

Economy, Infrastructure and Skills Committee of 19th October

CELSA Steel Submission

1. Update on the general situation and the impact on the steel industry.

Since the meetings in the spring of this year, there have been some encouraging developments, notably that the completely unsustainable situation on world steel markets improved in the spring/summer period of 2016 with increases in raw materials and finished product prices, and the relief of the fall in value of the pound which has given a temporary boost to the trading results of UK steelmakers. There have been some significant political changes (Welsh Govt elections, EU Referendum, Theresa May as PM, new business ministers for UK and Wales) and as a result we have seen more uncertainty and delays in addressing the underlying issues for our industry. In a UK industry context, we have seen the transfer of ownership of the long steel products business (principally at Scunthorpe) into British Steel and the restart of the Liberty plate mills. Tata now seem more likely to participate in a joint venture with Thyssen-Krupp. The engineering steels business of Tata will also probably pass into new hands so the landscape of steel ownership in the UK is changing with the break-up of what was Tata previously. All these changes, however, have not delivered a solution to the fundamental problems confronting the UK steel industry, notably that of global over-capacity on all steel products and the difficulties of UK manufacturers competing in free and fair markets for reasons outside their direct control, particularly on electricity costs but also business rates.

In the current environment, the steelmakers have to ensure that we drive efficiencies and deliver a cost-effective solution on all the things that are under our direct control. There can be no let-up in pursuing cost reduction and efficiency. What is necessary, however, is that others who are in control of key elements that affect our businesses really do translate the words of support that we have heard for many months into the key actions needed. I spoke in March and April about proactivity from both governments. I said “We seem to have a lot of words of support from all parts of the political spectrum but there is an increasing sense that the speed at which the governments are actually moving is

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too slow in comparison with the speed at which our markets change and the pace of modern business. This has to speed up.” This is still the case.

Welsh government has engaged strongly and in aspects of energy efficiency and procurement is in the vanguard of making the right steps to support local sustainable production. In contrast, UK government has gone through a period of seeming inertia, with reconsideration of ideas that were presented to the Steel Council in June and no firm decision on implementation.

2. What needs to be done?

Electricity costs are still far higher in the UK for energy intensive users than our near competitors in France and Germany. Despite the welcome relief which came with the compensation package, it only addressed part of the problem and our unit cost remains nearly double that of similar steel producers in near countries. Investment decisions are being made now and because of this disparity on electricity and no clear guide as to if and when that disparity will be reduced or eliminated, those investments are being made elsewhere.

It is a similar situation with business rates. We tabled the facts about differences in business rates many months ago, showing that UK business rates are up to 11 times as much as our plants in other near countries are paying. We have offered solutions including innovative ideas which we have tabled regarding recycling companies, either giving exemption or significantly reduced rates depending on the level of recycling.

On procurement, there have been helpful amendments to procurement guidance to ensure more British steel is supplied into government contracts. Anecdotally this has helped but we still see a lack of real reporting mechanisms and accountability being demanded. These rigorous controls have to be established and monitored. We cannot ignore that there are people who do not care about the future of manufacturing in this country.

On energy efficiency and environmental protection, the schemes in Wales lead the way but if the way forward on energy is going to be directed towards self-

sufficiency and our own generation, there will need to be significant government involvement to facilitate the investment.

We are 6 months on from previous appearances and has the message fundamentally changed? – no. The key issues going forward for external stakeholders to assist with our stability and prosperity have to be electricity prices, business rates and procurement. With those in place, we will compete effectively.