

UK STEEL

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UK STEEL MANIFESTO 2019: LAYING THE FOUNDATIONS FOR A VIBRANT UK STEEL INDUSTRY



THE UK STEEL INDUSTRY IN NUMBERS

31,900

PEOPLE DIRECTLY EMPLOYED BY THE UK STEEL INDUSTRY

52,300

FURTHER JOBS SUPPORTED IN SUPPLY CHAIN & LOCAL COMMUNITIES

£1.6bn

DIRECT CONTRIBUTION TO THE UK ECONOMY

£3.9bn

ADDITIONAL CONTRIBUTION CREATED IN SUPPLY CHAINS & LOCAL COMMUNITIES

28%

AVERAGE STEEL SALARY 28% HIGHER THAN THE NATIONAL AVERAGE

46%

AVERAGE STEEL SALARY 46% HIGHER THAN THE AVERAGE IN WALES AND YORKSHIRE & HUMBERSIDE

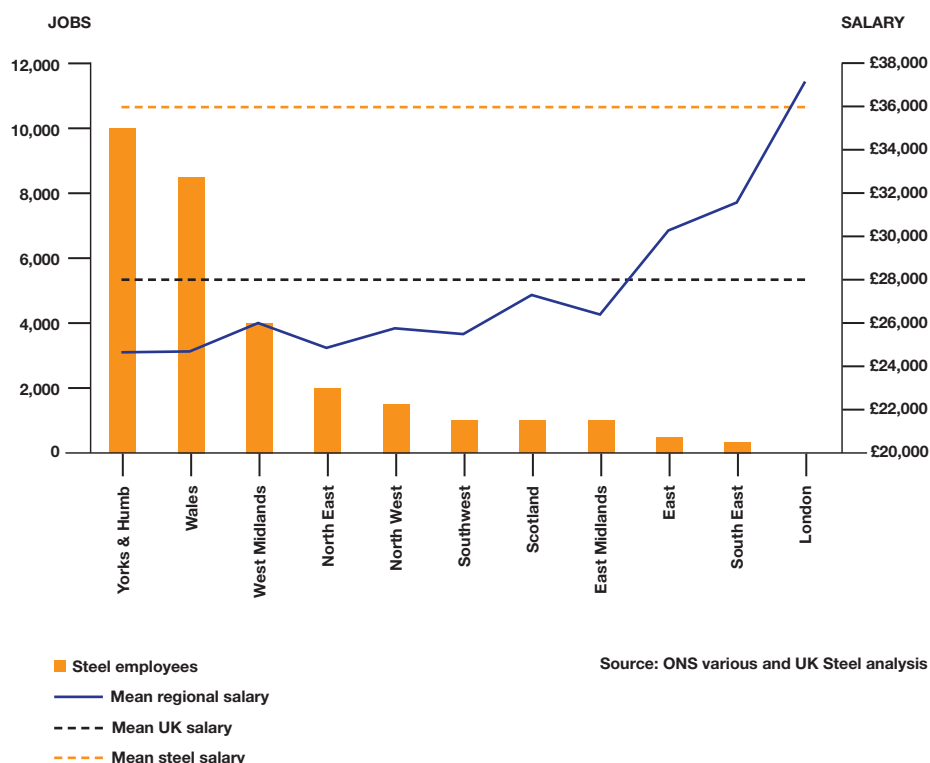
8mt

STEEL PRODUCED A YEAR, EQUIVALENT TO 84% OF UK'S 9.4MT DIRECT ANNUAL STEEL CONSUMPTION

£3.2bn

POSITIVE CONTRIBUTION TO THE UK TRADE DEFICIT VIA EXPORTS

UK steel employment by region, average regional salary, and average steel salary

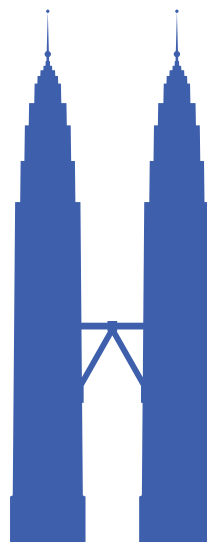


UK STEEL IN USE

Almost everything is either made from steel or made with steel. In the UK and across the globe, advanced steels manufactured in the UK form iconic buildings, enable the cars we drive, provide the track that supports our railways and are present in every civil aircraft in the sky today. The UK steel industry is a world class industry supporting world class manufacturing.



96% of Network Rail's steel rail is sourced from Scunthorpe and it can also be found across Europe including in France, Germany and Italy.

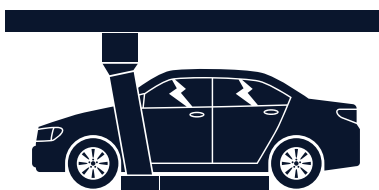


UK produced steel can be found in buildings such as the **Olympic Stadium, the Shard** and the **Petronas Towers** in Kuala Lumpur

250,000 tonnes of steel made by Celsa Steel in Cardiff will support the building of Hinkley Point C Nuclear Power Station



Liberty Speciality Steels made in Rotherham can be found in **every Boeing and Airbus civil aircraft** in production today



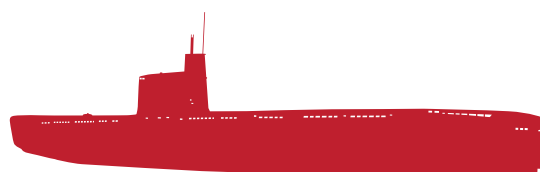
Tata Steel UK supplies almost **one third** of UK auto flat steel requirements



Nearly all **1p, 2p, 5p** and **10p** UK coins in circulation originate from steel made in Port Talbot



Stainless steels made by Outokumpu in Sheffield can be found in **submarines** and other **seafaring craft** around the world



Sheffield Forgemasters has been providing specialist forgings and castings to navies around the world for **over 200 years**

INTRODUCTION:

For over three years now, policy making and politics has been dominated by Brexit. The chronic uncertainty caused by months of false starts and delays has weighed heavily on the steel industry and the wider business community. Private sector investment has seen prolonged decline and order books continue to suffer as companies and their customers are unable to decipher what trading relationship the UK and EU will have in even a few months' time. This has to end. It is imperative that the new government provides the country with a swift resolution to Brexit, securing a pragmatic and workable trading relationship with the EU, delivering tariff free and frictionless trade that will allow industry to get back to business and delivering for the UK economy.

But is it vital that the new government sets its sights higher than just delivering on Brexit. The ambition must be much greater, using all the tools at our disposal to deliver the most competitive manufacturing business environment possible and ensuring we are best placed to compete in and capture global markets in the months and years ahead. Quite simply, any incoming government must strive to make the UK the best place in the world for to invest, to innovate and manufacture products. Products that will help us meet the challenges of the 21st century head on, supply the exports that sit at the heart of any new free trade agreements (FTA), and provide jobs, economic growth and prosperity right across the UK.

As a vital foundation industry, the steel sector is fundamental to this vision. A strong steel sector is essential to a strong UK manufacturing base and the delivery of the UK's industrial strategy. It boosts innovation across high value supply chains, serves as a testbed for the UK's world-class universities and feeds a pipeline of highly-skilled talent that benefits the entire economy. Critically, it serves as a hub for industrial clustering and the type of industrial symbiosis that Government already recognises as essential for the UK in meeting its ambitious climate targets. Additionally, a domestic steel sector helps to maximise the economic value to the UK from every Pound spent on major infrastructure projects, supplies high paying jobs across all regions of the country, and contributes billions to UK GDP.

The next government must look past recent history and at the bigger picture in which a modern, high-value and low-carbon steel industry prospers and contributes to the UK economy and the challenges society faces. Such a vision recognises that steel demand both in the UK and globally continues to grow, representing an additional £4 billion/year opportunity for domestic supply alone by 2030¹. It must also look to the continued strength and importance of steel sectors in other major developed economies like Japan and Germany and realise steel production can and should be part of a highly-developed but balanced economy here in the UK.

Steel producers stand ready to invest and innovate – all we require is a partner in government that shares our vision for the future, and can help deliver the right foundations for success. In summary the core actions we are now calling for are:

- Secure tariff free access to major markets for UK steel exports
- Deliver competitive electricity prices for UK steel producers in line with those borne by our EU competitors
- Incentivise investment via business rates re-structuring, including the removal of plant and machinery from valuations
- Maximise the economic value to the UK of its public infrastructure investment, by taking a strategic approach to public procurement of steel
- Boost UK steel R&D by using the £225 million in returned industry levies from the EU Research Fund for Coal and Steel
- Work with industry to develop a more competitive climate change and carbon pricing policy

1. BEIS (2017) Future capacities and capabilities of the UK steel industry

TEN WAYS IN WHICH THE STEEL INDUSTRY CAN HELP DELIVER A STRONGER UK

1

THE STEEL INDUSTRY IS READY TO INVEST IN THE UK

The steel industry is already a big investor in the UK, averaging £200 million every year across the UK's five major producers. But we want to invest more, in our plants, in our people and in R&D. If the right business environment can be provided, by the steps outlined in this document, the steel sector is ready to commit to increasing capital investment by an additional £100 million a year as well an injection of £50 million in new R&D funding over five years.

2

STEEL JOBS ARE HIGH PAID, HIGH SKILLED AND OUTSIDE THE SOUTH EAST

The UK steel industry employs 32,000 people in the UK, paying an average of £36,000, 28% higher than the national average and a massive 46% above the regional average in Wales and Yorkshire & Humberside where the jobs are concentrated. Moreover these jobs are high skilled with steel companies rightly proud of their programmes on apprentices, training and up-skilling: the sector currently employs some 700 apprentices across the UK, approximately 65% of the technical workforce is educated to degree level, and around 40% possess a postgraduate qualification.

3

THE WORLD'S DEMAND FOR STEEL CONTINUES TO GROW

Steel is utterly ubiquitous. Everything man-made is made from steel or made using steel. Consequently our demand for this product is vast and continues to grow. The World Steel Association projects growth of global steel demand of 1% per annum indicating growth from 1.8 billion tonnes/year today to over 2 billion tonnes/year by 2030. Today's global steel market is valued at over £2 trillion² and the UK steel industry, like all others, must best equip itself to capture this huge opportunity and deliver economic value back to the UK.

4

A GROWING DOMESTIC OPPORTUNITY TO SEIZE

BEIS's study³ into the future UK market opportunities for steel products conservatively estimated the UK market in 2030 to be worth £6 billion/year, 50% higher than today. Capturing this opportunity could be worth an additional £4 billion/year in sales to UK steel producers and could result in a doubling of the sector's contribution to the UK economy.

5

MODERN ECONOMIES STILL VALUE STEEL

Developed economies across the world continue to have strong and vibrant steel industries sitting alongside world leading tech, financial and pharmaceutical sectors. Japan produces 14 times as much steel as the UK, the US ten times, Germany six times as much, and Canada twice as much. Every single G7 economy produces more steel than the UK despite the UK being the fourth largest of those economies. It is false to say that developed economies cannot have strong and competitive steel industries, and there is no reason that the UK should not be the same, delivering the same benefits, if the right foundations can be provided.

2. World Steel Association (2019) World Steel in Figures 2019 – Estimated global sales of steel at \$2.5 trillion

3. BEIS (2017) Future capacities and capabilities of the UK steel industry

6

STEEL PRODUCTION STRENGTHENS MANUFACTURING SUPPLY CHAINS

Steel is a critical ingredient in promoting and strengthening a diverse industrial economy. Manufacturing sectors do not sit in isolation but instead within a complex ecosystem of interdependent and overlapping supply chains. The steel sector links with many downstream manufacturing sectors such as automotive, construction, aerospace and fabricated metals, and critically with elements right through those supply chains. As such it plays a vital role in creating connected value chains, pushing innovation, skills and productivity into the manufacturing mid-tiers, and ultimately linking up with the pull coming from high profile end use sectors.

“If we lose the steel industry in this country that could be a tipping point for UK volume automotive manufacturing....the ability to source local content is a deciding factor in locating new models.” GM Europe President, Nick Reilly 2016

7

STEEL PRODUCTION BOOSTS OUR INFRASTRUCTURE POTENTIAL

Whilst it is possible to import our steel requirements for construction and infrastructure needs, there are significant draw backs in terms of cost and practicalities to doing so. For example, the ability to source rail here in the UK enables us to use much longer lengths compared to those we are able to import. This massively reduces the number of welds required on a track and thereby reducing costs, construction and maintenance time, and improving passenger comfort and safety. As we increasingly move to off-site construction techniques for buildings, the advantages of having a localised supply chain including domestic steel production, will only grow. Importantly, the use of domestically produced materials and products boost the economic contribution an infrastructure project can have for the UK economy. BEIS’s Steel Pipeline⁴ shows that central government projects will require 3 million tonnes of steel in the next five years. The use of UK produced steel alone would boost the UK economy by £2.8billion and support 6,600 jobs, compared to the use of imported steel.

8

STEEL IS ESSENTIAL TO MEETING OUR ENVIRONMENTAL CHALLENGES

Steel is the solution to a vast range of environmental challenges we face in the UK from the need to cut carbon emissions, tackle the issue of plastic consumption & waste, and move to a truly circular economy. Steel is cost effective, endlessly recyclable, and with over 3,500 different types and counting almost infinitely purposeful. Steel is essential for our wind turbines, our electric vehicles, our low-impact energy efficient housing, and must be part of the answer to reduce the level of single-use plastics. A vibrant steel industry in the UK can and must be at the forefront of developing and producing these increasingly high-value steels for the UK and the world.

9

INVESTING IN UK STEEL PRODUCTION WILL HELP REDUCE GLOBAL EMISSIONS

The UK’s total consumption of steel (17 million tonnes/year) gives rise to 30 million tonnes of CO₂ each year, equivalent to 8% of the UK’s domestic total. A responsible UK decarbonisation policy must take ownership not just for the emissions we produce within our borders but also those related to the huge volumes of goods we import each year. A reduction in UK steel production may look like an emissions cut on paper, but globally there will still be 30 million tonnes of CO₂ emitted in order to supply the UK with steel and steel containing goods. The only way to truly tackle these emissions is to support and invest in low-carbon steel production here in the UK. A strong UK steel sector helps us tackle global carbon emissions and ensures the UK is a leader in climate action.

10

THE UK HAS AN ABUNDANCE OF SCRAP STEEL

The UK produces 10 million tonnes of scrap each and every year. At present around 8 million tonnes of this is exported, often to places like China and Turkey to be turned into steel and often reimported. It is time the UK moved away from this resource and economically inefficient model of exporting our waste for others to add value and sell back to the UK. The economic and environmental benefits of processing this steel in the UK are significant and should be seized upon. Once again, steel producers are ready to invest in additional capacity and capability to realise this opportunity should a partnership with Government deliver the right business environment, most importantly a level playing field on electricity prices given the quantities of electricity required to recycle steel.

THE RIGHT FOUNDATIONS:

Laying the right foundations for the steel sector in the UK does not have to be complicated. Steel producers are not looking for special treatment or support – merely recognition that governments elsewhere make sensible interventions within industry and the same must happen here to create a level playing field with our competitors. If the right measures are in place, the country can reap the benefits of a strong and prosperous UK steel sector.

The steel sector stands ready to invest and innovate in the UK, ensuring it can claim as much as possible of the £6 billion/year domestic market whilst also setting its sights on new export opportunities. Importantly, the sector has already made proposals to increase capital investment in the UK by 50% should the right investment conditions be provided. In order to unlock the benefits and opportunities outlined in this paper, we now call on the next government to work with the sector to deliver the following:

1

SECURE TARIFF FREE ACCESS TO MAJOR MARKETS FOR UK STEEL EXPORTS

The UK steel industry exports 45% of its production each year, some 3.5 million tonnes of steel worth £3.2 billion. The UK steel industry therefore survives and thrives on free trade, and continued tariff free access to major markets. The next government must secure this for the sector through the following practical measures:

- Avoiding a no-deal Brexit and securing a comprehensive trading relationship with the EU that will deliver tariff free and frictionless trade. Critically for the steel sector, a cliff-edge scenario must be avoided that would lead to the imposition of EU steel safeguard measures and 25% tariffs on UK steel exports.
- Working to remove Section 232 tariffs on UK exports to the US through bilateral discussions that will become possible if the UK has its own independent trade policy.
- Through potential new FTA negotiations, secure exemptions with future trading partners from extraordinary tariffs such as safeguards and Section 232 actions.
- Ensure the UK has replicated all key EU FTAs in advance of an exit from the EU to maintain tariff free access to these markets in all circumstances.

2

DELIVER COMPETITIVE ELECTRICITY PRICES FOR UK STEEL PRODUCERS IN LINE WITH THOSE BORNE BY OUR EU COMPETITORS

The next government must take decisive action to align UK industrial electricity prices with those of our key competitors in France and Germany.

The UK's electricity prices for large industrial energy users are higher than in any EU country. In 2019/20 UK steel producers paid 62% more than German producers and 80% more than French producers⁵, even after the compensation and exemption schemes already provided in the UK. This amounts to a £47 million/year additional expense for the UK steel sector, this not only reduces our immediate competitiveness in global markets but also undermines the case for investment in the UK and erodes our long term competitiveness and ability to remain at the cutting edge of steel making. With all the additional difficulties and costs Brexit will place on the sector, we call on the next government to take action in this area and implement the range of state aid compliant proposals UK Steel has long proposed.

3

INCENTIVISE INVESTMENT VIA BUSINESS RATES RE-STRUCTURING

The next government should align UK business rates with other comparable EU nations such as France and Germany and remove plant and machinery from valuations to better encourage capital investment.

The UK business rates regime acts as a deterrent to inward investment, especially for large scale multinational manufacturers. Manufacturers punch above their weight in investment, productivity and R&D spend, but bear the brunt of 67% of all plant and machinery liability. The damage this outdated tax has on business has already been recognised with regards to small businesses and the high-street, and quite rightly action has been taken. The same recognition must be given to the impact this is having on the steel and wider manufacturing sectors – UK steel sites pay five to ten times more than their counterparts elsewhere in Europe and counterintuitively, the more we invest to enhance and improve our facilities the more we must pay in tax.

4

MAXIMISE PUBLIC PROCUREMENT OF UK STEEL

The next government should maximise the levels of UK steel purchased for publicly funded projects by enhancing its own guidelines on public procurement of steel and signing up to the UK Steel Charter.

As by far the largest investor in UK construction and infrastructure projects, and the biggest single purchaser of steel, UK Government's procurement decisions are a hugely powerful policy tool. Data published by BEIS shows that in 2017/18, UK government procured 43% of its steel from the UK, 42% from outside the UK, with 15% of unknown origin – a positive benchmark but demonstration of room for improvement. Three simple measures should be advanced by the next government:

- Central government departments should sign up to the UK Steel charter making a public commitment to carrying out key actions to maximise supply opportunities to UK steel producers.
- Extend the public guidelines on public procurement of steel to all major UK construction or infrastructure projects in receipt of indirect public funding - for example those in receipt of subsidy via the Contracts for Difference scheme
- Require all suppliers of steel to public projects to provide clear proof of origin

5. UK Steel (2019) The Energy Price Gap: A New Power Deal for Steel



DELIVER A UK RESEARCH FUND FOR COAL AND STEEL

The next government must secure the sector's ability to continue participating in world-leading collaborative research across Europe.

The UK steel industry currently benefits from EU wide collaboration on vital R&D projects via the Research Fund for Coal and Steel (RFCS). The RFCS, administered by the EU, is funded by the interest receipts (circa €40 million/year) from the significant financial reserves (€1.6 billion) that were accumulated by the former European Coal and Steel Community (ECSC) made up principally from a levy on steel companies, including those in the UK. Through Brexit, we are highly likely to lose access to these vital funds and research projects, representing a significant blow to innovation in the UK steel sector, unless the next government is willing and able to negotiate the UK's continued access to the fund as a third party, including the provision of necessary funds. If the UK is unable to negotiate continued access to the RFCS it must instead establish a similar, permanent, R&D funding mechanism in the UK using the approximately £225 million of industry money returned to the UK from the RFCS.



WORK WITH INDUSTRY TO DEVELOP A MORE COMPETITIVE CLIMATE CHANGE AND CARBON PRICING POLICY

As the UK leaves the EU and takes back control of its own climate change policy, we are presented with an opportunity to take a fresh approach to industrial decarbonisation, one that actively encourages investment in industry and enhances its competitiveness.

The UK Steel sector emits around 12 million tonnes of CO₂ each year, around 3% of the UK total domestic emissions. UK steel producers have made significant progress in reducing emissions with 40% less energy required per tonne of steel production compared to the 1970s. But further progress will be incremental or extremely expensive involving carbon capture technologies or even completely new forms of steel making not yet commercially viable. The steel sector is committed to decarbonising and it already investing technologies to do so, but it requires support from government to do so competitively. To date neither the UK nor the EU has devised a workable policy framework that will deliver the vast amounts of investment that decarbonisation will require whilst ensuring industry remains competitive. Instead policy makers have almost exclusively relied on the EU Emissions Trading System (ETS) that gradually increases the carbon costs to EU industry, whilst those elsewhere continue to operate without such costs. The result of this policy is a slow erosion of investment towards a tipping point where production is no longer viable.

Whilst this is one way to reduce the UK's own territorial emissions, it would cause significant harm to our economy and do nothing to address the continued emissions related to the import of steel and steel contained products – estimated at 30 million tonnes of CO₂ a year. We call on the next government to work with industry to develop a bold new approach to industrial decarbonisation, one that recognises the importance of our imported emissions and crucially provides the incentives for industry to invest in the UK. The seeds of this have already been laid by the Industrial Strategy in the forms of the announced Clean Steel and Industrial Energy Transformation Funds and two new Industrial Strategy Challenge Funds – Transforming Foundation Industries and Decarbonising Industrial Clusters. However, bigger and bolder action will be needed.

In the shorter term it is essential that any possible new UK ETS is no more onerous or costly than the EU ETS for UK industry.

FOR FURTHER INFORMATION:

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UK Steel is the trade association for the UK steel industry and champions the country's steel manufacturers.

We represent the sector's interests to government and promote our innovative, vibrant and dynamic industry to the public.

Together, we build the future of the UK steel industry.

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