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UK Steel Briefing:
COVID-19 – Impact and Urgent Action Required

Introduction:

1. With the fast pace of events and the huge level of uncertainty surrounding the scale and trajectory of the coronavirus outbreak, it is naturally extremely difficult for the steel industry to currently attempt a detailed assessment of the likely impact on its operations and employees. This briefing instead seeks to establish the key difficulties the sector and its workers are likely to face, the measures that must be taken quickly to best mitigate these, and importantly what the steel industry may be able to do at this time to support the Government's efforts to tackle this public health crisis.

2. The key messages from the sector at this time are:

   - The steel industry stands ready to do all it can to support the Government in what it needs in tackling this public health crisis; be this the provision of skilled individuals, adapting production lines or course prioritising the supply of specialist materials.

   - A prolonged shut-down of the UK economy has the very real potential to turn a difficult situation into a terminal one for the steel sector and its tens of thousands of workers and this could happen extremely quickly. Primary steel production facilities do not have the luxury/ability to completely stop production without extremely serious technical, financial, and long term consequences.

   - The UK Government must be bold and rapid in the action it takes in the days and weeks ahead, usual concerns for state aid or non-safety critical regulation must not prevent necessary action. Nothing should be off the table in terms of measures to help businesses support their workforce, maintain liquidity, and stimulate demand in the economy.

Steel Industry Support to the Government:

3. As a long standing, and critical foundation sector, the UK steel industry has a proud history of supporting the country in times of need. In this current national crisis, the steel industry and its workers stand ready to do all they can to support Government in its efforts to protect citizens and shore-up the economy. Whilst the support it can provide through steel production is naturally limited there are a number of possibilities which the industry would welcome discussions with the Government about:

   - The UK industry employs 30,000 highly skilled individuals, including many engineers, chemists and technical experts. Where the Government has a need for such skills, particularly in other manufacturing sectors producing medical equipment, the sector stands ready to provide this.

   - Steel, including specialist grades, will be required for a range of medical equipment demand for which is set to grow. The steel industry is committed to prioritising the supply of necessary materials to medical manufacturers and providing any necessary flexibilities in doing this.

   - Steel production lines will naturally not be suitable for conversation to produce complex medical equipment, but there may be some ability to convert facilities to produce components and less complicated equipment. Again, the steel industry would welcome discussions with Government on where this can be of use.

Necessary Support from Government to Businesses:

4. UK Steel has worked with its members and others in the UK manufacturing sector to identify a number of possible measures that the Government can take at this time to lessen the impact from the disruption the Coronavirus pandemic is causing and is likely to cause. We welcome the measures already announced, most specifically the new £330 billion of funding for loans to businesses. This, and other measures, are critical to provide us with the

necessary liquidity to remain in operation, support our employees, and see it through this crisis. It is crucial that the Government takes any action necessary to support the economy at this time, bringing forward new measures as necessary, introducing them at speed and importantly relaxing the usual financial constraints from state-aid and non-safety critical regulations.

5. The sector is already experiencing reductions in dispatches, demand and disruption in haulage, and this will only grow in time. Access to capital and reduced liquidity will undoubtedly be the biggest challenges facing the sector and it is here that the Government should focus a significant proportion of its firepower. The proposals for action here are based on the information we have received directly from steel companies on the likely impact of the pandemic on their businesses, a summary of currently available information is also provided below.

To help maintain liquidity:

Companies will very quickly start to experience severely diminished liquidity and cash flow. The Government must consider all measures in its power, suspending state aid rules if necessary, to help businesses deal with this problem, stay in operation and keep people employed. Such measures should include:

- **Business loans:** UK Steel welcomes the announcement of a new loan scheme available from 23 March from the Bank of England to provide low cost liquidity to businesses. It is essential this is as flexible and light touch as possible, available for businesses to use on any business critical operational or capital costs necessary. As noted above, state aid considerations should be waved at the current time and loans of 0% interest or close to must be considered.

- **Deferment of tax payments:** Building on the HMRC time to pay scheme, the Government should go significant further and provide mechanisms to provide for deferred payment of key taxes including – VAT, PAYE & NI payments, and business rates. Deferment should be possible for six months in the first instance, but renewed and extended as necessary.

- **Regulatory forbearance:** Regulatory compliances, particularly with key environmental legislation, cost steel companies significant sums of money. For example, the costs of carbon under the EU ETS will cost some companies £ millions in compliance in April, and many will need to start planning for the introduction of a UK carbon price quite soon. The Government must work with industry to identify non-safety critical compliance requirements that can be suspended and/or deferred for the next few months. This could include suspension of EU ETS/carbon costs, and provision of necessary derogations from Industrial Emissions Directive requirements.

- **Maintain business critical credit coverage:** The Government must look at how it can incentivise/support the insurance industry to maintain current levels of credit cover for manufacturers. This could be done by the Government underwriting a proportion of those credit insurance policies. It should equally look at extended UK export insurance to cover all UK exports, not just those to developing nations (see penultimate bullet point below).

- **Support for energy intensive industry:** For energy intensive industries like steel, one of the largest input costs alongside labour and raw materials is energy. Already significantly higher energy costs then elsewhere, UK companies will struggle further if liquidity starts to dry up. The Government must consider all measures that can be done immediately to reduce these additional costs. Measures such as suspension of the carbon price floor or a deferment of CfD and RO costs must be rapidly brought forward.

- **Mothballing Costs** – As noted above, primary steel production sites do not have the ability to simply cease production or 'switch off' furnaces. In a worst-case scenario when steel companies were required to do this, support schemes should be put in place to cover the costs of mothballing and start-up.

To provide necessary financial support employees:

- The Government should urgently develop and introduce a short-term working scheme to provide payments to employers to allow them to maintain pay levels whilst reducing working hours of employees. This will be critical both in terms of financial support to employees as well as ensuring companies are able to maintain staffing numbers and retain skills. Whilst steel companies would only use short-term working as a last resort, we are mindful that significant reductions in demands for steel are almost certain and businesses will need to respond accordingly. Countries elsewhere, such as Germany and the Netherlands, have long-standing schemes that have been made more flexible in recent days. It is crucial the UK Government follow suit with a similar scheme as soon as possible.

- With increasing numbers of staff having to self-isolate and stay away from production sites, companies will see huge increases in the costs of statutory sick pay. Steel companies, like any other, will struggle with the likely magnitude and longevity of this problem. The Government should therefore look to provide support to cover the costs of statutory sick pay for all companies and significantly increase reimbursement time limit, currently set at two weeks.

Risks and Impact on the Steel Sector:

- The UK steel sector was already facing a series of unprecedented challenges from US 232 tariffs, to future EU trade impairment, to falling demand from key sectors like automotive and construction. The Coronavirus pandemic could make a challenging set of circumstances terminal if the Government is unable to put the right business support measures in place, as detailed above. The steel sector does not have the buffer of preceding 'boom years' that it did in advance of the 2008 financial crisis.

- By far the top concern at this stage is expected reductions in demand and inability to supply what demand remains due to disruptions in haulage. The immediate knock-on impact of this will be a liquidity crisis within the sector, exacerbated by customers' inability to pay already outstanding invoices. Like the rest of the private sector, some steel companies will struggle to pay wages and their own bills within weeks if Government support isn't provided immediately.

- Another a major problem for the steel sector is credit to customers. It is a key competitive factor for steel companies to be able to provide long credit terms to customers (1-3 months for payment). They get credit insurance for this, and this in turn allows them to discount receivables (i.e use the value of their invoices to borrow against). As Coronavirus starts to bite, credit insurance cover is likely to be reduced, this both increases the risk for steel companies supplying on the basis of credit, but also reduces steel companies' ability to borrow/gain credit against receivables.

- As coronavirus starts to impact demand and supply chains – companies will increasingly look to pass difficulties back up their supply chains. Most obviously this will mean increased delays in payments, reductions in orders etc. As a foundation sector the 'buck stops' with steel companies – they have less ability to reduce orders and outputs, and critically have little or no flexibility to delay payments on their core inputs like energy, raw materials etc.

- Steel companies have already reported major reductions in dispatches to the EU (30% fall) and UK (10% fall) and there are already reductions in new orders coming through. This will increase rapidly. Demand from UK automotive and construction sectors was already dampened significantly through 2019, and it looks to fall significantly further now.

- Equally, with huge amounts of production going to the EU, the restrictions on travel, the likely shortage of truck drivers, the impact of Coronavirus on key industrial regions in Germany and Italy, and the EU-wide supply chains of our key customers – are all going to drive down demand further both in the UK and EU.

- UK steel companies all have plants across Europe. As ever focus, efforts, and continued production will be directed to those plants where the national government is providing the most support. The UK Government must be a leader here.

- As employees increasingly need to self-isolate and stay away from production sites, safety will quickly become a major concern. UK Steel companies have plans in place to work reduced shifts with reduced staff numbers, but there is a limit to this and ultimately consideration will need to be given to halting production. The costs of doing this, particularly at primary production sites, are huge. Unless targeted support is provided, such action could provide terminal for the steel companies concerned.

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