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# **SECURING THE FUTURE OF THE BRITISH STEEL INDUSTRY**

**UK Steel manifesto: July 2016**

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**A BLUEPRINT FOR GOVERNMENT  
TO ENSURE A LONG-TERM,  
SUCCESSFUL AND SUSTAINABLE  
STEEL INDUSTRY IN THE UK**

## INTRODUCTION

The UK steel industry remains on the critical list, but with the right government decisions and support the fortunes of the industry could be transformed in the long-term. With uncertainty over our relationship with Europe, Britain needs certainty over its ability to make steel and underpin our manufacturing industries. The industry continues to battle against low demand, ever-growing volumes of unfairly-traded steel imports and uncompetitive policy costs. In stark terms, this has led to:

A reduction of almost

**60%**

in the number of people employed in the UK steel industry since 1995

**10%**

drop in UK steel production compared to 2014 (and predicted to be far lower by the end of 2016)

An increase of almost

**400%**

in Chinese steel exports compared to 2009.

In the last nine months, State Aid approval for the Energy Intensive Industries (EII) Compensation scheme, a change in the Government's position on trade defence and the publication of government guidance to ensure social issues are taken into account when procuring major projects, have provided much-needed relief for the steel sector.

The Steel Council - co-chaired between industry and government - is now working through a range of recommendations to tackle the underlying problems affecting our industry. Far more remains to be done and this paper sets out clearly what our vital sector needs to survive (short-term) and thrive (long-term):

**Key issues: over-capacity, unfair trade and a lack of parity with our European competitors**

**Key to tackling them:**

- *Remove unilateral costs that are a direct result of historic UK Government policy, most notably around electricity costs and business rates*
- *Increase the procurement of UK steel, both by Government and business*
- *Tackle unfair trade to ensure free and fair trade*
- *Provide funding mechanisms for energy efficiency projects.*
- *Undertake work to determine what investment and support is needed in the long-term*

The result of the EU Referendum was a blow to the steel industry. It is now more important than ever for the Government to step up to the mark and put this paper's recommendations into place so we have every chance to secure the future of British steel making and ensure that our essential supply chains, such as the automotive and defence sectors, can always look to UK producers to meet their demand. The UK steel industry can legitimately claim a positive future. Companies have never stopped developing new and innovative steel products and it is imperative that support is given so this trend can continue.

## Overview of key objectives:

**The disparity in energy costs between the UK and our competitors are a shackle preventing the steel industry being competitive. Government must eliminate the price differential if in the short term we are to have a positive future.**

- The disparity in energy costs are widely seen to be at least £17/MWh compared to many EU competitors (even after the granting of the EII compensation package), which translates into an additional cost to UK steel producers of around £50 million each year.
- It is up to government, regulators and others to eliminate the identified price differential, otherwise steel and a number of other industries will not have a positive future.
- It is important for the steel industry to continue to invest in energy efficiency and environmental projects, which will help to reduce the industry's energy consumption, increase productivity and competitiveness and reduce costs. Government should offer cost-cyclical loans to allow for continued investment, to be repaid when things improve.

**Government must ensure that all major procurement projects, from rail to tidal barrages and airports, now use British steel to give this vital UK industry confidence for the long-term.**

- Procurement reporting needs to make a clear shift from anecdotal to evidence based measurement, to ensure that not only are government departments' feet held to the fire, but that we strive to be the best in Europe by increasing significantly the levels of UK steel content.
- Government departments and stakeholders need to recognise their responsibility for the deployment of the steel policy guidance to ensure local steel content in projects.

**Government must match words with actions in ensuring strong trade defences are in place post-Brexit.**

- Competition based on quality, efficiency and innovation is at the core of the steel industry in the UK. Unfair competition from countries such as China is not about 'letting the market decide', but letting our sector wither on the vine, as a result of central government planning. Trade must be fair if it is to be economically beneficial and politically legitimate.
- The Government should set out a clear action plan and timetable, to reduce the time to introduce provisional anti-dumping measures, use reasonable profit rates and adopt stronger anti-subsidy action to ensure that future duties are quick and robust enough to stop unfair imports.
- If China receives Market Economy Status (MES) the anti-dumping measures that are designed to safeguard hundreds of thousands of EU jobs against China's unfair competition will be lost.

**Bring Business Rates for capital intensive firms in line with their competitors by removing plant and machinery from business rates calculations.**

- Business rates in the UK are up to ten times higher than those paid by competitors in France and Germany and it is essential for these to be brought in line with our competitors. This decision has been put on hold, but job losses here in the UK show that it can no longer wait. This action is entirely in the hands of the UK and devolved governments and needs to be taken now.

**Work needs to be undertaken to determine what investment and support is needed in the long term to ensure, not just a sustainable future for the steel industry, but one where it can invest and thrive.**

- Commission a piece of work looking into the outlook for future demand for steel in the UK by researching the future requirements of steel consuming sectors, including any new products.
- Industry and government to use the output from this study to inform decisions on future action to be taken to provide investment and support.

## Energy

There is an urgent need to address the damage being caused to the competitiveness of steel producers by disproportionately high electricity prices here in the UK. With the costs of electricity accounting for upwards of 20% of the marginal or conversion costs via an electric arc furnace, it is imperative that steel producers are able to access electricity at a stable and competitive price.

Whilst progress has been made by the Government's intervention in recent years, there is still a significant cost disparity widely seen to be at least £17/MWh compared to many EU competitors.

In addressing this issue of price disparity it is imperative that the Government agrees to the magnitude and significance of the problem and investigate all possible remedies available. Remedies, of course, should not be limited to reducing the unit price of electricity, but also examining ways of reducing the sector's exposure to uncompetitive prices through tackling the barriers to continued and increased investment in energy efficiency measures.

### Electricity price disparity: context and scale

In arriving at a useful figure to demonstrate the electricity price disparity that exists between the UK and key competitor countries, we have decided it most suitable to make a comparison with a broadly similar electricity generation mix to ourselves, similar fossil fuel prices and comparable decarbonisation challenges. Whilst UK steel producers are in competition with producers in countries with different generation mixes, electricity markets and approaches to energy policy, a price comparison between the UK and Germany is the most appropriate given our ambition of stimulating realistic action from the Government to tackle the issue.

The price disparity between the UK and Germany for an Electric Arc Furnace (EAF) operator is £17/MWh in 2016/17. This £17/MWh translates into a total additional cost to UK steel producers of around £50 million.

The impact of this price disparity on UK steel companies' EBITDA (earnings before interest, tax, depreciation and amortisation) are shown in the table below. If UK steel companies had the £17/MWh lower electricity cost in previous years, their ability to compete would have been very considerably enhanced. Over the period 2012 to 2014 the steel companies examined would have seen over a 70% increase in EBITDA.

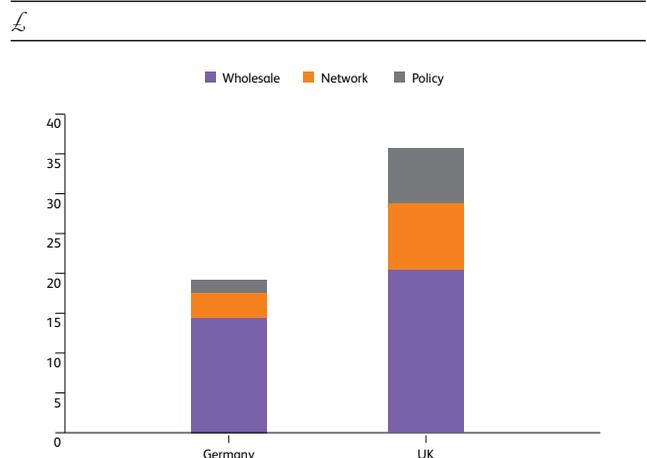
*Table 1: Estimated increase in EBITDA for selected steel companies resulting from electricity price parity with Germany*

	2012	2013	2014
<b>Steel Company A</b>	119%	46%	17%
<b>Steel Company B</b>	80%	86%	81%

Source: UK Steel analysis of data submitted in applications for RO/FiTs compensation 2016

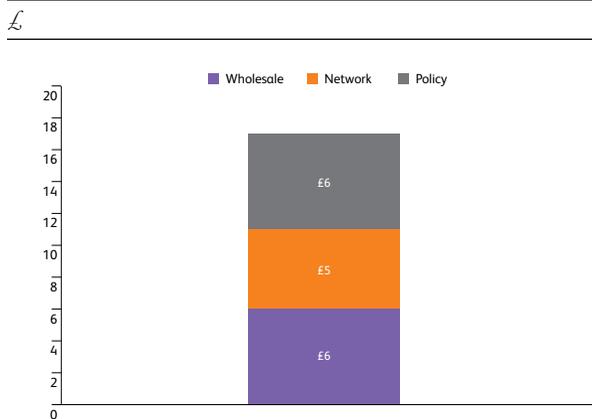
This price differential of £17/MWh is made up of higher UK costs in every element of the electricity price, wholesale, network and policy. The charts below illustrate this in more detail.

*Comparison of 2016/17 German & UK electricity price paid by steel producers*



Source: UK Steel analysis

### UK & German 2016/17 electricity price disparity – breakdown by component



Source: UK Steel analysis

Once adjustments are made to wholesale costs to account for carbon pass through costs and compensation, with the residual cost placed into ‘policy’, the price differential is broadly evenly split between the wholesale, network and policy components of the bills. Very broadly speaking; the wholesale cost differential can be attributed to Germany’s higher levels of low marginal cost plant, the impact of the UK’s Carbon Price Floor on plant merit order and higher levels of interconnection. The network cost differential can be attributed to discounts/exemptions that exist for certain energy intensive users in Germany, whilst continued higher policy costs in the UK are attributed to higher post-compensation carbon costs and higher post-compensation/exemption renewables support costs.

**Recommendation 1: Government to publish annually a comparison of UK steel industry electricity prices with key international competitor countries.**

## Reducing the electricity price disparity

### Wholesale costs:

As illustrated above, industry has identified an estimated £6-7/MWh wholesale price differential

between the UK and Germany once the costs of the EU Energy Trading Scheme and the Carbon Price Floor have been discounted/removed. Addressing price disparity in this element of the bill is arguably the most difficult as prices are still set by the market even if they are indirectly heavily impacted by government and EU energy policy. Whilst government is limited with regards to short term measures that could reduce the overall UK wholesale price there are proposals that could offer the steel sector access to lower wholesale prices in the short term.

Since 2009, Italy has had a mechanism in place to help fund the building of new interconnectors through industrial consortiums. In return, participating industrial companies gain advance access to the prices of the interconnected market through a mechanism, which essential provides payments per MWh to ensure price parity with the ‘virtually’ interconnected market. Whilst the UK’s system of funding interconnectors suggests a carbon copy would not be suitable, the Government could investigate other options like reserving a proportion of power from renewable generators, to be supplied at an agreed upon price.

**Recommendation 2: Develop a mechanism to enable UK steel producers to access lower wholesale prices.**

### Network costs

**Recommendation 3: On Network costs, facilitate National Grid’s development of a new demand side response product for electric arc furnaces; facilitate National Grid’s consideration of a review of the transmission charging regime; and consider an exemption or reduction for steel companies on network charges.**

The primary reason for the network cost disparity between the UK and Germany is the discount on these costs afforded to certain German electricity intensive consumers. Discounts range from 80 to 90%

of total costs. If a similar 80-90% discount was available in the UK it could result in an estimated £6/MWh saving. Similar discounts are also on offer in France and the Netherlands.

The introduction of a new Demand Side Response (DSR) mechanism for EAF operators could provide a means of offsetting some of the price disparity. Industry and National Grid have already started discussions upon the design of a new DSR mechanism to target the particular service offerings that electric arc furnaces could provide. The impact of such a mechanism would depend on what service EAF operators could ultimately offer and the level of revenue National Grid would be willing to pay for this. By way of example, payments of £35,000/MW/year could result in an offset of £3-4/MWh for those operators participating.

## Policy Costs

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***Recommendation 4: Consider options for further reductions in policy costs. This could include renewables exemption aid intensity, Carbon Price Floor exposure and a Capacity Market costs exemption.***

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The UK continues to have higher policy costs than Germany firstly due to higher residual carbon costs as a result of the Carbon Price Floor and due to the level of aid intensity offered in relation to renewables costs. German steel companies receive an exemption from the costs of renewables up to a value equivalent 99.5% of their GVA and as such limit the impact of renewable levies to a greater extent. Furthermore, German steel companies are evidently not exposed to the costs of the UK's Carbon Price floor, which we estimate to be some £3/MWh even after compensation. Government could entirely eliminate the impact of the Carbon Price Floor on steel companies and increase the level of aid intensity in relation to the renewables exemption. This could reduce policy costs by about £4-5/MWh.

Whilst not a policy cost at the current time, and therefore not contributing to the estimated £17/MWh price disparity, there will be a gross cost associated with the introduction of the Capacity Market from 2017/18 onwards. Providing an exemption from the costs of the Capacity Market (CM) would allow steel companies to take full advantage of the projected reductions in wholesale prices that the CM will deliver. If these reductions do not materialise, then there is already an established argument for exempting energy intensive industry from policy costs that undermine their competitiveness. It is estimated that the gross cost of capacity market payments will be £75 - £150/MWh used during the 4-7 winter peak period. Providing an 85% exemption from these costs could reduce electricity prices by around £3/MWh over and above the reductions in wholesale prices driven by the CM.

## Improving the energy efficiency of the steel sector

It is important for the steel industry to continue to invest in energy efficiency and environmental projects, which will help to reduce the industry's energy consumption, increase productivity and competitiveness and reduce costs. With the recent poor financial results of the sector, however, there is a need for assistance during the low points of the economic cycle. Steel companies will be able to repay the loan element of the scheme as the cash benefits of the efficiencies are achieved.

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***Recommendation 5: Set up a fund for energy efficiency and environmental improvement projects.***

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## EU Emissions Trading System

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UK Steel supports the EU Emissions Trading System (EU ETS) as a market-based mechanism to deliver cost-effective emission reductions in the sector. Designed correctly, the ETS can contribute to a strong and innovative steel sector which is key to meeting the UK's objectives for a prosperous, sustainable, resource-efficient and low-carbon economy.

However, the European Commission's post-2020 reform proposal published last year does not provide the adequate carbon leakage protection to preserve the long-term competitiveness of our industry as even the best performing sites will face significant shortages on their free allocation. An impact assessment has showed that the proposal would result in €2.3 billion (£1.9 billion) in direct and indirect carbon costs for the UK's steel industry over the period 2021 to 2030.

In order to preserve the competitiveness of the sector, in the absence of international competitors facing such carbon costs, UK Steel proposes a number of changes to the Commission's proposal including:

- Ensuring our best performing sites receive full carbon leakage protection: The ETS should be designed to avoid the application of the Cross-Sectoral Correction Factor (CSCF) which reduces the free allocation of an installation's allowances irrespective of their carbon leakage status. In the absence of other measures such as removing or increasing the free allocation cap, UK Steel believes a well-designed tiered allocation of free allowances targeting support at those sectors most at risk of carbon leakage is a pragmatic approach to minimise the risk of the CSCF being applied.
- Benchmarks which are technically and economically achievable: Benchmarks set the performance level of carbon emissions at which installations get full free allocation for compliance. Unfortunately the Commission is proposing benchmark levels which are devoid of evidence and are not technically or

economically achievable. As such, UK Steel is calling for a full evidence based update of the sector's benchmarks using recent and real industry data is to ensure that benchmark levels reflect the actual abatement potential of the sector.

- Closer link between production and allocation levels: In order to better reflect production increases while also reducing the risks of over allocation, UK Steel believes that there needs to be a better alignment between real/recent production levels and free allocation. An approach even using two year old data for instance would provide a better result without adding a significant administrative burden compared to the Commission's proposal.

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***Recommendation 6: The government must help ensure that the UK's best performing steel sites receive full carbon leakage protection in the continued absence of international competitors facing such carbon costs.***

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While there is uncertainty concerning the UK's longer term participation in the EU ETS following the result of the EU referendum, UK Steel believes that it is absolutely critical that the UK Government remains an active participant in the post-2020 reform negotiations. The government must continue to ensure that the views of the UK's steel sector are represented and strongly advocated in Brussels.

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***Recommendation 7: It is critical for the government to remain an active participant and act as a strong voice for the sector in the post-2020 reform negotiations.***

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## Procurement

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The publication of policy note and guidance by the Crown Commercial Services on procuring steel in major procurement projects involving steel in October 2015 was a step in the right direction.

However, there are a number of challenges that exist which makes it more difficult for UK steel suppliers to compete effectively for public sector contracts, and there is an urgent need to ensure the guidance and approaches are adhered to. There is a perception that some countries in Europe are particularly successful at taking into account social and economic impacts in their procurement activities and if we are now expected to deal with Europe from the outside, we must ensure that our procurement endorses that we buy locally.

The recommendations below highlight the work we see as being crucial in bringing down this divide, and ensuring a positive future for steel production in the UK.

### **Publishing of steel procured by central government**

Government has started monitoring the impact of the procurement guidance for steel published before Christmas to central government departments. This is mandatory and is aimed at ensuring guidance is being adhered to throughout the supply chain, and back to the point of production.

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*Recommendation 8: Government to publish publicly results of the monitoring of the procurement guidance in Autumn 2016 to ensure that departments not performing to the guidance are held to account.*

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### **Pipeline data**

The steel industry welcomes the production of project pipelines to provide greater visibility and certainty of forward plans and the scale of potential opportunities

therein. At present, in many cases the first time the steel industry is engaged is when a Tier 1 or 2 supplier request a price for a quantity of steel and is often after a design is fixed.

The Welsh and Scottish Governments have started publishing future pipelines of projects to show how much steel will be needed in projects. This will help ensure that steel producers will have early sight of projects and where they can become involved.

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*Recommendation 9: Government to provide steel pipeline data on a quarterly basis to assist with transparency and visibility from September 2016.*

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### **Government to commission work to look at differing procurement approaches across Europe against which the UK can benchmark itself**

There is a perception that some countries in Europe are particularly successful at taking into account social and economic impacts in their procurement activities.

UK Steel has attempted to locate definitive evidence on how this is achieved, and where the UK can learn from other member states with mixed results. We recommend that a piece of formal work be undertaken by an external organisation to look into differing procurement approaches across Europe (with specific reference to Germany and France) against which the UK can benchmark itself. Proposed areas to look at include:

- The level of local content in public projects compared with the UK
- Other national Governments' and regional governments' (where applicable) approach to public procurement policy
- The existence or otherwise of policy around specific markets (e.g. energy, transport) to encourage local supply chain development

- The existence of incentives or similar linked to the level of wider economic benefit within policy frameworks
- What steps, if any, should the government take to go above and beyond European counterparts.

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***Recommendation 10: Government to commission work to look at why some countries in Europe are more successful in buying locally and to act upon it.***

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## **Approved Vendor List**

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***Recommendation 11: Industry to work with Government to bring about an Approved Vendor List.***

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Industry is working closely with government colleagues on the development of a list of suppliers that meet robust criteria. This aims to further level the playing field for UK steel suppliers. 3 key components of such a list:

- criteria by which suppliers will be assessed
- scope
- delivery model

Whilst there has been progress on these issues, this is a complex project and much further analysis is still required – in particular to ensure that the criteria adopted will be fit for purpose and achieve our objectives.

The Welsh Government is also exploring the potential for developing a Dynamic Purchasing System for steel suppliers which would be promoted for use by Tier 1 contractors.

## **Commercial engagement**

Ensuring government follows its own guidance is critically important and it is hoped that where government leads, private companies will follow. It is essential to:

- Ensure that all those delivering government projects fully understand the procurement guidelines, how to implement them effectively and report correctly, and can see the benefits.
- Drive collaboration and encouragement of increased purchasing of UK steel across the private sector, given that the privately funded steel represents a large proportion of the overall UK requirement.

Work currently being undertaken includes identifying opportunities to work with key organisations to promote UK steel capability including with trade bodies, sector councils and individual companies. It is suggested that the following sectors are of most importance:

- Construction
- Automotive
- Aerospace
- Defence
- Rail
- Oil and gas
- Renewables
- Nuclear.

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***Recommendation 12: Industry with the support of government, to engage with the commercial sector to drive an increase of purchasing of UK steel.***

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## Business Rates

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UK Steel calls on government to bring Business Rates for capital intensive firms in line with their competitors in France and Germany, by removing plant and machinery from business rate calculations. At present the inclusion of plant and machinery represents a tax on investment, a disincentive to increase productivity and a step back in global competitiveness.

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

- I. Reduce costs for capital intensive firms helping to anchor investment in the UK
- II. Create an investment-friendly environment for those looking to invest
- III. Bring UK property tax in line with international practice, making it internationally competitive
- IV. Modernise the system of business rates.

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

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***Recommendation 13: Remove both existing and future plant and machinery from all calculations of rateable values.***

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## Trade

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Free and fair trade [in and out of the UK] is imperative to maintain and foster a value chain that keeps well-paid, skilled jobs, investment and growth in the UK. Maintaining a healthy UK production base is crucial for the long-term health of not only the steel sector itself, but a whole host of steel using sectors and indeed the UK economy.

Unfair trade not only damages the short-term ability of steel producers to compete fairly, but limits the sector's ability to invest in productivity improvements, innovation and R&D.

UK Steel believes strongly that working with other European countries helps create a strong united force against goods being 'dumped' on to our markets. The UK should, through its negotiations in leaving the EU, ensure that post Brexit, either it remains linked to the EU Commission's dumping measures, or brings about a swifter more robust set of measures to deal with dumping.

The Commission has already taken a range of actions to protect the steel industry from unfair trade and, over the past year has made more extensive use of existing Trade Defence Instruments (TDI), than previously.

UK Government efforts to work with the European Commission to both speed up the TDI investigation process and to ensure that the calculation methodology is both robust and reflects the reality of the European steel sector, are welcome. However, there are further opportunities to improve these processes further, to fully reflect rapidly changing global trade practices in the steel sector.

**Reduce from nine to six months the time it currently takes to introduce provisional measures**

Currently, provisional measures (draft tariffs in place) take at least nine months in the EU, compared to initial injury decisions being made in 45 days and provisional measures being in place in 140 days in the United States. Without the need for any legislative changes this could be reduced from nine to six months

or shorter, through a number of straightforward actions, including increasing the number of people working on these cases, and shortening existing internal deadlines.

We fully support both **prior surveillance** and **registration** of imports, before and at the early stages of an investigation, which provides the basis for the retroactive imposition of duties. Imposing duties retroactively when the required conditions are met, must also take place. With these changes in place, the EU would significantly reduce the time during which imports subject to a trade investigation are not covered by some controls, down to 12 weeks, or possibly less, from what has previously taken up to nine months.

Specific areas where the investigation process can be reduced without changes to the Regulations:

- **Period between submission of draft complaint and launch of investigation** - Two issues have been identified. First, the time between the initial submission of a complaint and the decision to launch an investigation. This can take up to six months. While we appreciate and support the Commission's desire to ensure that complaints meet a certain minimum standard, there should be scope to speed things up during this phase.
- Second, the 45 day period between accepting a complaint and launching an investigation. As the 45 days is a maximum, there should be scope to reduce this in particular cases. Additionally, resources should be made available, so that the 45 day period could be used to start some of the data collection relating to EU producers before the initiation of an investigation.
- **Sampling and Questionnaire Phase** - The minimum timeframes for sampling and for users and producers to respond to the Commission's detailed questionnaires, which combined take up to 52 days are recognised as tight. Further understanding is needed to assess whether there is scope for any significant time-saving here, but without adding to what is already a significant burden on steel producers.
- **Verification Stage** - This seems to be the phase of investigations where the greatest potential time savings could be made, if resources were made available by the Commission (or Member States). There is greater scope for simultaneous, rather than consecutive, verification of evidence. A further, more radical option, would be to move to verification after the Provisional measures stage, as is the case in the US.
- **Member State Consultation Phase** - The shortening of timelines for the Commission's consultation with Member States, would offer some time savings, during the consultation phase before provisional measures.
- **Registration** - The use of Registration can have some similar effects to the early introduction of provisional measures. We do not see this as a substitute for faster investigations but, of course, can support the appropriate use of early registration where it is justified by the evidence.

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*Recommendation 14: Government should, through the European Council, work with the European Commission to set out a clear action plan and timetable, to reduce from nine to six months the time it currently takes to introduce provisional measures. Also in addition, to routinely use Registration and where appropriate, impose duties retroactively.*

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### **Ensure tariffs are significantly robust to effectively eliminate unfair trade**

In order that tariffs actually have the full effect of halting unfair trade and ensuring that WTO rules on free trade are fully complied with, the calculation process needs to be more robust. For example, when assessing a suitable profit margin for EU steel companies, this figure should be set at a level that enables the industry to achieve an adequate return on investments and permits the industry to invest in R&D and innovation and thus remain competitive.

Given the recent experience of the rebar and cold rolled flat products cases, the Commission must assess whether its current methodology sets duties at an appropriate level given the injury caused by dumping/subsidy. Such a review might be used to propose changes to the current methodology, and if necessary to the EU Regulations.

The Commission should take steps to make it easier for EU companies to bring Anti-Subsidy complaints by undertaking background research into Chinese subsidies and by piggy-backing on the results of US investigations to identify subsidies, and to share this information with industry and take action on subsidies which are discovered during the course of its detailed investigation.

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***Recommendation 15: When calculating Trade Defence Instrument duty rates, the European Commission must use reasonable profit rates and adopt stronger anti-subsidy actions, to ensure that future duties are robust enough to stop unfair imports.***

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**Examine the impact that current duties are having and consider the most appropriate solution to address any negative issues identified**

The global trade in steel has changed significantly and this has led to an increase in the implementation around the World of TDI to fully effect in many countries. The Government should examine whether current European TDI are fit for purpose, given the significant change in the global steel trading environment in recent years.

The EU Commission investigation process currently calculates two potential tariff figures and therefore in order to ensure that TDI duties fully reflect the comprehensive investigation process, both figures need to be taken into account. This means using both the 'injury margin' and 'dumping margin' to calculate such tariffs, and not, as currently done, only taking into account the lowest tariff. Such an option would aim to avert a long drawn out and contentious regulation change, but instead would allow the Commission to

use the tools they currently have at their disposal to full effect.

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***Recommendation 16: Examine the impact that current duties are having, both in Europe and globally. Identify cases where measures have failed to address the identified impact and the reasons why, and, in the light of the evidence, consider the most appropriate solution to address this.***

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**To fully understand the potential effectiveness of the EU's trade defence instruments on the UK steel sector, if MES were to be granted to China at the end of 2016.**

Ahead of the European Commission publishing its recommendations regarding MES for China at the end of the summer, there has been much debate of whether a move to grant MES would damage the competitiveness of certain sectors, such as steel.

UK Steel alongside Trade Unions and other sectors are firmly wedded to the view that Europe would be sleepwalking into a future of massive job losses, right across the continent, if it were just to grant MES to China at the end of 2016. This view has recently been endorsed by a resolution from the EU Parliament. An analysis of the facts shows that China is not currently a market economy, so therefore, for the sake of the steel sector, UK Government must fully consider how MES for China will impact it.

Market forces applicable in the UK, wider EU and other OECD economies do not prevail in China. China must demonstrate that its economy meets the five EU technical criteria for a market economy (it currently only meets one) before being treated as one.

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***Recommendation 17: Ahead of the European Commission publishing its recommendations regarding MES for China, the UK Government should examine the impacts that granting MES would have on the steel sector. The evidence gathering exercise should focus on the potential effectiveness of the EU's trade defence instruments if MES were to be granted.***

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## Long-term future of the sector

Whilst the UK has led the way in developing new and innovative steel products, it is imperative that this trend continues to ensure that essential supply chains can always look to UK producers to meet their demand.

The short term measures being taken to address the current crisis are welcome but long-term stability and viability can only come from the establishment of a long-term vision for the industry and recognition of the value to the UK economy.

It is recommended that government commissions a piece of work to look into the medium to long-term future of the UK steel industry and that this work will help base future actions by government, industry and investors into building capability, such as research and development, and skills, as well as identifying links to policy areas such as energy and trade.

### Commission piece of work into opportunities for steel sector

Set out the current and historic UK capability in steel production for different products in the UK and explain how this has related to the UK demand for steel products across different consuming sectors over time.

- a. What steel products are manufactured in the UK, what is their associated economic value and how does this relate to the products that are consumed in the UK?
- b. What steel products are not manufactured in the UK, where is UK demand for steel products fed by imports and what is the value of these products? (e.g. comparing the UK to German capabilities as a benchmark)
- c. Where has UK capability in steel products been lost, where has capability been gained and what is driving these trends?
- d. This should include a comprehensive list of products produced in the UK and across direct competitors to the UK in Europe. This will provide the current baseline and look into the longer term trend over last 10 years.

Provide a commercially informed outlook for future demand for steel in the UK by consuming sector and also by product. The outlook should, as far as possible, be based on firm commitments from steel customers i.e. the production plans of large UK steel consumers, rather than high level forecasting models. This estimate, which will also draw on steel companies' own future development strategies where available, will set out the size of the opportunity for the UK steel industry.

Consideration should be given to emerging sectors for steel products, such as shale gas, trends that may lead to manufacturers using more composite materials or aluminium over steel in the future and trends in new high performance steel products entering the market. Appropriate timeframes should be chosen, e.g. to 2020 and 2030, and low/central/high estimates for steel demand by sector will be needed to account for uncertainty around future consumption trends. Work needs to be taken on:

- a. Engaging with Sector Councils, trade bodies, and industries across the piece to understand future demand, including the authors of the sector specific roadmaps:
  - Construction
  - Aerospace
  - Defence
  - Automotive
  - Rail
  - Oil and Gas including shale
  - Renewables
  - Nuclear
  - Other areas not included above (e.g. wider infrastructure works)
- b. Using this evidence to distinguish how much of the future demand for steel products across UK consuming sectors is expected to be sourced from UK steel producers as opposed to imported steel and what are the implications of this.

The potential value of steel to the UK economy should therefore be quantified as much as possible to enable investment decisions to be informed and for potential future impacts to the Exchequer to be identified.

Using the outputs from above, an assessment is needed of what the potential challenges or barriers are to the UK steel industry in meeting this future demand and how can they be addressed. The role of the consultant in this research will be to identify the barriers. Industry and Government will then look to use this evidence to inform future decisions around overcoming the barriers to enhance the capability of the UK steel sector. Consideration should be given on to what extent the UK could be competitive in existing and growth areas of steel demand in future, in comparison to other major European steel producers, and why.

There are a range of possible barriers, but three key areas should be explicitly addressed:

- a. Capex - where is new investment required to maintain and build capability? What are the risks to this capex materialising? E.g. competition between capex required to sustain performance of existing plant against investment in new product lines.

- b. Skills - does the UK have the necessary skills to support new steel production lines and manufacturing techniques in the future? Where are the gaps likely to be and where does the UK currently perform well? What types of roles and training will be required to meet this future capability?
- c. R&D - what level and type of R&D is needed to move towards a higher value, enhanced capability UK steel sector of the future? How does this compare to current R&D activities around steel production both in the UK and across other European producers? To what extent and what timeframe will R&D activities translate into commercially viable innovations at the production line?

The research will provide a common evidence base for the industry to refer to and future activities of the working group can be focussed on how to address the barriers to enhanced capability in future.

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***Recommendation 18: Work to be undertaken to inform decision on future action to be taken by government and industry to provide investment and support, in areas such as skills, research and development, innovation and technology investment.***

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UK Steel is the trade association for the UK steel industry. As the voice of the steel industry, we interface with government and parliament – in both London and Brussels – to influence policy so that it underpins, rather than undermines, the long term success of our sector.

Membership of UK Steel is open to all UK-based companies and organisations involved in the production of steel and downstream processes.

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