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BRIEFING PAPER

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# UK steel industry: statistics and policy

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# Summary

Autumn 2015 saw a crisis in the UK steel industry with the closure or reduction in capacity at major plants in Redcar, Scunthorpe, Scotland and South Wales.

In response, the Government introduced a number of measures to support the industry and those affected by the closures.

This note provides an overview of the scale of the industry, the recent crisis and the Government's response to it, as well as the implications of Brexit on the industry.

### The industry in 2016

Economic output totals £1.6 billion, 0.1% of the UK economy and 0.7% of manufacturing output.

There are 600 business involved in the industry.

These businesses employ 32,000 people in the UK, 0.1% of the total.

### The international picture

In 2016, the UK produced 8 million tonnes of steel. China produced 808 million tonnes in the same year.

The EU as a whole produced 166 million tonnes of steel in 2015. The UK was the fifth largest steel producer in the EU, after Germany, Italy, France and Spain.

### Prospects for the UK steel industry

The recent fall in international demand for steel, combined with continuing growth in production has created a glut of steel on the international market. This has pushed steel prices down, magnifying the comparative expense of steel produced in the UK, where overheads are higher than in some other countries.

Some analysts have questioned the economic viability of the UK steel industry, but the Prime Minister has stated that the Government is committed to supporting this industry, which she describes as "vital".

### The 2015/16 crisis

In September 2015, Sahaviriya Steel Industries (SSI) announced that they would be "mothballing" their major steel making plant in Redcar on Teesside in the North East of England. This precipitated announcements of reductions in UK production capacity from a number of other major steel manufacturers, including Tata Steel and Caparo industries. Around 7,000 jobs have been affected by the crisis.

In March 2016, Tata Steel announced that it was examining options to sell its UK steel operation. In May it sold its long products division employing 4,400 people. In July, the sale was put on hold while it attempted to merge the majority of its remaining operations (employing 9,000 people) with other steelmakers, but Tata said it would sell its speciality steel business (employing 2,000 people).In September 2017, the German manufacturing firm ThyssenKrupp announced that it was taking over Tat's European steel operations including the Port Talbot steel works.

# 1. Economic contribution of the steel industry

The following table summarises the economic contribution of the steel industry in the UK.[1]

| **Manufacture of iron and steel in the UK** *2016* | Total | % of UK |
|---|---|---|
| Economic output (£ million) | 1,563 | 0.1% |
| Businesses (2017) | 615 | 0.04% |
| Employees | 32,000 | 0.1% |

Sources:
ONS, *GDP second estimates,* Q3 2017, Low Level Aggregates Table
BIS, *Business population estimates,* 2017 (employers)
ONS, *Business Register and Employment Survey,* 2017
Notes:
Employment refers to in Great Britain
Economic output is Gross Value Added (GVA)

The steel industry in the UK is small compared to other manufacturing industries:

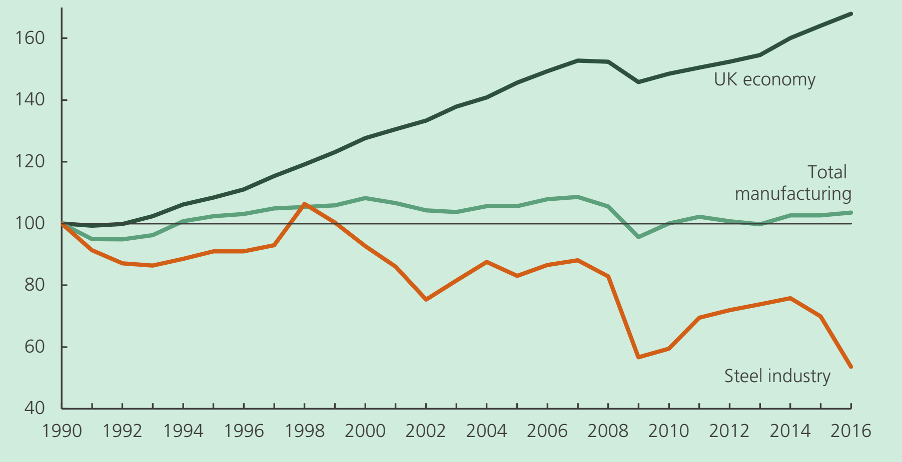
- Economic output totals £1.6 billion, 0.1% of the UK economy and 0.7% of manufacturing output.
- There are around 600 business involved in the industry.
- These businesses employ 32,000 people in the UK, 0.1% of the total.

[1] In this Briefing Paper, the steel industry is defined as the manufacture of basic iron, steel and non-ferro alloy; manufacture of tubes, pipes, hollow profiles and related fittings, of steel; manufacture of other products of first processing of steel. This corresponds to SIC codes 24.1, 24.2 and 24.3.

## 1.1 Economic output

The following chart shows how economic output from the steel industry has changed over the last 25 years.

**Economic output by industry (in real terms)**
*Indexed, 1990=100*




Steel industry economic output is down 30% in 2016 compared with 2015

In 2015 and 2016 the economic output of the steel industry in the UK declined rapidly as several plants closed and international orders were cancelled.

Economic output from the steel industry declined by 8% real terms in 2015 and 30% in 2016, the biggest annual percentage decline since 2008 (when it declined by 46%).

The decline of the steel industry over the past 25 years contrasts with the fortunes of the manufacturing sector as a whole, which has not seen an overall decline in output. In fact, total manufacturing output was up (by 4%) in 2016 compared to 1990 in real terms.

The performance of the whole economy has followed a far more positive path – total output increased by 68% between 1990 and 2015.

The steel industry's importance to the whole economy has declined over this period, from 0.4% of total output in 1990 to the current total of less than 0.1%.

## 1.2 Employment

The steel industry employed 32,000 people in Great Britain in 2016. This is 0.1% of employees.[2]

Employment is unevenly distributed across the country, as the following chart shows.

**Employees in the UK steel industry by region**
*2016*


**Steel employment, 2016**

| | |
|---|---|
| Wales | 9,000 |
| Yorks and Humber | 9,000 |
| West Midlands | 4,000 |
| North East | 2,500 |
| North West | 2,500 |
| East Midlands | 1,500 |
| South East | 1,500 |
| South West | 1,000 |
| East | 500 |
| Scotland | 500 |
| London | 100 |

The majority of steel industry employees, 18,500, work in Wales or Yorkshire and Humberside.

### Historic employment in the industry

The current level of employment in steel manufacturing in the UK is far removed from the numbers that were once involved in this industry.

Using a more narrow definition of the steel industry (excluding the processing of steel), employment fell from 320,000 people in 1971 to 271,000 in 1978.

The steel industry employed 320,000 people in 1971, compared to 24,000 in 2016 (excluding steel processing)

By 1991, the number of people employed in the manufacture of steel had fallen to 44,000.

The 1990s saw a more gradual decline and in 2001, 30,000 people were employed in the industry.

The 2000s saw the number of steel industry employees fall to 24,000 in 2016 (on the narrow definition of the industry).[3]

Several factors have contributed to this decline, including:

- The industry is far more productive now than in the past – it requires far fewer people to produce the same amount of steel today compared to in the early 1970s.

[2] Employment data source: ONS, *Business register and employment survey,* 2017. SIC codes 24.1, 24.2 and 24.3.

[3] A variety of different sources have been used to compile these figures: 1971 to 1978: ONS, *census of employment*, 1991: ONS, *Annual employment survey*, 2001: ONS, *Annual business inquiry*, 2014: ONS, *Business register and employment survey.* These sources use different methods and different industrial definitions (all of which exclude the processing of steel). Comparisons should be made with caution.

- The rise of manufacturing bases elsewhere in the world (particularly in China) which have lower labour costs and other overheads, meaning that they can produce steel more cheaply than the UK, and so now dominate the international steel market.

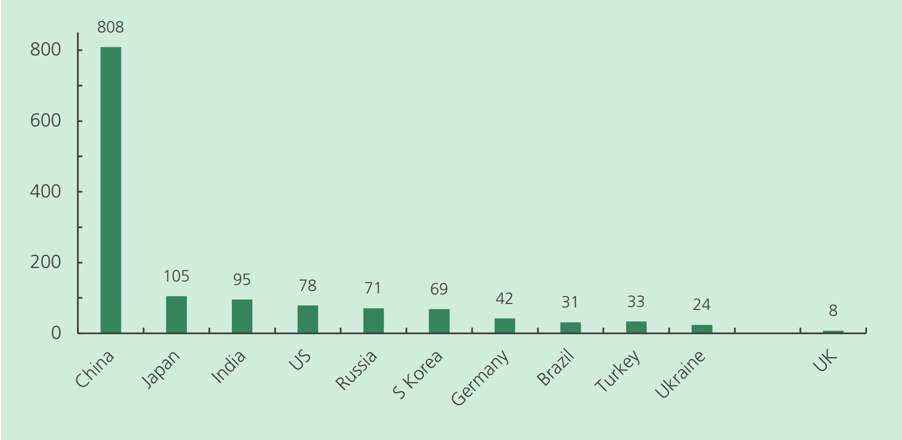
- Employees in the modern steel industry are likely to work in high value roles which attract higher salaries and require higher skill levels than traditional manufacturing roles, but are far less numerous.

- The service sector dominates economic activity in the UK, accounting for 84% of employees. The rise of this sector has been at the expense of jobs in manufacturing.

# 2. International comparisons of steel manufacturing

China dominates world steel production, as the following chart shows.[4]

**Steel production**, *Top ten producers , and UK*
*Million tonnes, 2016*




China produced 50% of the world's steel in 2016

In 2016, the UK produced 8 million tonnes of steel. China produced 808 million tonnes in the same year.

The EU as a whole produced 162 million tonnes of steel in 2016. The UK was the seventh largest steel producer in the EU, after Germany, Italy, France, Spain, Poland and Belgium.

Germany produced 42 million tonnes of steel, 26% of EU steel production.

## The growth of Chinese steel production

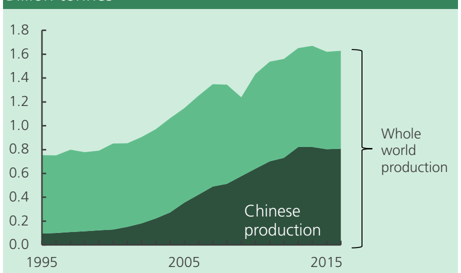
Global steel production has more than doubled since 1995 and China has been the biggest contributor to this growth.

In 1995, China accounted for 13% of the world's steel production. This had risen to 50% in 2016.

There was a dip in global production at the time of the 2008/09 recession, which was not reflected in Chinese production.

Chinese and global steel production slowed in 2015, but increased slightly in 2016.

**Global and Chinese steel production**
*Billion tonnes*



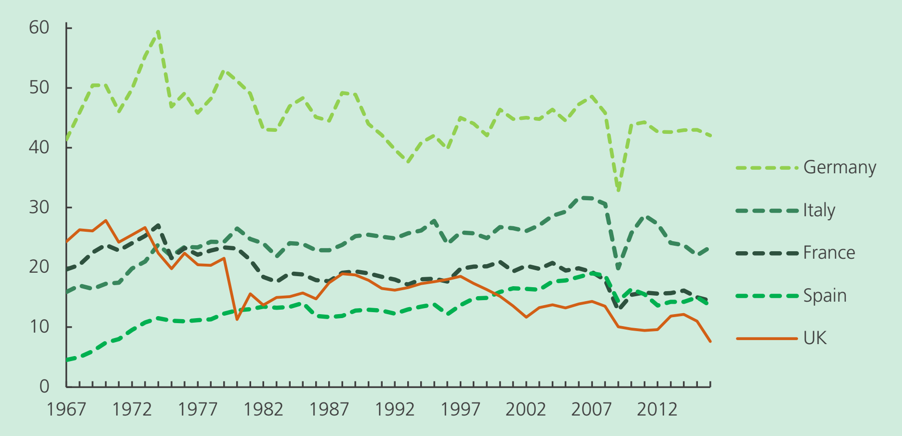

Chinese steel production increased by over 700% between 1995 and 2015

4 World Steel Association, *Steel Statistics Year Book*, 2017

## 2.1 Historic steel production

The following chart shows steel production in the UK compared with other major European economies since the late 1960s.[5]

**Steel productionin selected European countries**
*Million tonnes*




The UK was the second biggest European producer of steel in 1967, the fifth biggest in 2015, and the seventh biggest in 2016.

Between the late 1970s and the mid-2000s, steel output from these countries (excluding the UK) was broadly steady. Italy and Spain saw a gradual increase over this period. Following the 2008-09 financial crash, steel production declined steeply in all of the countries above. Although steel production bounced back in the immediate aftermath of the crash, since then steel production has gradually declined.

In the UK's case, steel production declined sharply in the early 1980s and then steadily from the mid-1990s to the mid-2000s. The financial crisis prompted a sharp decline in output in 2009, but production increased for four successive years from 2011.

UK steel production fell by 30% in 2016, after falling by 10% in 2015. This marked a further significant divergence from production in the other countries in the chart above.

The Business, Innovation and Skills Select Committee, in their December 2015 report on the steel industry, argued that the relative decline in UK steel production could be explained in the following way:[6]

> …other European countries have both better valued their domestic steel industry and have been able to withstand global competition more effectively than has been the case with the UK.

[5] World Steel Association, *Steel Statistics Year Book*, 2017
[6] Business, Innovation and Skills Committee, *The UK steel industry: Government response to the crisis*, HC 546 2015/16, pp5, 6

# 3. Trade

## Volume

In 2015, the UK exported 6.3 million tonnes of steel. In the same year it imported 6.2 million tonnes of steel.[7]

## Value

The following chart illustrates the value of the UK steel trade in £ billions.[8]

**UK trade in iron and steel,** *value, £ billions*


The UK's steel trade deficit is the largest in at least 20 years

In 2016, the UK steel exports were worth £3.7 billion, down £1.1 billion or 24% on the 2015 figure.

Steel imports were worth £5.2 billion, roughly the same as in 2015.

The UK's steel trade deficit was worth £1.5 billion in 2016 (a deficit is when exports exceed imports). This is the largest deficit in at least 20 years, four times larger than the next largest deficit recorded in 2012.

## Origin and destination of traded UK steel

In 2015, slightly over half of UK steel exports are to the EU, whilst almost two thirds of steel imports are from the EU:

- 52% of UK steel exports are to the EU.
- 69% of UK steel imports are from the EU.[9]

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7 UK Steel/EEF, *Key steel statistics 2016*, pp8,9
8 ONS, *UK Trade,* Series EHBT, EHAL, BQQF
9 UK Steel/EEF, *Key steel statistics 2016*, pp8,9

# 4. Issues in the steel industry

The Financial Times described the challenges facing the UK steel industry as a "perfect storm".[10] These challenges include:

- Massive growth in the volume of steel produced international, especially in China, since the early 2000s.
- Slowing growth in China and other emerging economies means steel consumption has ceased to keep pace with the growth in production.[11]
- This has produced a surplus in steel in China, much of which has been exported. Since 2009, there has been a 300% growth in Chinese steel exports, and the EU has seen a 50% increase in Chinese steel imports over this period.[12]
- A glut of steel on the international market has pushed prices down.
- At the same time, the cost of overheads in the UK is high by international standards. Industrial electricity prices in the UK are more than 50% above other major EU economies.[13] Business rates are also high in the UK, and the strong pound (prior to the EU referendum) has made UK exports less attractive.

All this has made international investors question how cost effective and sustainable the UK steel industry is in the long run.

**Box 1: Steel rebar**

Long, thin cylinders of steel are used to reinforce concrete beams in many construction projects. These cylinders are known as 'rebar' (reinforcing bars). The UK imported 760 tonnes of rebar in 2015, up from 480 tonnes in 2012.

At the beginning of 2013, Chinese products had "zero presence" in the UK rebar market. By Q4 2014, Chinese products accounted for 37% of this market. UK Steel warned that this "unprecedented surge" in imports "threatens the very existence of rebar production in the UK."[14]

The UK government lodged a formal "anti-dumping" complaint with the European Commission in response to this pressure in February 2016.[15]

In July 2016, the EU announced that it would impose duties on imports of Chinese rebar of between 18.4% and 22.5% for five years.[16]

10 Financial Times, *UK steel hit by perfect storm of falling prices and high costs,* 29 September 2014
11 EEF/UK Steel, *Annual review 2014*, 2015, p6
12 *Ibid*, p7
13 UK Steel/EEF, *Steel making and input costs*
14 *Ibid*, p7
15 Full Fact, *Is the UK calling for EU duties for Chinese steel?* , 19 July 2016
16 Reuters, *EU raises duties on steel rebar imports from China*, 26 July 2016

# 5. The 2015/16 steel industry crisis

2015 was a year of "dramatic upheaval and anxiety for the UK steel industry"[17], and "2016 started in much the same vein…with jobs being lost, business insecurity, a rise in dumped steel and a very uncertain future ahead..." according to EEF/UK Steel.[18]

In summary, the combination of fierce international competition and high domestic costs made many UK steel plants uncompetitive. The industry responded with a series of plant closes, company mergers and staff lay-offs. Some of the most notable events in the crisis were:

- The closure of the Sahaviriya Steel Industries (SSI) plant in Redcar, Teeside in September 2015, which included the second largest blast furnace in Europe
- The reduction in capacity at the Port Talbot plant in South Wales by Tata through late 2015 and early 2016
- The sale of Tata's Scunthorpe site in April 2016
- The transfer of British Steel pension liabilities to Greybull Capital in April 2016

It is estimated that between September 2015 and March 2016, 7,000 steel industry jobs were lost.[19]

The Annex to this paper describes these incidents in detail. The Timeline outlines the sequence of events in the crisis.

[17] UK Steel, *Annual review 2015*, February 2016, p1
[18] UK Steel, *Annual review 2016*, March 2017, p1
[19] BBC, *Britain's steel industry: What's going wrong?*, March 2016

# 6. Government policy

The government responded to the crisis in the steel industry with a number of policy initiatives industry including:[20]

- Compensation for energy intensive industries: the Government has made provision to compensate industries which use a disproportionately high amount of energy for any additional costs incurred by carbon reduction polices, such as the carbon price floor, the EU emissions trading system and the climate change levy.
- Review of business rates: The Government is examining how the business rates system can be changed including and examination of how R&D intensive businesses can be treated more fairly by the business rate system.
- Anti-dumping measures: The Government successfully campaigned to see a more rigorous system of anti-dumping rules enforced across the EU which would prevent particularly Chinese firms selling steel at below market rates within the EU (the EU introduced anti-dumping measures against Chinese imports of rebar in July 2016).
- Infrastructure pipeline: The Government have compiled and regularly update the Infrastructure Pipeline which sets out the UK's future infrastructure needs to beyond 2030. This is intended to help producers understand steel requirements in the UK over the next decades, enabling capacity planning.
- Public procurement and 'Buying British': As a major source of demand for steel, the Government tries to purchase steel from UK suppliers where possible. Anna Soubry commented that CrossRail used 97% "UK content" during its development. As well as encouraging public procurement of UK goods, the Government is also encouraging private sector manufacturers in the UK to use UK suppliers of steel, for example in the automotive industry.

[20] Summarised in the following contribution by the then Minister Anna Soubry MP HC Deb 17 September 2015 cc1120-1264

## 6.1 Steel Summit

On 16 October 2015, Ministers, MPs, steel company representatives, unions and trade bodies met in Rotherham to discuss problems in the steel industry and potential solutions.[21]

The Summit concluded with a commitment to set up working groups, chaired by ministers, to examine the following issues:

**Public procurement**

- the ambition is to drive up the number of contracts won by UK steel manufacturers in fair and open competition

**International comparisons**

- to consider what lessons can be learned from other countries in the EU and beyond

**Competitiveness and productivity**

- to look at energy and environmental costs, business rates, regulation and what action industry can take to drive up their competitiveness including skills, training and maximising their assets.

The Secretary of State for Business Innovation and Skills (Rt. Hon. Savid Javid MP) also discussed the Steel Summit in a written statement on 20 October 2015 and in a (similar) response to an urgent question on the same day which confirmed the steps that the Government was taking in this area, as set out by Anna Soubry (and outlined above).[22]

## 6.2 European Council: extraordinary Competitiveness Council on the Steel Industry

On 9 November 2015, Savid Javid represented the UK at an extraordinary meeting of the European Council's Competitiveness Council to discuss challenges facing the Steel Industry in the EU.[23]

Many of the actions agreed upon at the meeting were similar to the ones outlined above. Some of the new points agreed upon included:

**Trade**

- Improving the speed and efficiency with which the European Commission can begin and resolve trade defence investigations
- Enabling better use of policy instruments to enforce trade defence
- Intensifying discussions through the OECD with major steel producers like China, Russia and India to safeguard EU interests
- Improving the access that EU steel exporters have to "third markets"

[21] BIS, *Summit to tackle impact of global steel challenges*, 16 October 2015
[22] HC Deb 20 Oct 2015 c815
[23] HC Deb 10 November 2015 HCWS300

**Industrial development**

- Using EU funds to modernise the steel industry, including re-training and reintegration of redundant steel workers into the labour market
- Engage high level stakeholders in the industry to agree a plan of action to modernise the industry
- Implement the EC's 'circular economy' strategy to reduce waste and increase efficiency in manufacturing

**Energy**

- Supporting energy intensive industries within existing State Aid rules
- Reviewing the Emissions Trading System to ensure that the steel sector remains competitive whilst also reducing emissions
- Implementing the EU energy union

The European Council press release on the meeting incudes further details and analysis of the outcome.

## 6.3 State aid rules

EU Member States are bound by strict rules which prohibit most financial assistance to failing companies since this assistance could distort competition between companies in the EU. These rules are the EU State Aid regulations and these are sometimes cited as one of the barriers to further Government support for the steel industry.

Following the 23 June 2016 referendum vote to leave the EU, the UK will still be a member of the EU for a few years and bound by state aid rules. Further discussion of the implications of the vote are in section 7 below.

State Aid is explained in the Commons Library Briefing Paper: *State Aid*.

### Compensation for energy intensive industries

On 17 December 2015, the Government announced that is application to allow compensation for the energy costs of energy intensive industries under State Aid rules had been granted by the European Commission (EC).[24]

Savid Javid, the then Secretary of State, stated that this would "save our steel industry hundreds of millions of pounds a year."[25]

The Financial Times noted that although the announcement had been welcomed by industry bodies such as EEF, these bodies had pressed the Government for further action. The newspaper also noted that the compensation package that had been granted by the EC was proposed by the UK Government in 2011.[26]

[24] BIS, *Press release: UK government secures EU compensation for Energy Intensive Industries*, 17 December 2015
[25] *Ibid*
[26] Financial Times, *UK steel boosted by EU aid approval*, 17 December 2015

## 6.4 Industrial strategy

The government's industrial strategy was published in November 2017 and mentions two policies that are specifically designed to support the steel industry. The Library briefing paper, *Industrial Strategy*, includes a summary of the main policies.

### South Tees Development Corporation

Following the closure of the SSI steel plant in Redcar, the South Tees Development Corporation was established in October 2015 to support economic growth in the area. The purpose of the corporation is:

> …to further the economic development of the area through physical regeneration, social regeneration and environmental regeneration so that it becomes a major contributor to the Tees Valley economy, bringing the SSI site, and other underutilised land in the area, back in to economic use. By attracting private sector investment the STDC will secure additional, high quality jobs for the people of Tees Valley and provide a safe environment for the workforce.[27]

The Corporation's 'Master Plan' aims to create approximately 20,000 jobs and increase the economic contribution of the region to the overall UK economy to £1 billion a year.[28]

The government will invest £118 million in the Corporation, with the intention of boosting leisure, tourism and the skills of workers in the area.[29]

### Swansea Bay City Region Deal

City deals are bespoke packages of funding and decision-making powers negotiated between central government and local authorities and/or Local Enterprise Partnerships and other local bodies. Further information can be found in the Library briefing paper, *City Deals.*

The government announced its intention to create a City Deal for the Swansea Bay area in the 2016 Budget.[30] The Prime Minister confirmed this in March 2017, and stated that the Deal planned to created up to 9,000 new jobs and encourage up to £1.3 billion worth of investment into the region.[31]

The Swansea Bay area includes the Port Talbot steel plant, now owned by ThyssenKrupp. As part of the deal, the new Steel Science Centre will be set up in the area. This will:

- Focus on providing commercial R&D to address the current and future challenges of sustaining steelmaking capacity in the Region and the UK
- Work with Industry to reduce its carbon impact and place the Region at the cutting edge of low carbon production

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27 South Tees Development Corporation, *About us*
28 South Tees Development Corporation, *Master Plan*
29 HM Government, *Industrial strategy white paper*, November 2017, p222
30 HM Treasury, Budget 2016, HC 901, March 2016 pg. 69
31 BBC, *Theresa May signs £1.3bn Swansea Bay City deal*, 20 March 2017

- Development of value and supply chain opportunities in new products and processes.[32]

## 6.5 Steel procurement pipeline

In 2016, the government produced the first Steel public procurement pipeline. This document brings together all the planned and ongoing infrastructure projects in the UK which use steel, and records the dates of the project and the amount of steel required. The purpose of this document is to enable more accurate planning by steel manufacturers, and was something requested by the UK Steel Council of industry leaders set up after the steel crisis.

In December 2017 the Department for Business Energy and Industrial Strategy published a research report called *Future capacities and capabilities of the UK steel industry*.[33] This report identifies areas of significant demand for UK steel, barriers to this demand being satisfied by the industry in the UK, and 'enablers', or actions that the government and industry can take to overcome these barriers.

**Box 2: Sector Deals**

One of the key components of the Industrial Strategy is the Sector Deals. These are

> …partnerships between the government and industry on sector specific issues can create significant opportunities to boost productivity, employment, innovation and skills.[34]

The industrial strategy white paper announces that four sector deals have been completed: life sciences, construction, artificial intelligence and the automotive sector, and that deals with the creative industries, digitalisation, and a number of other sectors are close to being agreed.

A steel sector deal is not mentioned in the industrial strategy, but Greg Clark the Secretary of State for Business Energy and Industrial Strategy stated in January 2017 that:

> I have already been having discussions with the steel industry with …[the creation of a sector deal]…in mind[35]

He repeated the same sentiment in March 2017:

> [The Government] are discussing with the steel industry a steel sector deal, part of which is to make sure that there are bigger opportunities, especially by UK customers, to make greater use of steel products. [36]

EEF/UK Steel published a policy position paper setting out how the deals could be made most useful to the sectors that are part of them. EEF have also published a list of the sector deals that were "being developed" in August 2017, but the steel sector was not on this list.

32 Swansea Bay City Region, *Steel Science*
33 BEIS, *Future capacities and capabilities of the UK steel industry*, 21 December 2017
34 HM Government, *Building a Britain fit for the future*, November 2017, p192
35 HC Deb 31 January 2017
36 HC Debate, 6 March 2017

# 7. Select Committee response to Government policy

On 14 December 2015, the Business Innovation and Skills Committee published a report on the steel industry and Government policy: *The UK steel industry: Government response to the crisis.*[37]

The committee concluded that the Government identified the steel industry as of vital importance, and had "worked hard to mitigate the impact" of the recent crisis.[38]

However, the Committee also found that the Government lacked "early warning systems" which would have enabled it to detect and address mounting problems more quickly.

More significantly, given Government activity in this policy area, the Committee found that the

> …increased activity has not yet translated into measurable impact for those in the industry and the communities they sustain.

The Committee stated that the measures taken by Government would not be sufficient to "provide certainty" for the industry in the future.

A spokesperson for the Department for Business Innovation and Skills stated that "the steel industry has been subject to complex global challenges, which no one simple solution can solve," and that the Government has taken "significant steps to help our steel industry."[39]

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37 Business, Innovation and Skills Committee, *The UK steel industry: Government response to the crisis*, HC 546 2015/16
38 *Ibid,* pp28 and 29
39 Financial Times, *MPs criticise government response to steel crisis*, December 21 2015

# 8. Implications of Brexit

This section provides an overview of the issues affecting the steel industry following the result of the referendum on 23 June 2016 for the UK to leave the EU.

A Westminster Hall debate in the month after the referendum debated the possible impact of Brexit on the steel industry.

## 8.1 Uncertainty over future trade relationship with EU

Following the vote for the UK to leave the EU, or Brexit, there is uncertainty over the UK's future trading relationship with the EU. This is important in determining what the ultimate impact of Brexit will be in a number of policy areas relevant to the steel industry. Some of these are discussed below.

## 8.2 EU State Aid rules

As the UK will still be a member of the EU until its exit has been negotiated, EU State Aid rules will still apply in the meantime.

Looking ahead, the type of trade relationship the UK ultimately has with the EU after Brexit will determine the degree to which EU State Aid rules will apply. If, for example, the UK retains full access to the Single Market by becoming a member of the European Free Trade Association (EFTA) and the European Economic Area (EEA), like Norway is, then State Aid rules will still apply (broadly speaking).[40]

Alternatively, the failure to agree any trade deal with the EU would enable the UK government a greater ability to intervene in the steel market, if it so wished. Note that this wouldn't be carte blanche for the UK government to do as it liked, as World Trade Organisation rules would still apply (although these are less stringent than EU State Aid rules).

A bilateral trade agreement with the EU, outside of the EEA option, could have some provisions about State Aid included in order to facilitate free trade for instance, but this would be determined in the negotiations.

## 8.3 External trade policy

As the UK will still be a member of the EU until its exit has been negotiated, trade policy, such as tariff levels, will still be set at the EU level for the time being.

[40] EEA EFTA members have slightly different State Aid rules compared with EU members but broadly speaking State Aid is prohibited. See EFTA website, State Aid

Leaving the EU would likely allow the UK to set its external trade policy. For example, signing trade deals with other countries and setting its own tariffs.[41]

(The only scenario following Brexit where the UK would not have the power to set its own external trade policy would be if it stayed within the EU Customs Union. This is possible for non-members, see Turkey for instance, but it is unlikely the UK would see this as a desirable outcome following Brexit.)

The UK's future trade relationship with the EU would determine whether steel exports to the EU would still be tariff free or if the EU would impose tariffs if no agreement could be reached.

## 8.4 Impact of fall in the pound following the referendum

Following the 23 June EU referendum, the pound has fallen by around 15% against the euro and by 18% against the US dollar (as of late October 2016).[42] Although some of the value of the pound against both these currencies has recovered, this devaluation has a number of implications for the steel industry.

A lower pound makes steel made in the UK cheaper to foreign buyers, potentially boosting demand for UK steel. However, a lower pound makes imports more expensive, meaning imported coal and iron ore, used in the production process in some of Tata's UK operations, will cost more.

The higher cost of imports will also make imported steel more expensive to UK buyers, potentially lowering demand for foreign-made steel and increasing demand for steel made in the UK.

[41] LSE Centre for Economic Performance, *Life after BREXIT: What are the UK's options outside the European Union?*

[42] Bank of England Exchange Rate statistics

# 9. Timeline of the steel crisis

The following timeline sets out the sequence of events and Parliamentary business related in the steel industry from July 2015 to November 2017.

**UK steel crisis: time line of events and relevant Parliamentary events**

| Date | | | Event | Parliamentary business |
|---|---|---|---|---|
| 2015 | July | 16 | Tata announces job losses in South Yorkshire and West Midlands | |
| | September | 17 | | Backbench business debate (Anna Turley) |
| | September | 28 | SSI mothball Redcar plant | |
| | October | 2 | SSI goes into liquidation | |
| | October | 2 | Government announces package of support for Redcar steelworkers | |
| | October | 12 | Official Recover announces Redcar plant will close | |
| | October | 13 | | Urgent question (Anna Turley) |
| | October | 15 | | Urgent question (Tom Blenkinsop) |
| | October | 16 | Tata announces "significant reductions in workforce" at Scunthorpe, Clydebridge and Dalzell | |
| | October | 16 | UK Government Steel Summit involving Ministers, industry, union leaders and MPs | |
| | October | 19 | Caparo industries goes into administration with job losses in the West Midlands | |
| | October | 20 | Scottish Government establish steel taskforce | Urgent question (Kevin Brennan) |
| | October | 28 | | Opposition day debate (Labour) |

| | | | | |
|---|---|---|---|---|
| | November | 9 | Steel discussed at EU Competitiveness Council | |
| | December | 21 | | BIS Select Committee report published |
| 2016 | January | 18 | Tata announces job losses mainly at Port Talbot | |
| | January | 18 | Welsh Government establish steel taskforce | Ministerial statement (Anna Soubry) |
| | January | 19 | | Adjournment debate (Anna Turley) |
| | January | 21 | | Backbench business debate (Stephen Kinnock) |
| | January | 23 | | Government response to BIS Committee Report |
| | February | 29 | | Opposition day debate (Labour) |
| | March | 3 | | Backbench business debate (on Welsh Affairs Committee report) |
| | March | 29 | Tata steel announces intention to sell all UK steel businesses | |
| | April | 8 | Liberty House takes ownership of Scottish steel plants at Clydebridge and Dalzell | |
| | April | 11 | Greybull Capital announces it will buy the Tata long products division, based mainly at Scunthorpe, and change its name to British Steel | |
| | April | 11 | UK Government announce willingness to look at co-investing in Tata steel plants (particularly Port Talbot) | Ministerial statement (Savid Javid) |
| | April | 12 | | Emergency debate (Labour) |

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| April | 19 | Savid Javid attends OECD meeting to discuss over supply in the steel industry | |
| April | 21 | UK Government states it is willing to take 25% stake in Tata Steel's UK operations | |
| May | 4 | Tata states that the Port Talbot plant will be closed unless a 'viable buyer' can be found by the 25/26th June | |
| May | 10 | Indian group emerges as late bidder for Tata Steel | |
| May | 23 | | Welsh Affairs Committee, The steel industry in Wales - oral evidence |
| May | 24 | Javid lands in Mumbai for key Tata talks | |
| May | 26 | | BIS Written Statement, Steel Industry<br><br>DWP Written Statement, British Steel Pension Scheme |
| May | 31 | Tata Steel UK completes sale of Long Products Europe business to Greybull Capital | |
| June | 9 | Tata delays decision on its UK steel operations | |
| June | 23 | EU referendum vote to leave EU | |
| July | 5 | Tata Steel UK completes sale of Long Products Europe business to Greybull Capital | |
| July | 6 | | Select Committes evidence session on Brexit implications on UK steel sector |
| July | 8 | Tata board meeting in India | |

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| | July | 13 | _ | Commons Debate: EU referendum: UK Steel |
| | July | 26 | EU raises duties on Chinese steel rebar imports | _ |
| | November | 3 | | Commons Debate; UK steel industry |
| 2017 | January | 1 | _ Steel APPG publishes policy recommendations: Steel 2020 | |
| | April | 25 | | Lords Debate: Steel Industry |
| | August | 20 | Tata transfers liability for British Steel pensions to the government's Pension Protection Fund. In return, British Steel Pension Fund recieves a thrid of Tata's UK steel business and £550 million | |
| _ | September | 20 | ThyssenKrupp and Tata agree merger with the German company taking over Port Talbot and other European plants | _ |

# 10. Annex: Major incidents in the steel crisis

## 10.1 SSI and Teesside

On September 28th 2015, Sahaviriya Steel Industries (SSI) announced that they would be "mothballing" their major steel making plant in Redcar on Teesside in the North East of England.[43]

This plant includes the second largest blast furnace in Europe and the decision could result in the loss of 1,700 jobs directly employed at the plant.

SSI had been struggling with increasing losses at the plant and had accumulated debts worth $1.4 billion. The Redcar plant had been loss making since it was bought by SSI in 2010 from Tata Steel, the largest steel manufacturer in the UK.[44]

The Government stated that compensation for energy intensive industries has already been provided, but that State Aid rules "prevented it from offering financial support to secure the facilities."[45]

The Redcar steel plant has been mothballed before. In 2010, Tata steel mothballed production whilst seeking a buyer for the plant. SSI eventually bought the plant and restarted production in 2011.[46]

### Liquidation of SSI UK

On the 2 October 2015, SSI UK went into liquidation.[47] As a consequence of this, all employees at the Redcar site were made redundant, apart from a skeleton staff to man the blast furnace in case a buyer could be found.[48]

However, on 12th October 2015, the Official Receiver stated that[49]

> …the coke ovens and blast furnace at the SSI Redcar steel mill are to be closed after no viable offers were received from potential buyers.

This announcement confirmed that all employees at the Redcar steel works would be made redundant.

[43] Financial Times, *SSI mothballs Redcar steel plant with loss of 1,700 jobs*, 29 September 2015
[44] Guardian, *Corus agrees to sell Teesside plant to SSI of Thailand*, 27 August 2010
[45] Financial Times, *SSI mothballs Redcar steel plant with loss of 1,700 jobs*, 29 September 2015
[46] BBC, *SSI Redcar steel production 'paused'*, 18 September 2015
[47] BBC, *Redcar steelworks: Owners SSI go into liquidation*, 2 October 2015
[48] Insolvency Service, *SSI steelworks: information for employees and creditors*, 2 October 2015
[49] Insolvency Service, *Press release: SSI steel works*, 12 October 2015

The Government announced a package of support for people who have lost their jobs in Redcar and the Tees Valley. The package will be worth £80 million and will include:[50]

- funding for affected workers to train at local further education colleges and tailored support for them via Jobcentre Plus
- finance to assist workers if they want to start up their own business and for local small businesses to grow and create jobs

The Government stated that SSI had requested financial support from the Government, but that it

> …has no confidence that this is a realistic proposal for taxpayers to support.

The Government also stated that financial support for SSI UK would be illegal under EU State Aid rules and therefore, none could be provided.

The Government announced that it will hold a 'Steel Summit' on the 16 October 2015, involving steel companies, MPs, trade unions, and Welsh and Scottish government representatives. The summit would examine how to respond to the industry's current problem and "start mapping out a path to a sustainable future for the industry."[51]

This package of support was confirmed in a Written Statement to Parliament by Savid Javid, Secretary of State for Business, Innovation and Skills on 12th October 2015.[52]

## 10.2 Tata steel

Tata Steel is one of the world's largest steel manufacturers and the owner of several plants in the UK.

Its biggest plant is at Port Talbot in South Wales. It is estimated that Tata Steel contributed 8% of Welsh industrial and extractives economic output and 3% of total Welsh economic output in 2011, making it the largest private sector contributor to economic output in Wales.[53]

Tata Steel contributed 3% of total Welsh economic output in 2011.

### Decision to sell UK steel business in March 2016

On the 29th March 2016, Tata announced that it was "looking at strategic alternatives" to the current ownership of its UK business. The company confirmed that it was exploring the "potential divestment of Tat Steel UK in whole or in parts."[54]

Tata stated that they had been in "deep engagement" with the UK Government over the future of their UK steel operations.[55]

In response to this announcement, the Government stated that

[50] BIS, *£80 million support package for SSI workers and local economy*, 2 October 2015
[51] BIS, *£80 million support package for SSI workers and local economy*, 2 October 2015
[52] HCWS215 [On Liquidation of Sahaviriya Steel Industries UK Limited] 12 October 2015
[53] Welsh Economic Research Unit, *Economic impact of Tata in South Wales*, Welsh Economic Review, 2012, p30
[54] Tata Steel press release, *Review of European Portfolio of Tata Steel*, 29 March 2016
[55] *Ibid*

> …we remain committed to working with Tata and the unions on a long term sustainable future for British steel making…Both the Welsh and UK governments are working tirelessly to look at all viable options to keep a strong British steel industry at the heart of our manufacturing base.[56]

The Government confirmed that they were willing to provide support through loans, loan guarantees or procurement to the UK steel industry. They also stated that a private sector sale of Tata was their preferred option for supporting Tata in the long term because this option would not contravene EU state aid rules and would not expose the Government to potentially large future losses in the steel industry.[57]

On the 21st April, the Government announced that they were willing to take a stake of up to 25% in Tata Steel's UK operations.[58]

This followed the announcement by Tata that they had set a deadline of the 28th May 2016, by which date, if they had not secured a "viable buyer" for the Port Talbot plant, they would cease operations there. Subsequently, Tata announced that they would wait until the weekend of 25-26 June, later delayed to 8 July, before making a further announcement. [59] [60]

### Tata plans to merge European operations (July 2016)

On 8 July, Tata's board met in Mumbai, India, and announced that it had put on hold the sale of most of its UK steel operations in order "to explore the feasibility of strategic collaborations through a potential joint venture" for its European business.[61]

Tata also announced that it would seek to sell off its speciality steel business employing 2,000 people in Hartlepool, Rotherham and Sheffield. It stated that it had already received interest from several bidders and that a formal process to sell this business would start soon.

This decision to pursue a merger for the rest of its UK business (including Port Talbot), which employs around 9,000 people, means that these factories will likely continue to operate under the ownership of Tata, at least for the time being. Tata stated talks about a tie-up with rival companies, including ThyssenKrupp, were at a "preliminary stage".

Tata's Executive Director for Europe linked the possible success of such talks to a number of issues, including supportive policies from the UK and Welsh governments. He said such policies "are necessary for realising a sustainable business in the UK."

[56] UK Government press release, *Response to Tata Steel announcement*, 30 March 2016
[57] Financial Times, *Tata confirms plan to sell UK steel businesses*, 30 March 2016
[58] BBC, *Steel crisis: Government willing to take state in Tata* , April 21st 2016
[59] FT, *Tata sales process pushed back until after Brexit poll*, 4 May 2016
[60] Financial Times, *Tata delays decision on its UK steel operations*, 9 Jun 2016
[61] Tata Steel press release, *Tata Steel announces developments regarding the strategy for its European businesses*, 8 Jul 2016; BBC News, Sale of Tata UK steel business on hold, 8 Jul 2016

Since the decision to sell was taken in March, world steel prices have risen reportedly limiting losses at Tata Steel UK[62] (some reports even state that it made a profit in the last quarter)[63]. This improvement in market conditions may have lessened the urgency for the company to divest itself of its UK operations.

**Parliamentary Committee evidence sessions**

The BIS Select Committee held an oral evidence session on the 28th April 2016 to discuss the recent announcements from Tata the Government's response and the future of the steel industry.[64]

A joint evidence session comprised of five Select Committees was held on 6 July 2016 to address the steel crisis and Brexit vote implications for the UK steel sector.[65] Anna Soubry, Minister of State for Small Business, Industry and Enterprise, gave evidence on the Government's position following the EU referendum result and its implications for the UK steel industry. See section 7 of this paper for more on the implications of Brexit.

## Tata sale of Scunthorpe site, April 2016

On the 11th April, Tata Steel reached a deal with Greybull Capital, a London based investment firm, which transferred ownership of Tata long products division to Greybull. The long product division is based mainly in Scunthorpe meaning that the 4,000 plus jobs threatened there would be saved.

The deal will keep the steelworks in Scunthorpe open, and will transfer pension and other liabilities from Tata to Greybull. The investment firm also pledged a £400 million funding package to modernise the businesses. The Government have agreed to contribute to this in the form of a loan on commercial terms. Greybull have changed the name of the Tata long products division to 'British Steel.'[66]

On 31 May 2016 Tata announced the completion of the sale to Greybull.[67] Altogether this business employs 4,400 people in the UK in steelworks in Scunthorpe, two mills in Teesside, an engineering workshop in Workington, and a design consultancy in York.

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62 Financial Times, *Tata delays decision on its UK steel operations*, 9 Jun 2016
63 ITV news, *Revealed: Only one bidder left in Tata Steel UK talks - as others blast 'unprofessional' sales process*, 7 Jul 2016
64 BIS Select Committee, *The UK Steel Industry follow-up inquiry: oral evidence session*, 28 April 2016
65 The European Scrutiny, Business, Innovation and Skills, Energy and Climate Change, Welsh Affairs and Work and Pensions Committees
66 Guardian, *Tata deal saves 4,400 jobs in UK,* April 11 2016
67 Tata Steel Europe press release, *Tata Steel UK completes sale of Long Products Europe business to Greybull Capital*, 31 May 2016

## Job losses announced in January 2016

On the 18th January 2016, Tata Steel announced cost saving measures that would result in 1,050 job losses mainly at its Port Talbot plant in South Wales:[68]

> The plans would lead to the loss of 1,050 jobs – 750 jobs at its Port Talbot-based Strip Products UK business, 200 jobs in support functions and a further 100 jobs at steel mills in Trostre, Corby and Hartlepool.

Tata steel blamed "continued falls in the European steel price caused by a flood of cheap imports, particularly from China" and called for the European Commission to "increase the robustness of its actions in this area."

Tata's announcement was the subject of an oral ministerial statement from the Rt. Hon. Anna Soubry MP, Minister for Small Business, Industry and Enterprise, on 18th January 2016. The Minister outlined the actions the Government has taken already to support the industry and the areas where activity is still continuing, discussed later in the note.[69]

Many aspects of industrial policy are devolved. The First Minister of Wales, Carwyn Jones, made a statement on Tata Steel on 18th January. This announced a High Level Taskforce to draw up an action plan to support the supply chain in the local economy. The First Minister also stated that the Welsh Assembly Government would continue to lobby the UK Government over issues such as energy prices.[70]

## Previous cost savings measures

Tata Steel suffered losses of $615 million in 2014. This prompted the company to announce 720 job losses at its plants in South Yorkshire and the West Midlands in July 2015.[71]

The company also announced that it would "scale down production" at its plant at Llanwern in South Wales which employs 250 people, adding that none of the permanent jobs there would be under threat.

In October 2015 (in the same week as the closure of the SSI plant in Teesside) Tata announced that it "expected to significantly reduce the workforce" mainly at its Scunthorpe plant, which employs 4,000 people. [72]

Media reports have suggested that up to 1,200 jobs could be lost from the Scunthorpe plant, and plants at Dalzell in Motherwell and Clydebridge in Cambuslang.[73] According to UK Steel, the Dazell plant is the only plant in UK capable of rolling and processing the steel used

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[68] Tata Steel, *Press release*, 18 January 2016
[69] HC Deb 18 Jan 2016 c1133
[70] Welsh Assembly Government, *Speech by the First Minister: Tata Steel*, 18 January 2016
[71] Financial Times, *Tata targets 720 job cuts at English steel plants*, 16 July 2015
[72] BBC, *Tata Steel set to cut 1,200 jobs*, 16 October 2015
[73] The National, *Action plan on Tata steel closures is welcomed by unions*, 19 October 2015

in Trident submarines and the MoD special Armour plate, along with certain requirements of the offshore oil and gas industry for drilling platforms and oil and gas pipelines.[74]

This follows the loss of 400 jobs at the Tata plant in Port Talbot, South Wales, in 2014.[75]

On 23 October 2015, the Government and Tata steel announced an initial support package of up to £9 million in response to the proposed restructuring and job losses at the Scunthorpe steelworks:

> Tata Steel's regeneration arm UK Steel Enterprise has pledged £3 million to support job creation in Scunthorpe, on top of £10 million it has already earmarked to help regenerate UK steel communities over the next 5 years.
>
> The new £3 million funding is being matched by the UK government. It will provide support for more start-up businesses and companies that are looking to expand and create jobs.
>
> In addition, the government is separately providing up to £3 million specifically for training of affected employees through local further education colleges.
>
> The government has asked Baroness Liz Redfern, leader of North Lincolnshire Council, to lead a taskforce which will identify local needs, co-ordinate with UK Steel Enterprise and consider whether additional support may be necessary.[76]

Tata Steel is also providing an £1.5 million for job creation in steel communities around the Dalzell and Clydebridge sites. Economic development and regeneration is devolved in Scotland, and the UK government has said that it is continuing discussions with the Scottish government about further support. [77]

## 10.3 Caparo industries

Certain businesses within the Caparo industries group went into administration on 19 October 2015. This includes Caparo Steel Products Ltd, but not include Caparo Merchant Bar. The affected businesses have about 1,700 employees, who are attending work and being paid as normal while the administrators' review gets underway. [78]

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[74] EEF, *UK Steel comment on Tata announcement*, 20 October 2015
[75] Guardian, *Tata Steel to cut as many as 250 jobs in south Wales*, 26 August 2015
[76] Department for Business, Innovation and Skills, Government and Tata steel to provide support to Scunthorpe steel workers and local economy, 23 October 2015.
[77] As above. For more on the Scottish Government response see Scottish Government, A future for Scottish steel, 22 October 2015
[78] PWC, *Caparo Industries plc and its subsidiaries – collectively the "Caparo Industries group" or "CIP"- in administration*, 19 October 2015. This contains a list of the Caparo industries businesses that are affected.

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