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BRIEFING PAPER

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UK steel industry: statistics and policy

By Chris Rhodes

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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 2015

Economic output totals £1.2 billion, 0.1% of the UK economy and 0.7% of manufacturing output.

There are 575 business involved in the industry.

These businesses employ 31,000 people in the UK, 0.1% of the total.

The international picture

In 2015, the UK produced 11 million tonnes of steel. China produced 804 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 he 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 5,000 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 April 2016, the UK Government announced that it was willing to take a 25% stake in Tata's UK operations and provide other financial support.

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
2015

	Total	% of UK
Economic output (£ million)	1,173	0.1%
Businesses (2016)	575	0.04%
Employees	31,000	0.1%

Sources:
ONS, *GDP preliminary estimates,* Q3 2016, Low Level Aggregates Table
BIS, *Business population estimates,* 2016 (employers)
ONS, *Business Register and Employment Survey,* 2016
Notes:
Employment refers to in Great Britain
Economic output is Gross Value Added (GVA)
SIC codes 24.1 Manufacture of basic iron, steel and non-ferro alloy
24.2 Manufacture of tubes, pipes, hollow profiles and related fittings, of steel
24.3 Manufacture of other products of first processing of steel

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

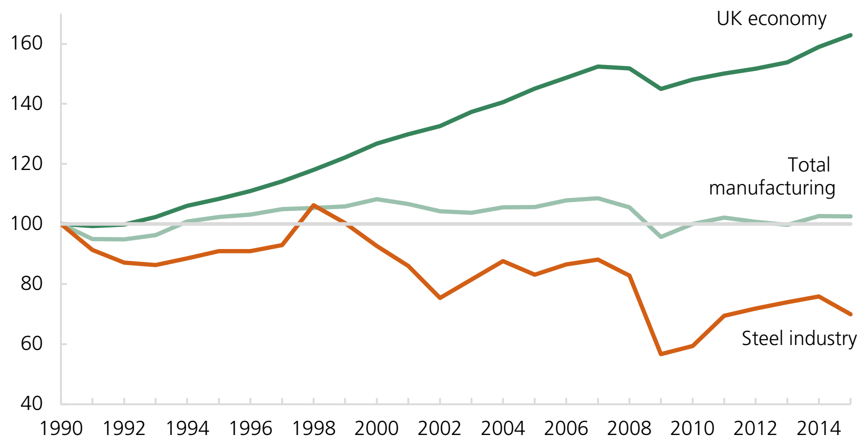
- Economic output totals £1.2 billion, 0.1% of the UK economy and 0.7% of manufacturing output.
- There are 575 business involved in the industry.
- These businesses employ 31,000 people in the UK, 0.1% of the total.

[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



Output from the steel industry was £2.2 billion in 1990, compared to £1.6 billion in 2015, a 30% fall
(in 2013 prices)

Output from the steel industry declined by 30% between 1990 and 2015 in real terms (2013 prices). A particularly sharp decline occurred during the recent recession, when output fell by 35% in two years between 2007 and 2009.

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 slightly up (by 3%) in 2015 compared to 1990.

However, the performance of the whole economy has followed a far more positive path – total output increased by 63% between 1990 and 2015.

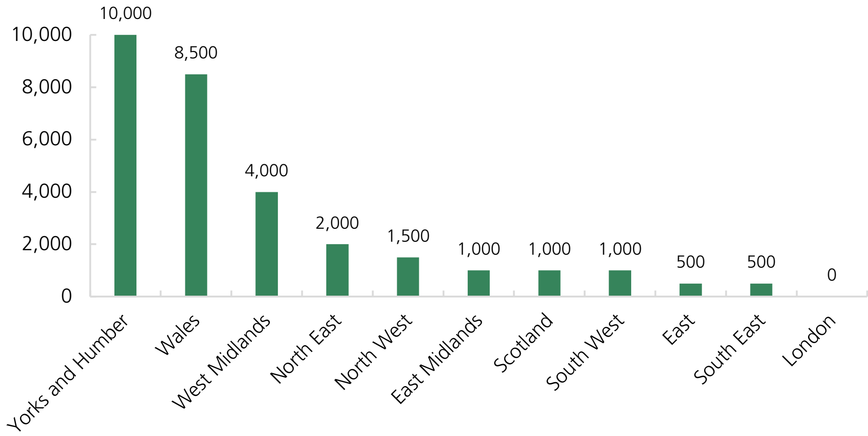
The steel industry's importance to the whole economy has declined over this period, from 0.4% of total output in 1990 to the current total of 0.1%.

1.2 Employment

The steel industry employed 31,000 people in Great Britain in 2015. This is 0.1% of all employees.

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

Employment in the UK steel industry by region
2015, rounded to nearest 500



60% of steel industry employees work in Yorkshire and Humberside or Wales

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 21,000 in 2015 (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 21,000 in 2015 (on the narrow definition of the industry).[2]

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] 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.

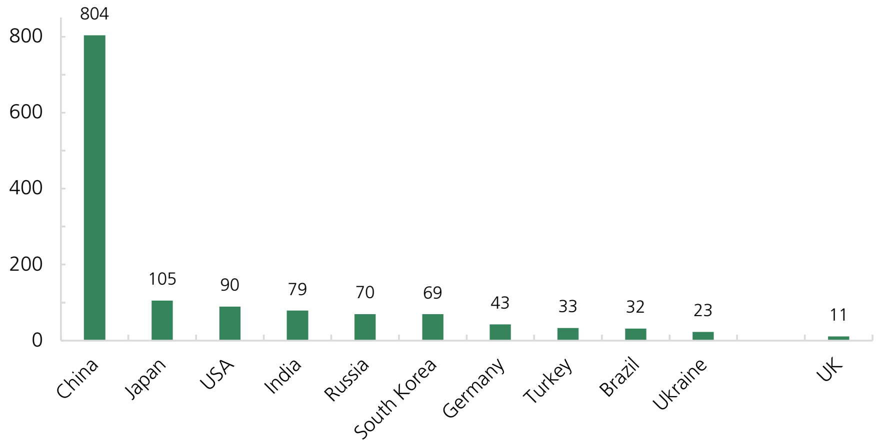
- Employees in the modern steel industry are likely to work in high value roles which attract higher salaries and require higher skill levels than traditional manufacturing roles, but are far less numerous.

- 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.[3]

Steel production, *million tonnes, 2015*
Top ten producers , and UK



China produced 50% of the world's steel in 2015

In 2015, the UK produced 11 million tonnes of steel. China produced 804 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.

Germany produced 43 million tonnes of steel, 26% of EU steel production.

The growth of Chinese steel production

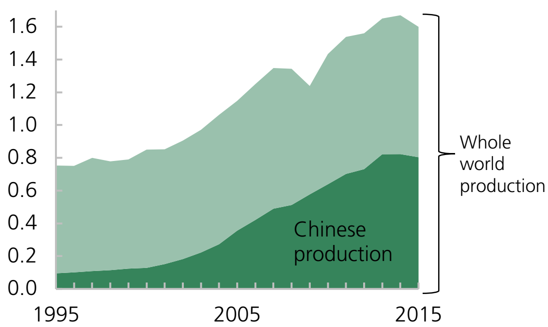
Global steel production has more than doubled since 1995. China has been the biggest contributor to this growth.[4]

In 1995, China accounted for 13% of the world's steel production. This had risen to 50% in 2015.

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 2014 and 2015

Global and Chinese steel production
Billion tonnes



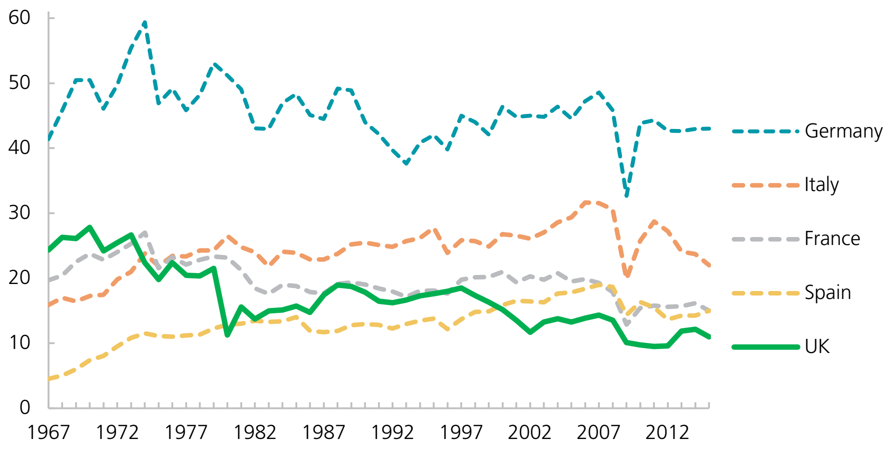
Chinese steel production increased by over 700% between 1995 and 2015

3 EEF/UK steel, *Output EU/world*, 2014
4 World Steel Association, *Crude Steel Production Statistics*, Various years

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 and the fifth biggest in 2015.

Between the late 1970s and 2015, production from these countries excluding the UK followed similar paths – a decline in the early 1980s, followed by broadly steady growth until the crash of 2008/09, when production declined steeply in all countries.

Since then the picture has been more mixed with declines in Italy, France and Spain, but steady output from Germany.

In the UK's case, the decline in the early 1980s was particularly steep, followed by stronger growth in the later 1980s, and then decline from the late 1990s. Recovery since the 2008/09 crash has been subdued.

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, *Crude Steel Production Statistics*, various years
6 Business, Innovation and Skills Committee, *The UK steel industry: Government response to the crisis*, HC 546 2015/16, pp5 and 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*

In 2015, the UK steel exports were worth £4.7 billion and imports were worth £5.0 billion. The UK therefore ran a small trade deficit in steel.

Over the past 18 years, the UK steel trade has been broadly balanced, with roughly the same value of exports and imports in each year.

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]

[7] UK Steel/EEF, *Trade: UK*
[8] ONS, *UK Trade,* Series EHBT, EHAL, BQQF
[9] UK Steel/EEF, *Trade: UK*

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]
- The 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.

One specific impact of this has been on the UK market in 'rebar', the concrete reinforcing bars used in construction projects.

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 warns that this "unprecedented surge" in imports "threatens the very existence of rebar production in the UK."[14]

UK Steel has lodged a formal "anti-dumping" complaint with the European Commission in response to this pressure.

A timeline of major event and Parliamentary interventions regarding the steel industry is set out at the end of this note.

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[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

4.1 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.[15]

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.[16]

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."[17]

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.[18]

Liquidation of SSI UK

On the 2 October 2015, SSI UK went into liquidation.[19] 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.[20]

However, on 12th October 2015, the Official Receiver stated that[21]

> …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.

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:[22]

- funding for affected workers to train at local further education colleges and tailored support for them via Jobcentre Plus

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15 Financial Times, *SSI mothballs Redcar steel plant with loss of 1,700 jobs*, 29 September 2015
16 Guardian, *Corus agrees to sell Teesside plant to SSI of Thailand*, 27 August 2010
17 Financial Times, *SSI mothballs Redcar steel plant with loss of 1,700 jobs*, 29 September 2015
18 BBC, *SSI Redcar steel production 'paused'*, 18 September 2015
19 BBC, *Redcar steelworks: Owners SSI go into liquidation*, 2 October 2015
20 Insolvency Service, *SSI steelworks: information for employees and creditors*, 2 October 2015
21 Insolvency Service, *Press release: SSI steel works*, 12 October 2015
22 BIS, *£80 million support package for SSI workers and local economy*, 2 October 2015

- 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."[23]

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.[24]

4.2 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.[25]

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."[26]

Tata stated that they had been in "deep engagement" with the UK Government over the future of their UK steel operations.[27]

In response to this announcement, the Government stated that

> …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.[28]

[23] BIS, *£80 million support package for SSI workers and local economy*, 2 October 2015
[24] HCWS215 [On Liquidation of Sahaviriya Steel Industries UK Limited] 12 October 2015
[25] Welsh Economic Research Unit, *Economic impact of Tata in South Wales*, Welsh Economic Review, 2012, p30
[26] Tata Steel press release, *Review of European Portfolio of Tata Steel*, 29 March 2016
[27] *Ibid*
[28] UK Government press release, *Response to Tata Steel announcement*, 30 March 2016

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.[29]

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.[30]

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.[31] [32]

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.[33]

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."

Since the decision to sell was taken in March, world steel prices have risen reportedly limiting losses at Tata Steel UK[34] (some reports even state that it made a profit in the last quarter)[35]. This improvement in market conditions may have lessened the urgency for the company to divest itself of its UK operations.

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[29] Financial Times, *Tata confirms plan to sell UK steel businesses*, 30 March 2016
[30] BBC, *Steel crisis: Government willing to take state in Tata* , April 21st 2016
[31] FT, *Tata sales process pushed back until after Brexit poll*, 4 May 2016
[32] Financial Times, *Tata delays decision on its UK steel operations*, 9 Jun 2016
[33] 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
[34] Financial Times, *Tata delays decision on its UK steel operations*, 9 Jun 2016
[35] ITV news, *Revealed: Only one bidder left in Tata Steel UK talks - as others blast 'unprofessional' sales process*, 7 Jul 2016

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.[36]

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.[37] 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.'[38]

On 31 May 2016 Tata announced the completion of the sale to Greybull.[39] 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.

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:[40]

> 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

[36] BIS Select Committee, *The UK Steel Industry follow-up inquiry: oral evidence session*, 28 April 2016
[37] The European Scrutiny, Business, Innovation and Skills, Energy and Climate Change, Welsh Affairs and Work and Pensions Committees
[38] Guardian, *Tata deal saves 4,400 jobs in UK,* April 11 2016
[39] Tata Steel Europe press release, *Tata Steel UK completes sale of Long Products Europe business to Greybull Capital*, 31 May 2016
[40] Tata Steel, *Press release*, 18 January 2016

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.[41]

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.[42]

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.[43]

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. [44]

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.[45] According to UK Steel, the Dazell plant is the only plant in UK capable of rolling and processing the steel used 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.[46]

This follows the loss of 400 jobs at the Tata plant in Port Talbot, South Wales, in 2014.[47]

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:

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[41] HC Deb 18 Jan 2016 c1133
[42] Welsh Assembly Government, *Speech by the First Minister: Tata Steel,* 18 January 2016
[43] Financial Times, *Tata targets 720 job cuts at English steel plants*, 16 July 2015
[44] BBC, *Tata Steel set to cut 1,200 jobs*, 16 October 2015
[45] The National, *Action plan on Tata steel closures is welcomed by unions*, 19 October 2015
[46] EEF, *UK Steel comment on Tata announcement*, 20 October 2015
[47] Guardian, *Tata Steel to cut as many as 250 jobs in south Wales*, 26 August 2015

> 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.[48]

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. [49]

4.3 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. [50]

[48] Department for Business, Innovation and Skills, Government and Tata steel to provide support to Scunthorpe steel workers and local economy, 23 October 2015.

[49] As above. For more on the Scottish Government response see Scottish Government, A future for Scottish steel, 22 October 2015

[50] 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.

5. Government policy

The Prime Minister has voiced support for the steel industry, stating that the Government "will go on doing everything we can to support this vital industry."[51]

In a debate in the House of Commons chamber on the UK Steel Industry in September 2015, the Minister for Small Business, Industry and Enterprise (Rt. Hon. Anna Soubry MP) outlined Government policies intended to assist the industry:[52]

- 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 is campaigning 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.
- 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.

[51] HC Deb 9 September 2015, c404
[52] HC Deb 17 September 2015 cc1120-1264

5.1 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.[53]

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).[54]

5.2 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.[55]

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"

[53] BIS, *Summit to tackle impact of global steel challenges*, 16 October 2015
[54] HC Deb 20 Oct 2015 c815
[55] 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.

5.3 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).[56]

Savid Javid, the Business Secretary, stated that this would "save our steel industry hundreds of millions of pounds a year."[57]

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.[58]

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

6. 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.*[59]

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.[60]

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."[61]

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

7. Implications of Brexit

This section provides an overview of the issues affecting the steel industry, particularly that owned by Tata Steel, following the result of the referendum on 23 June 2016 for the UK to leave the EU.

7.1 Background

As discussed earlier, Tata Steel announced in March 2016 that it had put its UK steel operations up for sale. Challenging conditions for the UK steel industry, most notably a glut of steel (mainly from China) on the international market pushing down prices, had been a key factor in the company's decision.

Since then, Tata has sold off one of its divisions: its long products division with 4,400 UK jobs, based mainly in Scunthorpe. The rest of its UK operations, including the Port Talbot steelworks, were still up for sale at the time of the referendum.

After Tata's July 8 board meeting in India it announced it would sell off its speciality steel business employing 2,000 people in Hartlepool, Rotherham and Sheffield, but put on hold the sale of the rest of its UK business (including Port Talbot) employing around 9,000 people.[62]

Tata stated it would seek to merge its European business not being sold with other steelmakers including ThyssenKrupp. Talks were said to be at a "preliminary stage".

7.2 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.

The uncertainty over the future trading relationship with the EU, and specifically the level of access the UK has with the EU Single Market, may make Tata's UK steel operations less appealing to potential buyers or partners, at least in the short term.

7.3 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

[62] 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

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).[63]

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.

7.4 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.

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.[64]

(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.

7.5 Impact of fall in the pound following the referendum

Since 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).[65] This 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,

[63] 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
[64] LSE Centre for Economic Performance, *Life after BREXIT: What are the UK's options outside the European Union?*
[65] Bank of England Exchange Rate statistics

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.

8. Timeline of the steel crisis

The following timeline sets out the sequence of events and Parliamentary business related in the steel industry since last July.

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)
	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	Sajid Javid lands in Mumbai for key Tata talks	
May	26		BIS Written Statement, Steel Industry update 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 DWP consultation on possible changes to British Steel Pension Scheme closes	
July	6		Select Committees evidence session on Brexit implications on UK steel sector
July	8	Tata board halt sale of most of its UK steel operations, pursuing a merger with other steelmakers instead	

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