

# BRIDGEND COUNTY BOROUGH COUNCIL

## REPORT TO COUNCIL

17 FEBRUARY 2016

### REPORT OF THE ASSISTANT CHIEF EXECUTIVE

#### DEBATE ON THE IMPACT AND CAUSES OF REDUNDANCIES WITHIN THE STEEL INDUSTRY.

#### 1. Purpose of Report

- To inform the debate on the impact and causes of recent announcements of redundancies within the steel industry. This report provides information on what are thought to be the main causes of the present situation within the domestic steel industry.
- Energy costs
- Business rates
- Strength of Sterling
- Cheap imports particularly from China
- Over-supply

#### 2. Connection to Corporate Improvement Objectives / Other Corporate Priority

- 2.1 Redundancies within the steel industry are likely to have a significant impact on supply industries and may require action within the existing priorities and objectives.

#### 3. Background

- 3.1 On the 18<sup>th</sup> January 2016, Tata Steel UK Ltd announced cost-saving proposals to improve the competitiveness of its UK business. Redundancies have been announced of 750 jobs at Port Talbot and a further 300 jobs within the UK including 15 at Trostre. Tata employs 4,000 people at its Port Talbot site, together with an additional 3,000 agency staff and contractors. It has a total workforce of 6,000 in Wales. The institute for Policy research has estimated that the redundancies could lead to the loss of an additional 1,200 jobs in the supply chain. It is also likely therefore that there will be job losses in the wider economy as a result of the decision.
- 3.2 The decision by Tata has been attributed to 'difficult market conditions'. Market commentators widely cite global over-capacity of production and steel prices are at a ten-year low. Although Chinese imports to the UK have significantly increased, it remains the case that over 60% of steel imports are from the EU.
- 3.3 The situation is summarised in the following statement issued by Tata Steel:

*"We need the European Commission to accelerate its response to unfairly traded imports and increase the robustness of its actions. Not doing so threatens the future*

*of the entire European steel industry. And while we welcome progress on UK energy costs, the Government must take urgent action to increase the competitiveness of the UK for its vital steel sector. This includes lowering business rates and supporting energy efficiency and anti-dumping cases so we can compete fairly.'*

3.4 Stuart Wilkie, Managing Director of Strip Products UK (part of Tata UK) , said:

*"We have to accelerate the changes we announced last August, by lowering our costs at the same time as focusing on manufacturing higher-value products. These are urgent steps needed to give this business a chance of survival."*

3.5 There have also been calls for Government action to:

- Accelerate the introduction of the energy compensation scheme for intensive energy industries facing increased costs arising from low carbon energy sources;
- Implement a more effective public procurement policy to support the British steel Industry;
- Press the EU for introduction of anti-dumping measures to deal with the increasing flows of cheap Chinese steel into Europe.

3.6 Whilst there has been argument that the UK steel companies should be provided with support to win contracts on major UK developments, the nearest to Port Talbot being the Hinkley Point nuclear plant, the EU procurement regime is complex. UK guidelines issued late in 2015 recommended that social implications of bids should be taken into account when assessing bids.

3.7 In respect of an allegation of 'dumping', there is an added complication arising from the intentions of the EU to consider whether China should be considered as a 'market economy' i.e. one in which prices are not artificially depressed by the government. This measure would make it harder for Europe to fight off cheap steel imports.

3.8 Industrial relations between Tata and trade unions remains positive with the Unite union reporting that there is no difference of opinion between Tata and trade unions. Tata has stated that the company is taking all necessary steps to preserve remaining jobs. Tata has stated that it does not require state aid or a 'bail out' but specific actions to ensure a 'level playing field'.

#### **4. Current situation / proposal**

4.1 The main causes of the present situation within the domestic steel industry are considered to be:

##### **Energy Costs**

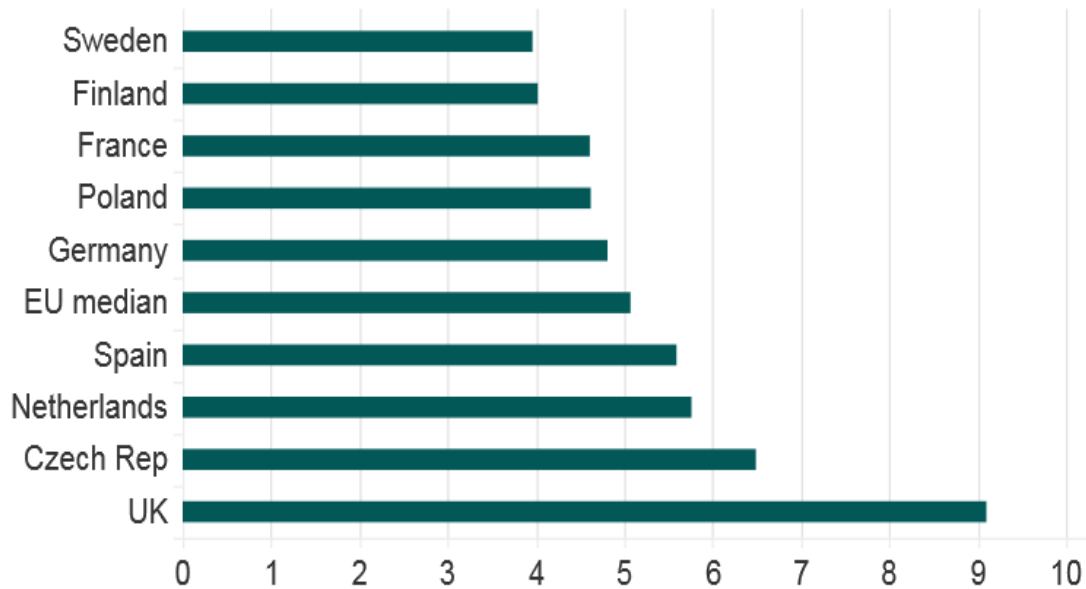
4.2 The price per kilowatt hour of electricity for UK steel makers is higher than elsewhere in Europe. The Port Talbot steelworks uses as much energy as the city of Swansea. Tata's electricity bill for Wales last year was £60 million. Some competitors within Europe are paying half the energy costs per kilowatt hour.

## Help with energy costs

### Electricity prices for EU steelmakers

In Euros for 2014

■ Price p/kWh



Eurostat/Dukes December 2014



- 4.3 The BBC has reported that the Government has recently received approval from the EU to provide compensation to the industry. This has now been agreed with a sum of £410 million being available. This has not however reached the industry yet.

#### Business Rates

- 4.4 Business rates are considerably higher in the UK than in other EU member states. One reason for this is that in the UK the value of machinery forms part of the rate calculation in addition to the value of premises.
- 4.5 Tata's Business rates for the Port Talbot plant are £26 million per year. When the firm invested £185 million in a new furnace, its rates increased.

#### Strength of Sterling

- 4.6 Sterling values are high relative to historic levels since 2008, at the time of writing Sterling was at 1.32 Euros from a high of 1.42 in 2015. A strong pound provides cheaper imports. Last year sterling reached a seven year high against many currencies.

## Sterling vs Euro

€ per £



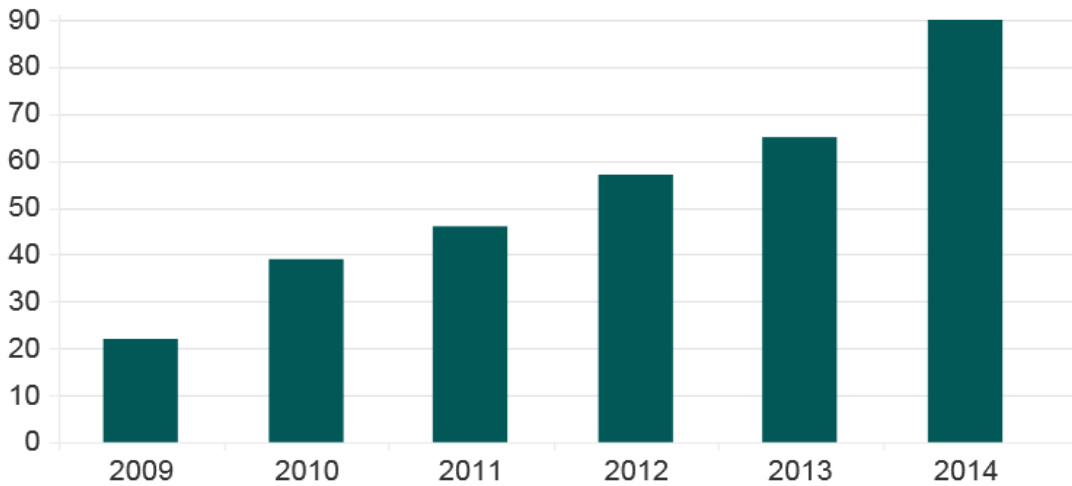
### Cheap Imports

- 4.7 China has been blamed for the dumping of cheap steel on the market. This claim has been strongly denied by the Chinese Government. China is the world's largest producer of steel. As can be seen from the graph below, production exports from China have increased significantly between 2009 and 2014.

## Tackle 'dumping'

### Chinese steel exports

■ Millions of tonnes



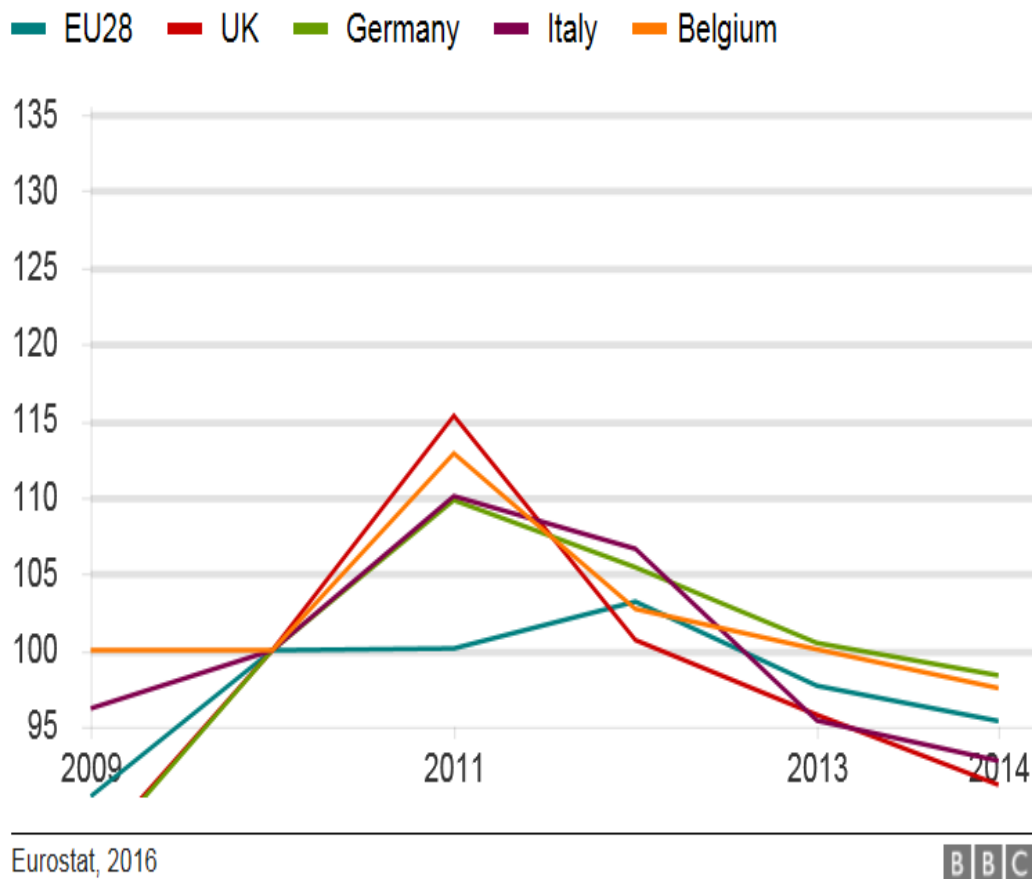
EEF/UK Steel Annual Review 2015

BBC

- 4.8 The Financial Times reported in January 2016 that while growth in the Chinese economy grew at 6.9 per cent in 2015, it has slowed to the lowest rate since 1990. China's steel industry has also suffered decline with more than half of producers reporting losses last year. The China Iron and Steel Association suffered losses of \$9.8bn in 2015. China's steel industry contracted for the first time in almost 35 years in 2015, with raw steel production dropping 2.3 per cent. There is concern that the result is the 'dumping' of cheap steel on the international market.
- 4.9 The Chinese government has a campaign to reduce industrial overcapacity, especially in the steel and coal sectors. The sale of cheap steel on the world market is seen at least in part as result of oversupply within the Chinese steel market.

### Over-supply

- 4.10 Zhu Jimin (President of Shanghai Jiao Yun Group Co., Ltd) speaking at a briefing by the China Iron & Steel Association (CISA) stated that production cuts are slower than the contraction in demand, therefore oversupply is worsening, China's steel demand evaporated at unprecedented speed as the nation's economic growth slowed, as demand quickly contracted, steel mills are lowering prices in competition to get contracts.
- 4.11 There is significant oversupply within the Chinese market for the first time in a generation as economic growth slows. Steel is a global industry; excess supply in one area inevitably leads to pressure to export into other markets.
- 4.12 Oversupply may with other factors referenced in this report have helped market prices for steel to fall in 2014, UK steel falling more steeply than other EU nations



## Responses

- 4.13 The Business Minister (Westminster), has stated that *‘the government would work with the Welsh Assembly to support workers and find them new jobs.....and that the government has taken clear action to help the industry, through cutting energy costs, taking action on imports, government procurement and EU emissions regulations and meeting key steel industry asks.’* Specifically, the Government has stated that it has done everything asked of it by the steel industry, including:
- Securing state aid approval in December 2015 to compensate energy intensive industries, said to be worth about £100m a year over the next five years and equivalent to about 30% of the industry’s energy bills;
  - Securing flexibility over EU emissions regulations and extending the deadline for compliance until 2020;
  - Issuing new guidance on procurement which provides for more flexibility;
  - Voting in favour of certain ant-dumping measures on certain steel products;
- 4.14 Recently that the UK government has obtained clearance from the European Commission for its energy compensation scheme.
- 4.15 The Welsh Government’s response has focused on responding to the proposed job losses. Edwina Hart convened the first meeting of the Steel Task force on the 20<sup>th</sup> January 2016 where, together with representatives of Tata Steel, trades unions,

local authorities and other interested parties, they considered the measures required to support redundant employees. The second meeting took place on the 1<sup>st</sup> February.

4.16 The Welsh Government has also requested the Chancellor to give consideration to the creations of a new Enterprise Zone in Port Talbot, providing enhanced capital allowances.

4.17 The Leader on behalf of the Authority issued a press release on the 22<sup>nd</sup> January calling for swift action on the national steel crisis. The Leader also wrote to the Prime Minister.

## **5. Effect upon Policy Framework& Procedure Rules**

5.1 There is no effect upon the Policy Framework and the Procedure Rules.

## **6. Equality Impact Assessment**

6.1 No equality impact assessment has been undertaken as the Auditor General's Annual Improvement Report is essentially a retrospective assessment of the Council's performance.

## **7. Financial Implications**

7.1 There are no financial implications in this report.

## **8. Recommendation**

8.1 That Council debates the issue.

**Andrew Jolley**  
**Assistant Chief Executive**  
**17 February 2016**

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## **Background documents**

This report has been drawn from a variety of sources, all accredited within the body of the report.

### **Council Leader calls for swift action on national steel crisis**

Members of Bridgend County Borough Council have urged the UK Government and Welsh Assembly to take swift action to support the steel industry and avert a crisis across Wales.

It follows the announcement from Tata Steel UK Ltd that the nearby Port Talbot steelworks will bear the brunt of more than a thousand job losses throughout the country.

Of the 1,050 jobs that are set to be cut, 750 will take place at the Port Talbot plant.

Speaking at the January meeting of full Council, Leader Mel Nott OBE told councillors that Tata had recently confirmed that there were 596 residents of Bridgend County Borough employed at their Port Talbot site.

Councillor Nott said: "This move is going to have a serious impact on communities up and down the coast, and I am sorry to say that the impact on Bridgend County Borough could be substantial.

"But there is also a wider issue to consider, and as such I have written to Prime Minister David Cameron calling on urgent interaction from the UK Government.

"Tata Steel is one of Wales' most significant employers and has a total economic impact of £3.2 billion. More than 10,000 full time equivalent jobs are supported off-site in the Tata supply chain, and it attracts inter-regional export revenues of more than £2 billion for Wales.

"Any disruption in the manufacturing of steel will have a major effect on small-to-medium sized businesses with supply links into Port Talbot. That's why urgent action is needed to ensure that the UK steel industry is not unfairly disadvantaged on the international markets.

***More...***



“When the banking sector collapsed in 2008, the UK Government stepped in with decisive action. The steel industry deserves no less than the banking industry, and I’ll be writing to Prime Minister David Cameron to urge him to impress upon his ministers and Government colleagues just how important this situation is.”

Bridgend County Borough Council will be ensuring that residents who may be affected by the job losses will have access to a full redundancy support package as well as support from a taskforce which has been announced by First Minister Carwyn Jones.

This will include opportunities for retraining and learning new skills as well as initiatives such as the Kickstart project which is part-funded by the steel industry and seeks to help individuals start up their own businesses.

Councillor Nott added: “Bridgend County Borough Council will play its part, but urgent action is needed on a wider scale to avoid this crisis from developing further across the UK steel industry.”

The Rt Hon David Cameron, MP  
The Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

Dear Prime Minister

### **UK Steel Industry**

Further to my letter of 11<sup>th</sup> November 2015, I write to you as Leader of Bridgend County Borough Council to again urge you and your Government to act quickly and decisively in response to the on-going crisis within the UK steel industry.

As previously explained, I represent the county borough adjoining the authority which is home to Tata Steel’s Port Talbot facility.

There are 6,500 people currently employed in the steel industry across Wales. The Port Talbot plant accounts for 3,500 of them, including a large number of people from my own county borough.

Research by the Cardiff Business School has found that the total economic impact of Tata Steel in Wales is £3.2bn.

Inter-regional export revenues amount to more than £2bn, and more than 10,000 full time equivalent jobs are supported off-site in the Tata supply chain, many of them via small-to-medium sized enterprises.

If the crisis is allowed to develop further, it will have dire consequences not just for these two areas, but for the whole of Wales.

I welcome the fact that the Welsh Government has announced details of a taskforce to look at this issue and offer support to those whose jobs are being cut.

This will include opportunities for retraining and learning new skills as well as initiatives such as the Kickstart project which is part-funded by the steel industry and seeks to help individuals start up their own businesses.

But I would again urge you to impress upon your Ministers and Government colleagues the need for swift, positive action and decisive support to ensure that the UK Steel industry is not unfairly disadvantaged on the international markets.

I am again reminded of how quickly the Government was to act on the banking industry crisis in 2008, and can only reiterate my belief that the steel industry deserves no less - decisive action now will help avert a catastrophe.

As such, I look forward to positive proposals emerging from Government as a matter of urgency.

Yours sincerely



**Cllr MEJ Nott OBE JP**  
**Leader**  
**Bridgend County Borough Council**