

Written Evidence from the Department for Business, Innovation and Skills and the Wales Office to the Welsh Affairs Committee.

Current Challenges facing the steel industry

1. The European steel sector has been one of the hardest hit by the global economic crisis. Following a 33% drop in steel production in 2009, there was a slight recovery in subsequent years before the first half of 2012 brought a further contraction with the downturn in the Eurozone and continuing tough global trading conditions. Demand for steel products in Europe is currently still 25-30% down on pre-crisis levels, and according to the World Steel Association is likely to drop further in 2013. Much of this fall in demand is due to the ongoing crisis in the automotive and construction industry in most European markets, with construction approximately 20% below pre-crisis levels. Employment in the European steel sector has dropped around 10% in the last 4 years.

2. All steel companies across Europe have been forced to reduce capacity and make cutbacks. Tata Steel Europe announced 900 direct employee UK job losses in November 2012 and a major restructuring in its distribution network. Both ArcelorMittal and ThyssenKrupp have also recorded significant financial losses and are looking for ways to cut costs further across their European operations.

3. The European Commission has recognised the depth of the crisis and following discussions with the industry in the second half of 2012 is now convening a High-Level Roundtable in February 2013 to which Ministers and senior company representatives from across a range of Member States have been invited. This will result in an Action Plan for steel in summer 2013 which will focus on measures to stimulate demand, how to mitigate climate change policies for the sector and look at improved restructuring support. The UK welcomes this approach but would not want to see any relaxation in the state aid rules that apply to steel and believes that restructuring processes should be industry led.

4. There has been increasing tension with China over steel dumping in Europe which has kept prices depressed. The EU looks likely to conclude that China is providing illegal subsidies to its steel manufacturers, thus opening the way to potential higher import tariffs in the future which will help European producers.

5. In the UK Tata Steel is 18 months into a 5 year restructuring process which will see the company refocus on premium and differentiated products and develop solid long-term partnerships with customers in selected sectors. It will also seek to take advantage of potential new opportunities in the renewables, nuclear and rail sectors. However it is a challenging process, especially as Tata Steel's competitors are adopting similar survival strategies. Tata Steel's European operations will continue to struggle in the immediate future especially while the economic situation both in the UK and the Eurozone remains uncertain.

The recent Tata Steel Ltd restructuring proposals, their potential impact in Wales and how these will be managed

6. On 23rd November 2012, Tata Steel Europe announced 1,044 net redundancies (898 direct employees/146 agency and contractors) across its 19,000 UK workforce. The job losses will be spread across England and Wales in both the distribution and processing network.

7. This is a disappointing announcement especially so for South Wales which will lose 584 jobs. In Wales 500 of those net job losses will be in Tata's management and administration functions that operate across their sites at Port Talbot and Llanwern. Though some small manufacturing sites are closing in south east Wales, that work is being absorbed into other, larger sites and creating some new jobs including at Shotton, North Wales.

8. This is a worrying time for Tata Steel's UK workforce but the company has had to make hard commercial decisions in response to the global market situation and as part of long term strategic plans going forward. These difficult decisions will enable Tata Steel to be more competitive and better able to weather the challenging economic conditions.

9. At the time of the announcement, Tata committed to work hard to minimise the impact of job losses by looking at voluntary redundancies and cross matching people to other parts of the business. Tata have a good track record of minimising the impact of job losses and will avoid the need for compulsory redundancies wherever possible. Tata also have a good working relationship with the trade unions and have actively been engaging with unions as part of the consultation process.

10. UK Government Ministers have held meetings with Tata Steel and government departments have been in close contact with Tata Steel both in the lead up to the announced job losses and subsequently.

11. The Government will be working with local partners to minimise the impact on those affected by this decision. Support is also being made available from Jobcentre Plus. Its Rapid Response Service aims to address the impact of job losses on workers and on the local community by helping people move into new jobs as quickly as possible.

12. The Welsh Government has also established a task force to identify what support they can provide for those workers affected by the job losses.

13. At the time of announcing those job losses across the UK, Tata Steel also reaffirmed its commitment to the UK. Tata Steel believes there are exciting opportunities in a number of sectors, hence their investment of some £240 million to rebuild the blast furnace, which will be relit during the first quarter of 2013, and in new associated steel making facilities at Port Talbot is very welcome. This will help to secure operations in Wales which employs some 7,000 people.

14. Tata Steel also announced their plan to reopen the Hot Strip Mill at Llanwern. This will create 120 new jobs. In rationalising their distribution and service network they are also investing some £25 million to make the fewer, larger centres more efficient and competitive. Twelve of their existing hubs will be consolidated into six new hubs. One of those new hubs will be at Llanwern creating 65 new jobs.

UK Industrial Policy and support for Energy Intensive Industries

Strategic Partnerships

15. The Government maintains a strategic relationship management model to engage with a range of significant UK based companies such as Tata Group that includes Tata Steel

16. UK Government Ministers and officials have strong links with Tata Steel at both senior management and working levels. Officials regularly meet representatives of Tata Steel's commercial team to discuss both domestic and international opportunities.

17. UK Trade and Investment (UKTI) also has a programme of support for the UK manufacturing sector, including steel, in partnership with numerous stakeholders.

18. This includes organising UK groups at overseas trade shows, leading targeted trade missions and bringing potential buyers, investors and decision-makers to the UK to see our manufacturing capability first-hand.

19. The UKTI High Value Opportunities team is continuing to work with plants across the UK to access large projects overseas. Earlier this year UKTI helped Tata Steel to win a contract to supply steel to the Singapore Mass Rapid Transit system. They are pursuing similar opportunities in Malaysia.

Infrastructure/Procurement

20. The 2012 update to the National Infrastructure Plan identifies a pipeline of over 550 projects valued at over £310bn to 2015 and beyond. This includes support for more than £9.4 billion of investment in the railway network between 2014 and 2019.

21. These projects should make a difference by stimulating demand for steel and thereby creating significant supply chain opportunities for UK steel producers. The Government has published detailed data on the infrastructure pipeline online, along with data on all Government construction projects.

22. In addition, Government Departments are working together to ensure that business has clarity over future public sector contracts. In November 2012 we published details of £84bn of future contracts. We are working with business, including the steel industry, to use this information to assess the strategic capabilities required in the supply chain.

Supply chains

23. Steel remains an important underpinning material used by most industrial sectors and therefore an integral part of wider manufacturing supply chains. Tata Steel in the UK has had the opportunity to participate in projects selected for support under the Advanced Manufacturing Supply Chain Initiative. They are also able to be considered for support under the Regional Growth Fund where they meet the criteria. In addition Tata Steel has a seat on the Green Economy Council and been included on roundtable discussions on rail. Tata Steel is also involved in Ministerial led workshop discussions on advanced materials element of our work on eight Great British technologies.

Climate Change

24. The UK Government is committed to reducing carbon emissions consistent with meeting our legally binding targets – a reduction of greenhouse gas emissions by at least 80% by 2050.

25. This requires a transformation of the UK economy while ensuring secure, low carbon energy supplies to 2050. However, as we transition to a low carbon economy, we must be careful not to undermine the competitiveness of other UK industries.

26. Energy intensive industries are a vital element of a dynamic UK economy and have a big role to play in a green economy by providing many of the components for low carbon goods. For example, steel is part of the supply chain for wind turbines, automotive, aerospace and construction.

27. But it has to be recognised that our policies to support low carbon investment will also raise electricity prices. Electricity intensive industries who operate in international markets will feel this most acutely.

28. It is in this context that we announced in the 2011 Autumn Statement, a package to support energy intensive industries most at risk of being made uncompetitive by energy and climate change policies, so that we are able to protect jobs and reduce the risk of carbon leakage.

29. This package does not mean that we are not concerned about achieving greater energy efficiency in industry. For the most energy intensive industries including steel, energy efficiency will always be very important - because energy represents such a large proportion of their costs.

30. Following an evidence gathering process in spring 2012 and the publication of the European Commission's guidelines to member states, we published a public consultation in the autumn setting out our proposal for compensating the most electricity intensive industries for the indirect costs of EU ETS and carbon price support mechanism.

31. For EU ETS we are bound by the Commission's guidelines and we intend to compensate the most electricity intensive companies on this basis.

32. For the Carbon price support mechanism, which is a UK only policy, we consider the Commission's approach to ETS compensation is a reasonable one to follow - we intend to base Carbon price support compensation on the same approach.

33. The consultation closed on the 21st December. Tata Steel and the wider steel industry have had clear opportunities to contribute their views and we will be considering all the responses and announce the final guidance on who will receive compensation and how they can apply in the Spring (2013).

34. As part of the introduction of the Energy Bill on 29 November 2012, Ed Davey announced that the Government would act to reduce the impact of electricity market reform policies on electricity intensive industries. Where price rises significantly impact the international competitiveness of electricity intensive industries an exemption will be considered, subject to further consultation and state aid considerations. Tata Steel and the wider steel industry will therefore have further opportunities to share their views with Government on these policies.

Business rates

35. Business rates is a devolved matter and therefore in Wales is a matter for the Welsh Assembly Government.

36. Tata Steel also operate in England, where business rates bills are calculated by reference to the property's rateable value. Rateable values for all properties - including steel plants - are assessed on the basis of the annual rent that a tenant would be willing to pay for it on the open market.

37. All properties are assessed in a similar way to ensure that the burden of the non-domestic rate is shared fairly amongst businesses around the country. Bills are adjusted each year by the previous September's Retail Price Index which means that there has been no real terms increase in business rates since 1990. Most countries employ a basket of taxes for the stability and predictability that it provides. It is of course for each country to decide the tax raising balance between individual taxes.

38. Local authorities have the ability to provide local discounts and hardship relief to ratepayers subject to state aid considerations.

Freight Charges

39. In May 2012, the Office of Rail Regulation (ORR) initiated a consultation on rail freight charges that aimed to balance payments for freight costs more fairly between businesses, taxpayers and passengers, since under current arrangements freight companies only pay a small proportion of those costs. The ORR considered extensive representations from the rail industry and its customers – including from Tata Steel – and published the results on Friday, 11 January.

40. The headline conclusions of the ORR announcement, is that they will:
- proceed with setting an early cap for freight on the variable usage charge at a level of £1.68 per gross tonne km (as they consulted on in May). This is a cap and they would expect the final level of the charge to be lower reflecting their challenge to Network Rail's costs in the full periodic review (which will conclude in October this year). But the ORR think this early cap would be helpful for industry's planning;
 - introduce a freight specific charge for electricity supply industry (ESI) coal, spent nuclear fuel and iron ore. But they have very closely listened to and acted on the concerns raised by the industry and its customers in their consultation and are:
 - Not introducing a charge from other coal (non-ESI coal)
 - Not introducing the charge at all until 2016
 - Asking Network Rail to phase the charge in gradually after then so that the full levels of the charges will not be introduced until 2018
 - Taking the lower end of the estimate of freight avoidable costs (which the charges seek to recover) so that the full level of the charges – above existing variable charges and the freight only line charge - (per 1000 gross tonne miles) will be £4.04 for ESI coal, £11.76 for spent nuclear fuel and £2.96 for iron ore. They also calculate that the iron ore rate is equivalent to £2.50 per thousand net tonne km (compared to the options the ORR consultants tested of £5, £10 and £15 per thousand net tonne km).

41. Though this will increase some costs on the steel sector ORR consider that the decision they have made will have little impact on steel in Wales as the freight specific charge will not apply to either the coal used in the steel industry or the steel that is produced.

The Role of the Welsh Government in supporting the steel industry in Wales

42. The Welsh Government has an important role supporting the Steel industry in Wales. The Welsh Government maintains a strategic relationship management model to engage with a range of significant steel companies based in Wales. Tata Steel and Celsa manufacturing limited have both been identified as anchor businesses by the Welsh Government. This means that Welsh Government Ministers and officials have strong links with Tata Steel and Celsa at both senior management and working levels.

43. The Welsh Government has been in discussions with the management from Tata Steel and following the announced job losses, the Welsh Government established a task force to identify what support they can provide for those workers affected.

44. In discussion with Tata Steel the role of the public sector procurement was highlighted as an important area for the industry. The Welsh Government has an important role in public procurement with many projects potentially benefitting the steel industry in Wales. The Welsh Government has published their Welsh Infrastructure Investment Plan that includes plans for £15 billion investment in Wales over the next decade. Alongside this plan the Welsh Government has published their pipeline plan to provide greater clarity and certainty to delivery partners. Included in this plan are significant investments in rail infrastructure of nearly £275 million to be completed by 2014.

45. In addition to public sector procurement, Tata Steel identified the need for the provision of skilled workers highlighting the demand for employees with the necessary skills in science and engineering in particular. The UK Government has been strengthening its strategy for promoting Science, Technology, Engineering and Maths (STEM) skills through strengthening STEM promotion activities, including funding STEMNET. STEMNET coordinates a range of activities between business, academia and schools to raise the profile of STEM, including the STEM Ambassadors programme with over 25,000 volunteers. It is encouraging that the Welsh Government is supporting this valuable initiative in Wales. Funding from the Welsh Government via their National Science Academy was used to extend the STEM Clubs Network to schools in Wales to help ensure the future workforce has the skills needed for vital industries including the steel industry in Wales.

46. Welsh higher education institutions also have a good track record of working with major steel companies in Wales, including Tata steel.

47. Following funding from the UK and Welsh Government, Tata Steel are working with a consortium led by Swansea University to develop functional coated steel and glass products that will transform the roofs and walls of buildings into surfaces that will generate, store and release energy. This £20 million project based at the Baglan Bay Innovation Centre is a powerful partnership that utilises the expertise in Welsh higher education institutions to deliver real benefits to the Steel industry in Wales.

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