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The future of the UK steel sector

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The UK steel sector is the foundation of many of the country's most important manufacturing supply chains, including aerospace, automotive, defence and construction. It is at the forefront of ground-breaking innovation, it is committed to sustainability, it is a significant provider of high quality apprenticeships and it provides a substantial contribution to the UK economy:

"The UK steel industry is absolutely vital for the country." Rt. Hon. Sajid Javid MP, Secretary of State for Business, Innovation and Skills

"There are the core things that you need for any good economy, and one of those things is a steel industry." Rt. Hon. Anna Soubry MP, Business Minister

"It is through the prism of steel that [China's] claims to be treated as a market economy are likely to be judged in the European Union." Rt. Hon. Philip Hammond MP, Foreign Secretary

Six months ago, in response to the closure of the Redcar steel making site with the loss of 1,700 jobs, UK Steel and the unions set out a list of five emergency actions which the Government needed to implement in **full** in the immediate short term. This did not happen.

The Government took some steps - most notably it granted the Energy Intensive Industries Compensation scheme and has now changed procurement rules to ensure social issues are taken into account when procuring for major projects. But, of the five emergency steps, only one has been actioned fully, three partially and one not at all.

Today we are in a situation far worse than what was envisaged when the Business Secretary chaired a steel crisis meeting on 16 October in Rotherham.

UK steel makers can compete in a free market. However, it's clear that this is not what we are operating in. Losses at China's 101 biggest steel firms were $11 billion dollars in the first ten months of 2015. This signifies close to $34 of losses for every tonne of crude steel produced. In any other country there would be significant site closures, but this is not the case in China, which instead has been unfairly dumping cheap steel onto the 'free' market.

With Government support and strong, decisive action, the vital and strategically important British steel industry can enjoy a level, competitive playing field and a secure future.

Strong, decisive Government action can save the British steel sector:

- **Stabilise the industry by allowing time for a buyer to be found – Government must commit to provide time limited, life support during this process.**
- Ensure the EU Commission takes quick and effective anti-dumping action, including speeding up Trade Defence Instruments.
- Stop blocking an EU Commission proposal to lift the Lesser Duty Rule - a proposal that even Germany supports.
- Tackle the underlying issues that make UK energy costs one of the highest in Europe.
- Remove plant and machinery from Business Rates, which represents a tax on investment.
- Ensure that recent procurement proposals are fully adhered to, and lead to social value being kept in the UK.
- Provide funding assistance for energy efficiency and productivity improvements, to ensure that that there is a future for steel in the UK.

Allowing time for a buyer to be found

- The Government must fully explore how it can provide time limited, life support to the Tata Steel businesses and indeed the sector, especially if an investor is not found in the weeks to come. Even if a buyer is found quickly, we have seen from the potential sale of Scunthorpe that a final deal may take more than two years to complete.
- A sustainable plan for securing the steel pension fund must be agreed to help ensure the stability of the fund and support the process of finding a buyer for the business.
- Everything possible must be done to facilitate the successful sale of the entire Tata Steel UK asset base.

Quick and effective anti-dumping action

- China's steelmakers, some 70% of which are state owned, are not profitable and it is believed that they lose at least $34 per tonne on all crude steel produced.
- China excess capacity is as much as 400 mt, more than twice the total European annual demand for steel. Chinese exports 59 Mt in 2013 to 90 Mt in 2014 to **110 Mt in 2015.**
- Hot Rolled Coil (the product that Port Talbot makes) has halved in price over the last four years to around €320.
- The EU takes far longer than most economic regions to implement anti-dumping measures: in particular the imposition of provisional measures in the EU currently takes 9 months, whereas the US takes less than 5 months, with an initial decision made in as little as 45 days.
- Provisional measures should be imposed after a maximum of six months from initiation and for early registration of imports before this date. This could be done immediately without the need for any time-consuming changes in EU legislation.

Lesser Duty Rule

- Lifting of the Lesser Duty Rule (LDR) would set trade defence measures at an appropriate level against Chinese steel benefiting from unfair cost advantage created by China's state intervention.
- The LDR means that the level of injury is always placed at the lowest amount, even if there is evidence to say that injury has happened at a far greater amount.
- UK continues to oppose EU Commission proposal to lift the LDR. The European Commission and Germany support the scraping of the LDR.
- The US put provisional tariffs of 266% on Chinese Cold Rolled Coil. Its strong response to the threat posed by unfairly traded steel contrasts sharply with that of the EU, which has put provisional measures of between 13.8% and 16% in place.
- Such low duties simply allow the continuation of Chinese steel exports, further injuring the EU steel industry.

Business Rates

- At present the inclusion of plant and machinery represents a tax on investment.
- Capital intensive firms in the UK have large additional business rate costs (up to 10X) from buying plant and machinery compared to their European counterparts such as France and Germany.
- Absence of changes to treatment of plant & machinery in rateable calculations was a major omission in the recent Budget.

Funding assistance for the sector on energy efficiency and productivity improvements

- Innovation is critical for staying ahead of the competition and, for a sector suffering significant losses, funding these operations can prove difficult to impossible.
- Government has an important role to play in doing all it can to help British steel companies investing for the very future of the sector and working together with government to improve productivity and achieve a march of the makers. Even if this pushes the boundaries of State aid rules.

Local Content in major construction projects

- With increased imports into the UK, it is imperative that steel manufactured in the UK has every opportunity to be at the heart of Government and Government-influenced procurement.
- Central Government spends £40 billion a year on goods and services and it is essential that the steel industry is supported and encouraged to grow through projects such as new nuclear.
- No evidence to show that more British steel is currently being used in procurement.

Energy

- Government has introduced a number of protection measures to minimise the cost impact of its climate change policy. This came too slowly and meant industry had to shoulder the burden for years. Most steel companies have still not received compensation payments for the costs of renewables, two years after they were first promised.
- Even with compensation measures in place, UK energy costs remain uncompetitive for industrial users. State Aid rules limit the level of compensation that can be paid and as such, unilateral policies like the Carbon Price Floor continue to undermine the steel sector's competitiveness, by as much as £20 per MWh compared to Germany.
- Elsewhere in the EU, governments have taken measures to reduce transmission and distributions costs of industry. This is something the UK now needs to look at with some urgency.
- Many companies are entirely dependent on a State Aid application which continues to languish in the corridors of Brussels. The UK Government needs to be putting real pressure on the Commission to approve this without any further delay.

Market Economy Status for China

- Europe would be sleepwalking into a future of massive job losses for many sectors, right across the continent, if it were just roll over and grant MES to China at the end of this year.
- China is not a market economy and no one is suggesting it is. So therefore, for the sake of the steel sector, fully consider how MES for China will impact it.
- Market forces applicable in OECD economies do not prevail in China. China must demonstrate that its economy meets the five EU technical criteria (it currently only meets one).

About UK Steel
UK Steel is the trade association for the UK steel industry. All the country's steelmakers are in membership, together with a number of downstream steel processing sectors.

A full list of our briefing documents can be found on our website: www.eef.org.uk/uksteel

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