to retrain and prepare for changes in their financial circumstances. This objective cannot realistically be achieved within the current timescale. Replacing mothballing with a temporary wage subsidy scheme would enable valuable skills to be reutilised and redeployed, the corollary being reduced risk of long-term unemployment, fewer working age benefits claimants and enhanced regional economic prospects. To this end, the TUC is seeking clarification on the use of EGAF flexibilities to support these aims and an urgent decision from Government whether to submit an eligible UK bid. A BBC Tees poll found that 77% of those asked were in favour of the government using tax payer's money to help the factory.¹³ However the media reported Corus had regrettably declined this offer reaffirming their decision to mothball the plant until a buyer is found or the price of steel rises. In these circumstances, the TUC is of the view that Government should explore the feasibility of obtaining a compulsory purchase order of the site and hasten this process, or alternatively consider bringing the plant into temporary public ownership.

21. Save Our Steel Industrial Activism Plan

22. Based on the TUC's belief that the decision to mothball is corporate rather than market-led, the Government should construct an industrial asset plan and map the interaction between steel production and related industries, devising actions to maximise their economic growth potential. In the absence of a dominant UK scale in the global steel market, the Rapid Response Group could look at alternative uses for Teesside steel slab to generate an internal market and investigate the possibility of introducing minimum steel specifications on public infrastructure projects and industry standards that recognise the inherent quality of locally produced steel.

23. Uphold Corporate Social Responsibility

24. Corus emphasises its corporate social responsibility towards the communities in which it operates. Its furnaces have never been disrupted due to a labour strike, which is regarded as an enviable record. Yet these qualities are inconsistent with its commercial behaviour in the market place. Corus is a subsidiary of Tata Steel; India's second largest and most profitable company in the private sector. Previously valued at £6.7 billion,¹⁴ the company is facing increasing criticism that the drive for growth and profits is overshadowing its former philanthropic reputation and causing lasting social and environmental damage. Corus has paid a £700 million merger dividend to its shareholders since 1999.¹⁵ Nonetheless the company claims it cannot afford to sustain short-term losses to salvage the Redcar Steel Plant until the market recovers.

25. “Corporate responsibility is integral to the way Corus (a subsidiary of Tata Steel) [runs its enterprise] and the objective is to be world class.” “We take our responsibilities seriously. A commitment to the wellbeing of employees and communities, improving environmental performance and providing sustainable products and conducting all of its business with honesty and integrity.”¹⁶

26. Cross-cutting functions across the Tata Steel Group and standardised business processes coordinated centrally to capture benefits of scale, expertise and efficiencies for the whole of Corus limit consideration of local economic sustainability in favour of company and shareholder profitability. The company admits that

¹¹ Perrons, D (2004) *Understanding Social and Spatial Divisions in the New Economy: New Media Clusters and the Digital Divide*, *Economic Geography* 80(1): 45–61.

¹² Hudson, R (1994) *Restructuring Production in the West European Steel Industry*, *Tijdschrift voor Economische en Sociale Geografie* 85 (2) 199–113.

¹³ *Public want steelmaking bail-out* 14 December 2009 BBC News website <http://news.bbc.co.uk>

¹⁴ Tata Steel's £6.7 billion acquisition of Corus in 2007.

¹⁵ <http://www.epolitix.com/mpwebsites/mpspeeches/mpspeechdetails/newsarticle/steel> Accessed 23 December 2009.

¹⁶ <http://www.corusgroup.com> Accessed: 23 December 2009.

recruiting people with the right skills is challenging and claims to be active in stimulating regional employment. Prima facie it does not make sense for the company to mothball the Teesside plant and abandon a highly skilled, world-class steel workforce.

27. Corus is wholly owned by Tata Steel (which is traded on the Mumbai stock exchange). However, it is understood that the largest part of the debt Tata used to buy Corus is held by RBS. Mindful of considerable public investment to shore up the British banking industry, the TUC calls on Government to revisit their governance arrangements and hold institutions to account by requiring those in receipt of state help to exercise corporate social responsibility in respect of industries deemed to be at risk.

28. To what extent corporate social responsibility can be used as leverage to overturn the mothballing decision without legislative underpinnings is unclear, but should be pursued vigorously nevertheless and long-term this loophole needs to be closed.

29. *Job Losses and their Implications*

30. Redcar Steelworks directly employs 2,900 people and a further 10,000 jobs depend on it. Corus is proposing to partly mothball the plant making 1,700 workers redundant. However, the continued viability of the plant is uncertain and therefore the final figure could be much higher.

31. The effects of job losses on such a large scale will:

- aggravate structural economic and labour market weaknesses in the sub-regional economy; and
- create additional social problems and a breakdown in community cohesion.

32. Previous company decisions to reduce staff numbers have adversely impacted on the skills mix required by the industry to perform optimally. Researchers document a shift from permanent employment towards growing use of part-time and temporary employment contracts, a continual downward trend in employment and increasing difficulty in recruiting new workers.¹⁷ The type of work people go into when starting a new job is determined by the state of the local economy at the time of redundancy. Where steel jobs have been cut, the experience of redundant workers in finding equivalent sustainable employment is variable and depends on levels of labour market demand, which are generally poor in a recession. Recent studies of plant closures show that local labour markets may struggle to absorb and resettle large numbers of redundant steel workers into suitable, good quality, well paid jobs.¹⁸ Many ex steel-workers have been unable to find alternative employment due to their age and skills, (the average age of a steel worker is 46) especially in jobs with pay levels, terms and conditions comparable to working in steel. While steel workers are skilled craftspeople with transferable skills, there are limited alternative employment opportunities where these skills can be utilised and unless the Redcar plant remains open, may be lost.

33. Older workers have sought voluntary redundancy and pension top ups, but the situation is even more difficult for younger workers with families and mortgages. Surveys illustrate the majority of workers accept less skilled work and lower paid jobs following redundancy. In line with other studies,¹⁹ salary reductions are most heavily concentrated in intermediate and lower levels of the workforce. Low skilled workers are less likely to move into stable and long-term employment in the aftermath of redundancy. There is also a strong correlation between low skills and geographic mobility. Skilled workers tend to find employment outside the North East or may commute to other employment centres within the region following a major closure. In a compact labour market like the Tees Valley, there are fears highly skilled steel workers will be forced to migrate, worsening population decline. Lower skilled counterparts will become increasingly marginalised in a sluggish labour market.

“It’s hard to put into words how bad I feel right now. I’m in my 40s and have been at Corus since I left school. I’m a single parent with a daughter at university and one at home. I fear the future. I’ve got a mortgage to pay and I’m worried I’ll end up losing my home. We’re all going to lose our jobs because of decisions made by international companies.”

“Workers like me are highly skilled in what we do but many of us do not have experience outside steel manufacture. I’m proud that I’ve always been in work and paid my taxes.”²⁰

Wider Implications for the Economy

34. Prior to recession, the economic performance of the Tees Valley sub-region improved as rates of economic activity increased. However, long-term unemployment in the sub-region remains unacceptably high and is once again becoming a growing problem in Middlesbrough, Redcar and Cleveland. Geographically these areas account for a large proportion of steel industry employment. Loss of steel jobs on Teesside could push the regional unemployment rate above 9%, higher than at any time in the last decade.²¹

¹⁷ Dawley *et al*, *Mapping Corporations, Connecting Communities: Remaking Steel Geographies in Northern England and Southern Poland*. Downloaded from <http://eur.sagepub.com> 21 December 2009.

¹⁸ *Ibid*. Dawley (2008) *Advanced Manufacturing Skills Tracking Survey*. A report investigating the post-closure resettlement patterns of the former Atmel Workforce on behalf of the Tyne and Wear LSC and Atmel Response Group, CURDS.

¹⁹ *Advanced Manufacturing Skills Tracking Survey*. A report investigating the post-closure resettlement patterns of the former Atmel Workforce on behalf of the Tyne and Wear LSC and Atmel Response Group, CURDS.

²⁰ *Corus job losses: Workers react* BBC News <http://newsvote.bbc.co.uk> Accessed: 23 December 2009.

²¹ <http://www.community-tu.org/information/103445/104151/unemployment/> 16/12/09.

35. The Tees Valley has undergone profound economic restructuring in response to industrial decline. Reindustrialisation is patchy, business enterprises are typically foreign owned company branch plants and service sector development relatively weak.²² It has become apparent that type of economic activity and composition of the area's industrial base is of equal magnitude in promoting sustainable growth. An increase in service sector employment has failed to compensate for the loss of good quality, reasonably well paid full time manufacturing jobs and it is doubtful these sectors alone can drive sufficient increases in GVA without producer industries. Already the Tees Valley suffers high levels of unemployment, benefits dependency and a significant proportion of the working age population lack relevant work experience and qualifications.²³ Combined, these factors illustrate in sharp relief the imperative to retain steel production on Teesside; a major source of good quality, well paid, skilled employment.

36. Despite roughly even participation rates between women and men, the labour market is deeply segregated, evidenced by a pronounced gender pay gap and prevalent low quality, part time employment. Past studies have shown a widening gap in earnings attributed to the reduction in manufacturing employment. Women have sought part-time work to supplement household incomes as traditional sources of male full time employment decreased. Limited social mobility and low aspiration are also problematic and linked to the paucity of high quality, well paid employment available locally. This is thought to foster labour market inertia. Household incomes are consistently found to be below the national average. The TUC accepts structural labour market issues are difficult to unravel, but is concerned that mothballing the steel plant will exacerbate negative trends. Regeneration strategies should do more to tackle labour market inequalities.

37. Moves by some employers to institutionalise frugal employment practices, such as using short-term contracts to maintain downward pressure on terms and conditions, even when the economy improves, will further destabilise the labour market and slow recovery from recession. A report by the Social Futures Institute criticised poor employer attitudes that "assume it is wholly the responsibility of the public sector to prepare people for work."²⁴ It is crucial these negative assumptions are contested by regional partners working collectively across all sectors. Recessionary architecture, including Regional Economic Forums, Task Forces and Rapid Response Groups can be influential in this regard.

38. Mothballing the Teesside steel plant would catalyse large scale unemployment causing greater numbers of children to fall into poverty. Teesside is already marred by child poverty statistics that exceed the national average. According to the End Child Poverty campaign as many as three in four Tees Valley children are classed as experiencing severe financial hardship, either in a low income or non-working family.

39. Steel production provides well paid jobs the region can ill afford to lose. Labour market intelligence clearly demonstrates that early mothballing would be counter-intuitive and threaten to entrench deep-seated economic and social challenges in the sub-region.

What is being put in place to help those at risk of job loss?

40. Strategically important employers making redundancies emphasises the need to develop workforce skills that are aligned to employment opportunities offered by the future regional labour market. The renewable energy industry provides scope to reutilise steel worker skills, but is insufficiently developed to generate ample employment on Teesside immediately. In addition to existing low carbon investments, there are a number of schemes in the pipeline at planning consent or talks stages. These projects could deliver 2,000 jobs and £4 billion of capital investment in low carbon sectors considered vital to the future development of the Tees Valley, North East and national economy. Therefore it is essential that delivery of this £4 billion pipeline of investment is accelerated. These include a heavy oil upgrader, carbon capture and storage network created from coal generated electricity, the Northern Gateway Container Terminal, new renewable power stations and waste recycling facilities. Removing barriers in relation to consents and infrastructure would boost development.²⁵ However, pursuing these objectives should be synchronised with Government-led intervention to delay mothballing the Teesside plant. This would allow proper time to retain steel workers for secure employment in low carbon sectors, as and when these opportunities materialise, deemed critical if the region is to realise desired outcomes from the New Industry; New Jobs agenda.

41. The announcement of a £60 million emergency assistance package to facilitate the development of low carbon industries is welcome and the TUC understands that £30 million of this funding is being directed to support workers at risk of redundancy. However, given the scale of redundancies and multiple challenges to effectively redeploy workers, the TUC advocates Government look to supplement these resources centrally, or alternatively access other sources of European funding such as EGAF.

²² Pike *et al* (2006) *Local and Regional Development*. London: Routledge.

²³ Tees Valley Unlimited, *State of the Tees Valley*, February 2009.

²⁴ Chapman *et al* (2007) *Major Skills Issues in Tees Valley*, Social Futures Institute.

²⁵ £60 million lifeline to revive industry in the North East following Corus Closure, *The Guardian* 8 December 2009.

Lessons from Europe

42. European Member States are encouraged to promote active labour market policies focused on supporting people back into work in the event of large scale redundancies. Research into handling potential and actual large scale redundancies in Europe illustrates scope to reform how the UK deals with companies in difficulty and can enhance the development of regional good practice.²⁶

43. Notably, in other Member States, large scale redundancies are better regulated. For example, social plans are developed to cushion the effects of restructuring. In France, employers with more than 1,000 employees have a statutory duty to create alternative employment in an area where they are planning to shut all or part of a site and make payments into a fund to support job creation. Employers are also under obligation to provide finance for retraining and redeploying their redundant workers. Companies must contribute to regeneration measures agreed by local structures to ensure redundancies are managed in a socially responsible way. By contrast, individuals subject to transitional employment arrangements in Germany are permitted to work for a fixed term in another company and undertake training, subsidised by Government to facilitate labour market integration. In other Member States information and consultation rights relating to redundancy exceed the minimum provisions guaranteed by EU law. Employee representatives in Italy can enforce formal rights to be consulted over the reasons for redundancy and scrutinise those reasons. Such instruments provide “breathing space” to delay or prevent formal redundancies and design measures to improve employees chances of finding work. The TUC advocates the implementation of equivalent duties in the UK and in the absence of a more robust regulatory framework, recommends Government engage in further dialogue with Corus to make progress on these issues.

Maximising the Social Value of Public Procurement

44. Procurement can be a useful tool to achieve improved economic and social outcomes from public policy. However, the TUC is concerned this is not yet being fully exercised by public agencies to deliver sustainable benefits and address socio-economic disadvantage. Effective public procurement can play a strategic role in addressing the anticipated challenges presented by the prospective mothballing at Corus. Increased application of social clauses would significantly help to promote good quality, secure and properly remunerated employment, facilitate access to training and increase apprenticeship numbers. While the TUC acknowledges pockets of good practice are emerging, there is a need to develop capacity and leadership quickly and extensively, supported by greater regional level co-ordination across the public sector, guided by national Government.

45. Tracking System Investment to Follow Workers Progress and Establish Good Practice

46. Investment in a labour market tracking study could prove extremely valuable to better understand the significance of Corus redundancies to the Tees Valley sub-region and whether proposed interventions will be successful in mitigating its impact. In particular, it would be helpful to measure the extent to which workers have been able to reuse or renew their skills in other Tees Valley based industries and the role of labour market demand in shaping positive labour market outcomes.

47. Conclusion

The steel industry has consistently shown resilience and a proven ability to innovate in the face of unparalleled global economic transformation. The current downturn should be no exception. The workforce is renowned for its flexibility, adaptability and commitment. Steel workers should be commended for their efforts to continue supporting the renaissance of their local area. A bedrock of the sub-regional economy, the fate of an industry once described as “Herculean” need not be a foregone conclusion. The TUC is convinced there is a viable future for steel on Teesside and urges all parties to develop plans that will provide workers with continued sustainable employment going forward.

6 January 2010

Supplementary memorandum submitted by Tees Valley Unlimited (NEC 11)

At the meeting of the Select Committee on Friday, I agreed to carry out further research on wage subsidy schemes in Europe. I attach as an appendix to this report²⁷ details of the wage subsidy schemes operating in Germany, Holland, Belgium and France for your information. This appendix was provided to us by the European Trade Union Initiative for Research Education and Health and Safety from a paper by Vera Glassner and Bela Galgoczi entitled *Plant Level Responses to the Economic Crisis in Europe*. To summarise:

In Germany losses of income due to a decrease in working time are compensated by state subsidies issued by the Bundesagentur fur Arbeit. In the case of inactivity, 60 or 67%—according to family status—of the last net wage is borne by the state, whilst the rest is paid by the employer. The employee retains all social security entitlements such as health, accident, pension and nursing care insurance. Conditions for the deployment of short-time work include economic difficulties, such as sharp declines in demand. Due to the

²⁶ *Activity on Large Scale Redundancies in Europe Lessons for Pace*, a report by IRS Research, July 2002.

²⁷ Information provided, not printed.

current economic downturn the period of entitlement for short-term work has been extended from six to 12 months for the second half of 2008, and to 18 months for 2009. In case of a protracted crisis, the period of entitlement can be further extended to 24 months by decree of the Minister of Labour. In December 2008 almost 300,000 people were on the subsidy scheme in automotive production, metal and chemicals.

In the Netherlands companies that can prove an average reduction in profits of 30% two months before the application to introduce short-time work is made shall be entitled to access temporary unemployment funds fully or partly for a period of six to 24 weeks. The temporary unemployment allowance funded by the public unemployment fund represents 75% of the wage in the first two months and 70% thereafter.

In France, *chomage technique* or *chomage partiel* is a publicly funded scheme that allows companies in cases of exceptional economic difficulties to have recourse to state-governed funds covering 60% of minimum hourly wages during periods when staff are temporarily laid off. Employers pay their employees directly and are reimbursed by state agencies (DDTEFP or Assedic) based on hourly rates. There has been a large rise in the number of companies applying for the funds, especially in the car and car-components sectors. In mid-December, the French government extended maximum coverage of the scheme from 600 hours per year up to 800 hours in general and up to 1,000 hours (equivalent of 28 weeks under the French 35-hour week) in the case of highly exposed sectors such as the textiles/clothing and automobile sectors. It also made reimbursement levels higher and agreed a prolongation of *chomage partiel* from four to six consecutive weeks.

It would seem that these wage subsidy schemes are active in Europe. The reports seem to infer that steel companies such as Thyssen Krupp, Arcelor/Mittal and IG Metall have benefitted from these systems but from the reports it has been difficult to determine if this is the case. Some research through BIS, UKREP or the embassies could help.

22 January 2010

Supplementary memorandum submitted by the Government Office for the North East (NEC 12)

The Minister for the North East was asked about a proposal put forward by Tees Valley Unlimited (TVU) on the potential economic benefits of operating a wage subsidy to support Teesside Cast Products. In response the Minister for the North East said that officials in the Business, Innovation and Skills Department (BIS) disagreed with some of the analysis presented by TVU and agreed to provide more detail on this to the Committee.

This note outlines the detailed response from BIS to the proposal put forward by Tees Valley Unlimited. It also outlines the results of an examination of whether there is an economic case for UK wage subsidies.

THE TEES VALLEY UNLIMITED (TVU) PROPOSAL

The proposal provides some simplifying estimates sets out that there are roughly 2,000 people directly employed by Corus and around 1,000 contractors. They are assumed to earn £500 per week and that this does not vary due to changes in overtime or other payments.

The proposal is that workers, the business and government bear some of the costs of the direct wage bill within Corus. The 2,000 workers work a four rather than a five day week and of these four days the business pays for two days and the government also pays for two days.

The assumption underlying the proposal is that a wage subsidy for 12 months for the 2,000 Corus workers would provide a sufficient temporary cash inflow to sustain the plant permanently (measured in the proposal at five years) and that would mean that employment was permanently higher by around 4,000 (the 2,000 direct jobs, the 1,000 contractor jobs and a further 1,000 indirect secondary jobs are assumed to be permanently saved).

The gross cost of the subsidy is around £30–£35 million but it is assumed that the government would recoup more than half of these costs in higher tax and National Insurance contributions bringing the net cost down to around £10–12 million. This contrasts with the assumed £40.8 million cost to government per year—£192.4 million over five years—associated with the closure of the plant. These costs relate to tax and National Insurance payments foregone and employment support—largely Jobseeker's Allowance and Employment Support Allowance payments.

ASSESSMENT OF THE TVU PROPOSAL

The Cost Effectiveness of the Subsidy

1. The detailed calculations tend to distract from the main issue. As set out in paragraph 7 of the annex on wage subsidies the key judgement is whether a subsidy of £10–12 million for one year is sufficient to persuade the business to keep the plant open permanently—defined in the proposal as five years. Here the statements of the business are important. They have clearly stated that a subsidy—specifically a wage subsidy—would not be sufficient to get them to reconsider their decision.

2. Also, even if the subsidy were sufficient to keep the plant open it would not necessarily mean that the plant had been saved permanently. Something would have to change to make the plant viable in the long term.

The Public Expenditure Benefits of Keeping the Plant Open

3. In addition to the question about whether the size of the subsidy is sufficient to keep the plant open—either in the short or the long run—there is also the question of whether the basis of the assumed benefits is robust.

4. The calculation of the benefits of avoiding the plant closure implicitly assumes that there is a fixed amount of jobs and that once they are lost they are lost for ever. However, the fact that plant has been mothballed rather than closed means that there is at least a chance that the plant will re-open. And if circumstances change sufficiently fast there might be a chance that the plant will not be closed or mothballed.

5. Yet, even if the plant was permanently closed that does not necessarily mean either that the people who lose their jobs will never get another one or that the number of jobs in the area are permanently reduced. For individuals, a significant proportion of people who lose their job find another one quickly and do not remain unemployed for a long time. In terms of jobs in an area, the general trend is for employment overall to rise even though the composition of jobs may change.

Individuals

6. The rate at which people leave Jobseeker's Allowance (JSA) provides an illustration of how quickly people move back into work. At October 2009—the most recent figures—the proportion that leaves JSA within three months of claiming is 53%; within six months it is 70%; and within a year it is 90%. The North East figures are similar, and Job Centre Plus locally has confirmed that off-flow patterns for JSA in the Redcar and Cleveland area also broadly mirror this position.

7. The effect of a large redundancy—particularly in a small area—is likely to slow the rate at which people leave JSA. However, experience of other large scale redundancies suggests that this deterioration is not substantial.

8. Of course it is very difficult when people leave their jobs. That is why a key plank of labour market policy has been to help people get back to work more quickly. And compared to the last two recessions the speed with which people have left JSA has risen across the country. This is one reason why the numbers on unemployment benefits have remained lower than in previous recessions and why, in the last two months there has been falls in both the national and North East figures.

9. Getting people back to work quickly is the primary objective of policy—including helping any people made redundant if the Corus plant were to close. However, there are also public expenditure benefits associated with an overall fall in claimant unemployment. And the judgement was that helping people back to work more quickly was more effective than a general wage subsidy because it reduce the average time that people were on benefits.

Jobs

10. The employment rates in the Redcar & Cleveland local authority (67.0% of the working age population in April 2008 to March 2009) and the North East region (70.4%) are both below the national average (67.0%). However, because the UK has one of the highest employment rates in the world, the rates in Redcar & Cleveland and the North East region are still above the EU average.

11. Outside recessionary periods the number in employment tends to grow and an increasing proportion of the population are in work. For example, in the North East as a whole, over the period 1992–2007 the employment rate rose by 6–7 percentage points to reach around 71–72%—a bigger growth than the national average. It has, of course, fallen back during the recession but in recent months it seems to have stabilised, if not begun to increase and in September to November 2009 it stood at 69.0%—lower than its peak but still higher than at any time in the decade 1992–2002.

12. The rise in employment over time has occurred despite job losses in some areas and sectors because there has been larger gains elsewhere. It does not seem, therefore, that job losses—even in important sectors—necessarily leads to a permanent reduction in the overall number of jobs.

13. Therefore, in considering the possible public expenditure benefits of keeping the Corus plant open through wage subsidies it is necessary not only to consider that specific issue but also the wider picture. And, in particular, whether the resources devoted to keeping the plant open through wage subsidies would be more effective in other policy areas that fostered growth and jobs.

14. These policy areas might involve finding a more cost effective way than wage subsidies of maintaining the existence and viability of the Corus plant or other ways of fostering growth and jobs in the Redcar & Cleveland areas. The Government is exploring all these possibilities but, for the reasons outlined here, does not believe that a wage subsidy would achieve its objective. Therefore, it does not believe it would be money well spent or that there would be a net benefit to the Exchequer from such a policy.

UK WAGE SUBSIDIES: THE ECONOMIC CASE

EVIDENCE ON WAGE SUBSIDIES: GENERAL

1. The case for wage subsidies was extensively examined in the period at the end of 2008 and early 2009. National and international evidence was considered in the light of representations that similar programmes have been used in the past in the UK and were currently being deployed in a number of countries with Germany and the Netherlands amongst those most commonly mentioned.

2. The conclusion of this examination was that a general wage subsidy would not be cost effective in the UK and that alternative labour market policies—specifically devoting resources to helping the unemployed back into work as quickly as possible—are likely to be more cost effective. This note concentrates on the evidence on wage subsidy. The fact that claimant unemployment has started falling from levels far lower than most commentators expected is an indication of the effectiveness of the welfare to work policies.

3. In addition, wage subsidies need to be seen in the context of other taxes, costs and subsidies levied on labour. The UK's approach tends to be to have a relatively low tax wedge between total labour costs (gross earnings and non-wage labour costs) and take home pay. Other countries—including Germany and the Netherlands—tend to have a higher tax wedge but to give wage subsidies to a smaller number of firms. Thus, the add-on costs to take home pay are lower for all firms in the UK and higher in other countries whilst wage subsidies reduce the costs to specific firms.

4. According to the OECD in 2008 the average total labour tax wedge was 32.8% of total labour costs in the UK (translates to around 38% of gross earnings); much lower than in Germany (52% of total labour costs, 60% of earnings); and in the Netherlands (45% of labour costs; 52% of earnings).

TYPES OF SUBSIDIES

5. What form the subsidy takes and who benefits is also important. The object of wage compensation schemes such as the Temporary Short Time Working Compensation Scheme of the 1970s and early 1980s was for the government to make up part of the wages that workers lost because they were on short time. However, if the money went to the worker it might maintain their income but it cannot cover the losses of the company. Similarly, the object of training subsidies such as *Train To Gain* is to pay for and increase the amount of training not to cover operating losses.

6. Therefore, it is only if the subsidy goes to the employer and is used to cover operating losses—rather than make up for a fall in profits—that a wage subsidy is likely to be successful in maintaining jobs and the plant. (It is possible that wage compensation subsidies could have similar effects but it would involve workers taking another cut in wages in return for the government money in order to reduce the costs to the business.)

7. A key feature of wage subsidies, therefore, is that they need to get to where they can do most good in terms of retaining businesses. But that is not enough. The amount of the subsidy needs to be sufficiently large to convince the business that it is worth keeping it open but not too large that most of it goes into profits. This is the major problem with wage subsidies—a concept that is known as deadweight—where subsidies are paid but the business does not alter its behaviour and so the government pays for what would have happened anyway.

8. The issue of deadweight is a particular feature of job retention subsidies because the objective is to maintain jobs and in many cases they would have remained in place. For general wage subsidies with few rules and little scrutiny deadweight is likely to be high. That was the experience of the national UK schemes of the past and in their surveys of Active Labour Market Policies the OECD concluded that general wage subsidies were not a very cost effective policy.

9. It is possible in specific cases that wage subsidies might be effective in persuading the business to retain jobs until the recovery comes. However, the scrutiny and conditions required is likely to be substantial. In addition, previous experience suggests that there are also consequences even if the subsidy is successful in its direct aim. These consequences may differ from firm to firm and in the size of the effect.

10. Firstly, the job retention scheme might be anti-competitive—not just for businesses but also for other potential workers. A subsidy to one group of businesses—for whatever reason—is likely to give them an advantage over other fitter businesses who, therefore, may suffer job losses. Also, supporting workers in one firm may make it more difficult for other unemployed workers to get back into work—either in that firm or elsewhere.

11. Secondly, for some businesses the subsidy may just be delaying the inevitable as without retraining or restructure it become a form of welfare dependency and the business cannot exist without it. Thus, when the subsidy is removed—as it must be as a temporary measure—the firm will go bust.

12. Somewhat ironically one of the reasons why businesses fail at the end of the subsidy is that the receipt of the subsidy itself reduces the incentives to restructure or retrain in order to prepare for the future. This was the experience of the UK in the 1970s when not only was the employment record poor but the productivity record was even less. Many firms who had previously received subsidies were not in a strong enough position to deal with the severe recession of the early 1980s even though the major wage subsidies—the Temporary Employment Subsidy and the Temporary Short Time Working Compensation Scheme were still in existence then.

13. All of these features affect wage subsidy schemes in other countries yet they are believed to yield much better results. It may turn out that when a full evaluation of these programmes is carried out they are found not to be as successful as we now think and that there are high degrees of deadweight.

14. However, it is also possible that such measures are more likely to work in those countries. A key feature of social partnership countries such as Germany and the Netherlands is that the three main partners—business, workers and government—are much more likely to work together to share out the pain of costs reduction and also to undertake the necessary restructuring. For example, it is more likely in Germany that workers are less likely to try to recoup through higher wages the unemployment funds given to business and may even engage in further wage moderation. Also, the institutional set-up in Germany is such that the focus of help tends to be on existing workers rather than those who are already without jobs.

15. There are also other issues associated with wage subsidies in the UK. These include the fact that the German and Dutch unemployment benefit systems are much better suited as delivery mechanisms for their wage subsidy schemes. Also, because the benefit levels vary in the UK compared to Germany and the Netherlands it is more likely that the level of wage subsidy will be higher in respect of short time working for part of a week than an unemployed person would receive for the whole of the week on Jobseeker's Allowance. However, if wage subsidies were considered to be a cost effective measure there would have been pressure to solve these delivery issues.

29 January 2010

Letter from Mr Kirby Adams to the Committee Clerk (NEC 13)

With reference to the meeting of the North East Regional Select Committee on 19 January 2010, which was attended on behalf of Corus by Mr Jon Bolton as managing director responsible for our Teeside Cast Products (TCP) business. I have now received the formal invitation asking to attend the next sessions of the Committee during the week commencing 24 January 2010.

Whilst I understand the Committee's intent, I would like to inform you that I have a long-standing commitment to attend the board of Corus' parent company, Tata Steel Limited, in India during that week. This would render me unable to attend a Select Committee hearing on the intended days; my attendance at the main board meeting is demanded in order to address a range of issues, many of which I believe are important to the ongoing business of Corus and the longer term success for our employees in the UK.

Mr Bolton was able to respond to a range of questions relating to TCP during his attendance at the evidence session on 19 January 2010 and I consider the answers given to the Committee to have been as comprehensive as I would have been able to give. I am also of the opinion that the Committee was wise in extending an invitation to Mr Bolton to appear before the Committee, given the closeness of his dealings with local agencies and with matters that are most of relevance to the Committee's remit. However, if there is a need for further follow up or subsequent questions then, if you are able to do so, please put these in writing to me. We will then be able to assess the most appropriate response.

May I thank you in advance for your understanding in this matter and look forward to hearing from you shortly.

21 January 2010

Letter from Mr Kirby Adams to the Committee Clerk (NEC 14)

Your letters dated 2 February (received via email on 3 February) and 31 January (received by post on 4 February), but which were otherwise identical, raised a number of observations and questions about the decisions associated with the imminent mothballing of Teesside Cast Products (TCP).

We are concerned that information seems to have been given to the press on 1 February (specifically the *Middlesbrough Evening Gazette*) that additional questions had already been sent “. . . to the steel chief in Mumbai after he failed to find a convenient date to appear . . .”, including a “kick” question (see 5 below), when we were not given sight of them until 3 February and only after we had enquired after seeing the press report.

In our view it would be misleading if comment has been made to the press that Tata Steel Europe has been in any way uncooperative with the work of the Committee, or that the reputation of senior executives can be brought into question.

In this letter we have endeavoured to answer all the questions in full, within any limits imposed on us through any confidentiality agreements we have in place with third parties with whom we have been holding discussions about the future for TCP. You must understand that, Parliamentary privilege notwithstanding, in some cases we cannot give detailed answers.

We would also observe that a number of these issues are addressed in our written evidence submitted by email on 7 January 2010.

Could you also note that the name of the company is normally referred to either as “Corus” or “Tata Steel Europe”. There is no such entity as “Tata Corus” or variations thereof. .

1. YOUR LETTER REFERS TO “OUR NOVEMBER REPORT TO THE MUMBAI BOARD ON 26 NOVEMBER 2009”, IN PARTICULAR:

- “That the Steel industry (EU and GB) had made savings to the amount of £1 billion.
- That whilst the construction industry was fragile the worst was over for the steel industry.”

A: You need to see these comments as written in full in the media release²⁸ from which we have extracted the following quotes:

“We took timely action during the exceptionally difficult first-half trading period, and I am pleased to report that the second half of this financial year will look entirely different. Revenues will be higher, costs lower, restructuring charges fewer and the position of Teesside Cast Products resolved. We are on track to realise more than £1 billion in cost savings this year, and because of that we are also on track to meet our H2 financial targets. Steel demand in Europe and North America started to recover from exceptionally low levels during Q2. While we expect that trend to continue, the recovery remains fragile, particularly in the UK and in construction markets. But we believe that we are now over the worst in Europe and can look forward to a return to positive financial performance.”

and:

“The most significant one-off factor was the sudden withdrawal in April by a consortium of customers from a binding 10-year contract to buy slab from Teesside Cast Products. This decision left TCP wholly dependent on internal Corus orders for several months until new external business was generated, As a result TCP contributed as much as 35% of Tata Steel Europe’s EBITDA losses in the first half.

Efforts continue to secure the orderbook for TCP into the New Year, as well as to find a long-term solution for the Teesside site. But TCP’s present dependence on short-term orders is not sustainable. The possibility of mothballing the plant, which was first announced in May, will have to be put into effect if no long-term solution is secured early in 2010.”

These are perhaps rather more specific than the generalised statements that have been attributed to us both in your letter and in the questions put during the hearing attended by Jon Bolton.

At the time the statement was made on 26 November, discussions with the remaining credible third parties were ongoing about both the short-term order book and the longer term. These only reached a conclusion shortly thereafter.

2. IN YOUR LETTERS YOU SAY THAT: “IN EARLY DECEMBER YOU WROTE TO EACH EMPLOYEE OF CORUS TATA, IN EFFECT WISHING THEM WELL WITH CORUS REDCAR. THIS WAS IMPLYING ALL WAS WELL WITH THE PLANT AT A TIME WHEN TATA WAS ENGAGED WITH POTENTIAL (BUYERS) PARTNERS. IN THE SECOND WEEK IN DECEMBER CORUS TATA STATED THAT CORUS REDCAR WOULD BE MOTHBALLED AT THE END OF JANUARY 2010 (NOW FEBRUARY 2010).”

A: For the record, on 26 November a letter was sent to over 36,000 Tata Steel Europe employees updating them on the Tata Steel Group results.²⁹

Part of the letter says: “The most disappointing and serious setback for Tata Steel Europe was the unilateral termination of the Teesside offtake agreement last April, which accounted for 35% of our EBITDA losses in the first half. We are continuing to seek possible solutions to secure a sustainable future for Teesside, and we are pursuing the offtakers for proper compensation,”

As stated in the comment above, at the time the letter was written, we were still in uncompleted discussions with the remaining credible third parties about both the short-term order book and longer term. The letter made no statements about the state of any discussions and could not be construed as giving hope of any particular outcome.

²⁸ http://www.corusgroup.com/en/news/news/2009_0910_H1_results

²⁹ Annex A

Again, for the record, the announcement that we would be proceeding with the previously announced mothballing of TCP was made at the end of the first week of December on Friday 4, when it had become inevitable that we had no alternative, because we had no external orders for slab beyond 31 December 2009.

3. THE COMMITTEE ASKED: “WHAT HAPPENED IN THE PERIOD BETWEEN YOUR REPORT TO THE MUMBAI BOARD AND THE SECOND WEEK IN DECEMBER THAT RADICALLY CHANGED TATA’S POLICY TOWARDS THE REDCAR PLANT? MOTHBALLING WAS NOT MENTIONED OR REFERENCED IN NOVEMBER.

A: *From the answers given above, it was clear that on 26 November we gave an honest assessment of the position that we were still in discussions with the remaining credible third parties, particularly about short-term slab orders, but we also stated clearly that mothballing would have to be put into effect if we could not secure a long-term solution early in 2010.*

Insofar as there was a change in circumstances, it was a result of concluding that we could not achieve external slab orders for the immediate period above our cost of production while we continued to pursue a long-term solution. Since that time, the cost of raw materials has, from 1 January 2010, increased significantly. Without short-term orders the site became immediately unsustainable

4. THE COMMITTEE ASKED: “WHY DID THE NEGOTIATIONS WITH POTENTIAL PARTNERS FAIL—THE SUGGESTION IS THAT THE PRICE TATA WAS REQUESTING FOR PARTNERSHIPS WAS TOO HIGH.”

A: *Fundamentally, negotiations failed because TCP is forecast to remain unprofitable for an indefinite period. In an environment of rising raw material costs and uncertain global markets, no partner/buyer could be found who was prepared to take on the liabilities such as employment costs, pension liabilities, environmental compliance costs and other contractual obligations, as well as the ongoing loss-making attributes of the business*

5. THE COMMITTEE ASKED: “IS THE MOTHBALLING OF THE REDCAR PLANT A CONSEQUENCE OF TATA WISHING TO REDUCE THE PRODUCTION OF LUMP STEEL THUS REDUCING THE AMOUNT ON THE OPEN MARKET, ACTION WHICH KEEPS THE PRICE UP”

A: *This is the “kick” question referred to in the newspaper article on 1 February. This is a ridiculous suggestion, to which the short answer is no.*

By “lump steel” it is assumed you are referring to merchant slab, which is the product made and sold by TCP.

It is clear from the evidence we have already submitted that there is huge global oversupply of steel both generally as well as in the market for merchant slab. Supply and demand are the primary drivers of price. The presence, or absence, of 3 million tonnes of TCP slab will not influence price levels for the 1,200 million tonnes of general steel products, when there is a global overcapacity of 350-400 million tonnes.

6. THE COMMITTEE ASKED: “WHO MADE THE DECISION TO MOTHBALL TCP? (i) IN APRIL (ii) IN DECEMBER.”

A: *The reason for the decision to mothball is well known. It was precipitated in April 2009 by the Offtakers (Marcegaglia SpA, Dongkuk Steel Mills Co Ltd, Duferco Participations Holding Ltd and Alvoary SA) reneging on their legally binding 10-year contract, which had been set up in 2004 to give TCP a long-term future.*

In May 2009 we indicated the possibility of mothballing the facility in case we were not able to find an alternate long term and sustainable solution. At that time, we entered into a 90-day consultation period with the unions due to end in August. The site would have been mothballed in August, if we had not been able to secure short-term orders at acceptable prices for the period October to December.

On 4 December 2009 we announced the decision to mothball TCP in January 2010 as we had been unable to secure acceptable external slab orders for the first quarter of 2010. The secondary factor was the lack of an immediate prospect of a long-term solution. In both cases it was Corus’ decision duly endorsed by the Boards of Corus and Tata Steel Ltd.

7. THE COMMITTEE ASKED: “WHY DID DISCUSSIONS ABOUT AN ALTERNATIVE OFFTAKE AGREEMENT OR PURCHASER BREAK DOWN? WHO BROKE OFF THE DISCUSSIONS?”

A: *Discussions could not continue because there were no buyers in the current market interested in purchasing slab at, or above, TCP’s cost of production. Any offers would have been below the cost of production, which is unsustainable. Neither Corus, nor any purchaser, could afford to sustain these indefinite losses, particularly with rising taxes, higher raw material costs and uncertain and volatile markets*

8. THE COMMITTEE ASKED; “DOES TATA CORUS REGRET THE CLOSURE OF TEESIDE’S PLATE MILL?”

A: *This decision was taken in 2001 by Corus Group plc in response to the market circumstances applicable at the time and as a part of a wider package of changes to Corus’ UK configuration. It was exhaustively examined by the unions, the Government and MPs at the time.*

That decision was driven by the ongoing long-term decline in UK domestic demand for steel, particularly in the “flat” products market, a process that has continued since then. Everyone needs to be aware that long-term UK demand for steel continues to decline and, compared to approximately 20 million tonnes of UK demand in 1970 (with almost all supplied from domestic manufacture), we are now seeing demand of less than 10 million tonnes, with 50% being taken by imports. The UK is also importing large amounts of steel in the form of manufactured goods.

In the same time period, China's steel production has risen from 50 million tonnes to 500 million tonnes to feed the rise in its manufacturing sector.

Without serious and concentrated action to reverse these long-term changes, particularly in manufactured goods, construction and infrastructure, the UK will continue to lose industrial and manufacturing jobs and the steel demand it supports. We recommend that this Committee preferentially puts its time and energy into urgent spending and policy measures to restart the UK construction and manufacturing sectors.

9. THE COMMITTEE ASKED: "WHAT, IF ANYTHING, IS THE DIFFERENCE BETWEEN THE MOTHBALLING PROPOSED BY TATA CORUS AND THE CLOSURE OF TCP?"

A: Mothballing involves shutting down production operations in a controlled manner that preserves the capital investment and allows the plant to be re-started at some point in the future, should it be required.

At Teesside, facilities like the Redcar Wharf, Redcar Coke Ovens, South Bank Coke Ovens and some power generating capacity will continue to operate. If we were closing the remainder of the plant it could be done quickly and at a relatively low cost in comparison to the cost and time involved in the proper mothballing process.

If you close a plant you are closing the opportunity to restart at a later date. We are mothballing the plant so that if business and market fundamentals change and a strategic partner with capital to invest comes forward, there is the possibility of restarting and continuing to make steel on Teesside.

We have a number of expert teams working on how to mothball every piece of the plant in the correct way.

10. THE COMMITTEE ASKED: "HOW IS WHAT IS BEING PROPOSED FOR TCP NOT A CLOSURE WHEN EVERY JOB IS AT RISK OF REDUNDANCY?"

A: Every job is at risk of redundancy, but not every job will be made redundant. There will be a small team of employees responsible for carrying out the mothballing and for the subsequent care and maintenance of the plants, in addition to all of the employees and contractors that will still be employed on the site in the plants that will continue to operate.

It deserves to be stressed that Corus will continue to be one of the largest single private-sector employers in the Teesside and Hartlepool area, with approximately 2,500 people in employment.

We hope the Committee will lend its full support and encouragement to policies that will make those remaining 2,500 jobs sustainable and long-lasting.

11. THE COMMITTEE ASKED: "IF IT IS A GENUINE MOTHBALLING, HOW DO TATA CORUS PROPOSE TO RETAIN THE SKILLS OF THE MOTHBALLED WORKFORCE, WHEN MAKING 1,600 PEOPLE REDUNDANT?"

A: The Committee has rightly identified that skills retention is an important issue. We are working very closely as part of the Corus Task Force to address this and come up with a workable solution for the business and the region, while at the same time taking into account our employees' wishes, including those in the group aged 50-54 wishing to avail themselves of early retirement options.

We are working with the trade unions to maintain as many as possible of the skills that we need. This could be in the form of making sure we retain skills in the remaining operating footprint, in addition to exploring whether they can be part of the mothballing and maintenance work-force.

If the opportunity presents itself to restart the mothballed operations, it is likely that the above-average pay (£40k per annum is the average gross pay for Corus in the UK) and up to 1,600 jobs will be sufficient to attract the talent necessary. If necessary we can temporarily or permanently transfer skill to TCP from Scunthorpe or Port Talbot.

Given that such jobs are an important driver for a number of otherwise poorly paid UK regions, we hope the Committee and the Government will recognise the critical importance of developing UK metals-based manufacturing in order to support the remaining 20,000 Corus jobs in the UK (directly contributing some £800 million a year in gross pay to the UK economy) and the considerable number of indirect jobs also supported by our activities, which we estimate to number around 40,000.

As well as ensuring we retain the skills necessary to operate and care for our assets, we also need to prepare for the redevelopment opportunities that exist in the Tees Valley.

The skills that require to be retained are for specific purposes. Jon Bolton has been speaking with Alan Clarke, the Chief Executive of One NorthEast about how we might do that, and how it might fit in with, and be supported by, the £60 million support package that is being provided to the region by the Department for Business, Innovation and Skills and One North-East for a number of regeneration opportunities including those in the low carbon economy.

12. THE COMMITTEE ASKED: “WHAT ARE TATA CORUS’ SHORT TERM OBLIGATIONS TO THE BANKS AND WHAT IMPACT ARE THESE HAVING ON THE FUTURE OF TCP?”

A: *We have made it clear that Tata Steel Europe has obligations to meet the targets set by our banks which are generally in the form of a number of financial covenants relating to minimum cash flow, minimum EBITDA (Earning Before Interest, Tax and Depreciation and Amortisation) generation and maximum levels of debt.*

In TCP, we experienced losses of £137 million (\$220 million) in the first half of financial year 2009–10 and a cash outflow of £90 million (\$144 million) in the same period. These losses were directly associated with maintaining TCP in operation while we completed the consultation process and with diverting internal orders rather than better utilising our other steelmaking sites. Again, in January 2010, TCP operated at a loss.

With no prospect of achieving a position where the cash outflow at TCP is reduced to zero, and in order to comply with our responsibility to protect the remainder of Tata Steel Europe, we have no alternative but to take the action we have announced, to partially mothball TCP during February 2010.

We trust this answers all the remaining questions from the Committee.

8 February 2010

Annex A

Letter to all Tata Steel Europe employees from Mr Kirby Adams

I am writing to update you on Tata Steel Group’s financial performance during what has been an extraordinarily difficult period, and to thank you for your personal contribution in helping to steer us through these challenging times.

Today the Group announced its consolidated results for the half year to September 30 (H1 FY’10). Consolidated EBITDA (earnings before the deduction of interest expenses, taxes, depreciation and amortisation) for the six months was a profit of US\$126 million, compared to a profit of US\$3.3 billion in the same period last year.

This sharp fall in earnings reflects the exceptional severity of the global economic crisis, particularly in Europe. Correspondingly the EBITDA for Tata Steel Europe was a loss, US\$(0.8) billion, compared to a profit of US\$1.8 billion for the same period last year, while Tata Steel India reported an EBITDA profit of US\$0.8 billion in H1 FY’10 (down from US\$1.4 billion in the corresponding period of 2008).

The most disappointing and serious setback for Tata Steel Europe was the unilateral termination of the Teesside offtake agreement last April, which accounted for 35% of our EBITDA losses in the first half. We are continuing to seek possible solutions to secure a sustainable future for Teesside, and we are pursuing the offtakers for proper compensation.

The global downturn has affected every major steel company, but the long-term fundamentals for our industry remain sound. Most economies are finally beginning to see a return to growth. Steel demand is expected to grow faster in India next year than in any other country—at 12% even faster than in China and Tata Steel is well placed to take advantage of this. Demand in Europe is also starting to recover, albeit more slowly.

In October, Tata Steel Europe made a modest trading profit for the first month since December 2008, with improvements in all three divisions. Through the Weathering the Storm and Fit for the Future initiatives, we challenged everyone within Tata Steel Europe to help align our costs with the new market reality—and you have responded superbly. We are on track to realise more than £1 billion in cost savings this year, which will make us more competitive and more capable of funding our growth in the years ahead.

Although the economic recovery remains fragile, I am cautiously confident that we are over the worst and can look forward to a return to positive financial performance. Our immediate challenge now is to meet and hopefully exceed our £50 million EBITDA target for the current quarter in order to comply with our bank covenant requirements. This will be a quarter-by-quarter exercise as these hurdles become progressively higher.

Therefore, we cannot afford to lessen our efforts to be sharp on costs and aggressive on sales, and to all work together as one company for our customers through initiatives such as Customer First and the supply chain transformation programme.

Even more importantly, we must all continue to take personal responsibility around health and safety, especially as we begin to ramp up production. It is everyone’s duty to identify, report or remedy potentially hazardous situations, and we should only be satisfied when no one is hurt working at our operations.

Once again, thank you for your valued contribution over the last year in helping Tata Steel Europe to weather the storm of an exceptional economic downturn. What really makes the difference between success and failure is not the measures that the senior leadership team and I formulate, but how effectively those measures are implemented through the commitment and resourcefulness of employees at every level and location.

As the year-end approaches, I would like to be among the first to wish you and your family a very joyful festive season, and a healthy, safe and more prosperous 2010.

26 November 2009
