UK STEEL

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# COVID-19 – RESTART AND RECOVERY

## A Policy Proposals Paper

**May 2020**

**Introductory Note:**

- The steel industry has worked with its stakeholders, particularly employees and trade unions, over the course of the last two months to develop and implement practical solutions to the challenges of social distancing and preventing transmission. This has enabled steel companies to provide safe working environments and maintain the confidence of their workforce, allowing them to continue to safely operate at a time when much of manufacturing has ceased production.

- During this time, demand for steel products has fallen by an estimated 45%. This has placed significant pressures on steel producers as they work to maintain production, continue to face the most of their normal operational costs, but have seen revenue drop significantly. At the time of writing, steel producing companies still face major liquidity problems and are working with the Government to find sustainable solutions. This experience places the sector in a position to provide important insight and advice on safe working practices, the challenges businesses will face as they return to work, and the path to recovery we must now tread.

- UK Steel has published its own detailed guidance on safe working practices, developed in consultation with key trade unions Community, GMB, and Unite. The following paper details the UK steel sector's views on the necessary financial and regulatory interventions that will help it, and the wider business sector navigate the challenging times ahead, supporting and safeguarding employees, and successfully contributing to the UK's economic recovery.
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## Executive Summary

1. The steel industry has played an important and active role in the COVID-19 national effort to date. Donating PPE to local hospitals and care providers, supplying the materials for critical applications including: hospital beds, scalpels, and food packaging, as well as continuing to provide materials into our many supply chains in construction and manufacturing which are the engine of the British economy. Indeed, the pandemic and our response to it has highlighted to all the enduring importance of the physical manufacture and supply of goods even in an increasingly modern and service based economy like the UK. Not only have we been reminded of the importance to the nation of resilient domestic supply chains in times of crisis, but also the huge economic significance of our manufacturing and construction sectors. Together these sectors represent 16% of the UK economy[1], but this swells to 27%[2] when indirect/supply chain impacts are taken into account.

2. At the current time, the disruption to the manufacturing and construction sectors is therefore having a hugely negative impact on the overall health of the UK economy. The reductions in demand for the goods and services of these sectors ripples throughout the economy and causes a far greater fall in overall economic activity then the headline GVA figures for these sectors would at first suggest. Conversely, stimulating demand and activity in these sectors has a disproportionately positive impact on the overall economy and therefore will be vital to the economic recovery the UK must now embark upon. For example, for every £1 spent on the construction of infrastructure a total of £2.84 is seen in the wider economy[3] - investments and interventions in these sectors are hugely strong levers the Government must now look to pull.

3. As a foundation sector, steel is a vital component of these critical sectors. We are both reliant upon and fundamental to their success. Steel producers provide the very materials that enable these sectors to function and grow, and in providing a reliable, and adaptable domestic source of steel, we shorten and strengthen the UK's manufacturing and construction supply chains. Furthermore as a sector predominated by large companies, we anchor skills and innovation here in the UK, further enhancing the long-term resilience and success of the sectors we feed into. At a more fundamental level we provide the very foundations upon which the UK recovery will be built, our new road and rail networks, energy infrastructure, low-carbon vehicles, food production, medical equipment, hospitals, and homes – all of these require a resilient, stable and sustainable supply of domestic steel.

4. Just like the wider construction and manufacturing sectors, the numbers speak to our extended influence and importance across the wider UK economy. For every tonne of UK steel produced, £880 is added to the UK economy. For every 1,000 tonnes produced each year 10 jobs in total are created/protected. This translates into 32,600 high skilled, high paying jobs in places like Wales, Yorkshire and Humberside, plus over 40,000 more supported in supply chains[4]. The sector makes a £2.8 billion contribution to the UK economy, growing to £6.4 billion when our supply chain impact is included. In short, the steel sector is a powerful tool for recovery – the Government can look to us to both stimulate economic growth and ensure it is felt in those parts of the country where it is needed most, those critical to the success of the Government's levelling up agenda.

5. But we cannot do this alone. Along with the rest of the business community, steel companies are facing a series of unprecedented challenges not least a 45% reduction in demand for their products. The Government's continued interventions into the economy over the course of the months and years to come will be some of the most important ever made. The length and nature of the recovery is dependent to a huge degree on the decisions it takes. As the UK considers how to move past this first phase of its COVID-19 response, looking to gradually restart the economy and on to the road to recovery, the steel industry has identified three key priorities that should shape the Government's thinking and approach.

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[1] ONS GDP output approach – In 2019 the construction and manufacturing contributed £302 billion to the UK economy out of a total of £1869 billion, or 16.2%

[2] Type 1 GVA multiplier of 1.7 for manufacturing and 1.6 for construction. Sources MTA (2018) *The True Impact of UK Manufacturing* and Construction Scotland (2019) *Economic impact of the sector*

[3] Civil Engineering Contractors Association (2013) *Securing our economy: the case for infrastructure*

[4] ONS Type 1 FTE multiplier of 2.26

## Priorities for Restart and Recovery:

### Priority 1: Extend and adapt the package of business support measures to address the challenges of restart and recovery.

As the UK considers how to move past the first phase of its COVID-19 response, looking to gradually restart the economy and on the road to recovery, it is vital that the Government is alive to the continued challenges business will face, as well as new ones that will arise. It is critical that the Government takes the same supportive and deliberative role in the restart phase as it has in the first; to do otherwise would be simply to delay rather than avert the worst of the economy impacts.

**Recommendations:**

1. **Adapt the Coronavirus Jobs Retention Scheme**
2. **Maintain credit support for the medium term**
3. **Support liquidity by reducing business costs**

### Priority 2: Bring forward measures to stimulate demand for UK goods and services and kick-start the UK economy

When the time is right, the Government has a vital role to play in kick-starting the economy, bring forth a package of economic stimulus messages to drive consumer demand and get the British economy moving again. Some of this may require new spending commitments, but much will be about accelerating existing spending commitments, for example on infrastructure, and crucially about measures to build consumer confidence. Importantly, this economic stimulus plan should not be seen as an isolated strategy, but also as a means to deliver against pre-existing objectives.

**Recommendations:**

4. **Get Britain building, by supporting construction and accelerating infrastructure investments**
5. **Maximise the added value of public procurement decisions**
6. **Stimulate the UK automotive market**
7. **Adapt trade and customs policy to aid recovery**

### Priority 3: Lay the foundations of a sustainable recovery, addressing and accelerating our response to major existing challenges

Prior to the pandemic, the Government set out a series of bold ambitions for the UK: bringing forth an infrastructure revolution, leading the world in delivering a zero-carbon economy, and a commitment to levelling up the UK. The Government’s recovery strategy must encompass these aims and objectives, using the crisis as a means and a motivation to progress and deliver against them.

**Recommendations:**

8. **Publish a National Infrastructure Strategy**
9. **Develop a world-leading Net Zero Carbon Strategy**
10. **Drive forward the Industrial Strategy**

## Introduction:

6. After nearly two months of social and economic lock-down, attention within the Government, the business community and the wider public is increasingly focussed on what the next and subsequent phases of the UK's COVID-19 response should look like and entail. As the situation has rapidly developed over this period, it is increasingly evident that we are at the beginning of a prolonged period of economic disruption, and consequently what is likely to be a more protracted recession, and road to recovery, than most had perhaps first anticipated.

7. The Government's unprecedented financial interventions to date have significantly reduced the immediate economic impact COVID-19 on many businesses and households. But there is growing concern that as the UK economy is gradually opened back up, and the Government considers withdrawing or pairing back many of its current support measures[5], businesses will face the new challenges of bearing full operating costs whilst demand and sales remained depressed due the need to maintain social distancing measures, and a continued lack of consumer confidence.

8. UK steel producers provide an early test case of these challenges, with most having maintained partial or complete production, and the operating costs that come with that, whilst demand has been significantly subdued. UK steel producers are currently experiencing a 45% reduction in demand equating to an estimated £125 million loss in sale revenue in April alone. This masks significant disparity between companies with some experiencing far higher reductions. We expect to see some modest recovery in steel demand through Q3 and Q4, but all UK producers are now expecting, and planning around, low levels of demand being maintained through the course of this year and into 2021.

Table 1: Reduction in orders of UK steel companies

| Consuming Sector | Reduction in orders (April '20 vs April 19) |
|---|---|
| Construction (UK) | 55% |
| UK Automotive (UK) | 70% |
| UK Engineering (UK) | 35% |
| Other sectors (UK) | 35% |
| Exports (all sectors) | 35% |
| **Total** | **45%** |

Source: UK Steel survey of members April 2020[6]

9. Whilst steel companies have lowered costs as much as possible, reductions in cost relative to reductions in sales revenue are simply not possible. Significant fixed costs remain, regardless of output levels, and the economics of steel production means sustained low levels of production capacity utilisation will continue to place pressure on steel company's margins and profitability. UK steel producers are already suffering major liquidity challenges and this will only grow further without targeted policy interventions. As other sectors of the economy return to operation, the difficulties already being faced by the steel sector will be mirrored elsewhere.

10. It is therefore crucial that as the Government is developing the next phases of its COVID-19 response strategy, that it is alive to these ongoing and emerging business challenges and close attention is given to the two major challenges facing businesses right now: liquidity and low demand levels. In delivering an economic recovery there is also a huge opportunity to advance on pre-crisis government priorities including: clean growth/decarbonisation, an enhanced industrial strategy, a new infrastructure revolution, and levelling up the UK. A thriving steel industry will be integral to delivering these.

### Priorities for restart and recovery:

1. **Extend and adapt the package of business support measures to addresses the challenges of restart & recovery**
2. **Bring forward measures to stimulate demand for UK goods and services and kick-start the UK economy**
3. **Lay the foundations of a sustainable recovery, addressing and accelerating our response to major existing challenges**

[5] https://www.ft.com/content/316c2353-fe00-4cd8-91de-dd4f2413a938
[6] Survey of the UK's steel producing companies

## The Importance of Steel:

11. Levelling-up the United Kingdom, powering an infrastructure revolution, and achieving ambitious net zero targets are three of the core objectives this Government set out in its recent manifesto and ambitious March Budget. Though the COVID-19 pandemic has put much on hold, it has also raised important questions around domestic resilience and the ability of the UK economy and businesses to bounce back from lockdown. A successful restart and long term recovery can be met by ensuring those three objectives form the basis of the Government's approach to the recovery, and at the same time ensure maximum value to the taxpayer from multi-billion pound public investments. The steel industry will play its part in meeting these Government objectives:

- The steel industry is predominantly based in the regions of the country it is seeking to level-up. We directly employ tens of thousands of skilled workers in Teesside, Yorkshire and Humberside, the West Midlands and Wales. The average wage of our workers is 20% higher than the UK average and 40% higher than the regional average in Wales and Yorkshire & Humberside.

- We train hundreds more skilled individuals every year, providing the United Kingdom with the engineers of the future. Approximately 65% of the technical workforce is educated to degree level, and around 40% possess a postgraduate qualification. By working together, Government and industry can ensure that we go on providing high-quality employment and opportunities.

- We provide the high-quality materials vital to an array of challenges. From delivering the Government's infrastructure revolution to creating a low carbon economy, steel is an essential ingredient. The UK directly consumes 10 million tonnes of steel each and every year – in infrastructure, construction, and a vast array of manufactured products. Our increasing need for steel in high speed rail, energy efficient buildings, low-carbon and electric vehicles, wind-turbines and much more besides means this demand will grow 10% this decade creating a huge £6 billion annual market.

- The world will not meet net zero targets without decarbonising the steel industry. The UK will continue to consume millions of tonnes of steel and the most effective way of tackling the emissions related to it is to show leadership at home and decarbonise our own production. 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. Government and industry can work in partnership to make the UK industry the world leaders in carbon free steel production. Just as the British steelmakers of the nineteenth century powered the first industrial revolution, the steelmakers of the twenty-first century can lead the charge for the green industrial revolution.

- The importance of strong, resilient local manufacturing supply chains has never been more evident. 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.

## Priority 1: Extend and adapt the package of business support:

12. The road to recovery is unlikely to be linear or straightforward. There is a growing consensus around a hit to the UK economy in the region of 10%[7] for this year, with the early consensus around a 'v-shaped' recovery, giving way to talk of a longer 'U-shaped' recovery that will have far bigger and more long lasting economic consequences.[8] It is now well accepted that we will need to adapt to a 'new normal', and could even be facing varying cycles in and out of lock down.

13. The current Government support package has been designed and implemented to suit the current conditions, perhaps three months of severe restrictions on economic and social activity. As we move past this into a gradual restart and recovery, there is a need to adapt this support to respond to the changing conditions.

14. The steel sector, like all business, is alive to concerns about the cost to the tax payer of ongoing support of this nature. Unprecedented sums of money have been committed to date and decisions on further spending will not be considered lightly. However, in many cases the choices between further support for businesses and minimising the cost to taxpayers is a false one. Failure to provide the necessary support will result in the closures of many businesses within the steel sector, manufacturing and the wider economy, which will ultimately have far larger costs for the public purse, than making the right interventions now. We recommend the following actions are taken to maintain support to businesses in the coming months:

### Recommendation 1: Adapt the Coronavirus Jobs Retention Scheme

15. The announcement on 12 May that the Coronavirus Jobs Retention Scheme (CJRS) would be extended until October, with flexibilities to be provided from August, is extremely warmly welcomed by the steel sector. It provides us with much needed certainty about the continuation of this vital support scheme, and starts to address our calls for additional flexibility within the scheme. In advance of further details being published at the end of May, we have provided some additional views on what further flexibility is needed from our perspective.

16. The CJRS as currently designed works extremely well for those sectors where activities have had to all but cease completely. However as companies come back to work, but demand remains subdued for some time, many will need to adapt to work on a much reduced basis. This is the situation steel companies have found themselves in for the past two months and is set to become the norm for most manufacturers for at least the remainder of the year. As the Government has recognised, the CJRS is not designed for these new reduced working conditions and fails to address a number of new challenges companies are facing:

- A reduction in most people's work, but not necessarily a relative reduction in the numbers of workers (and skills) required - i.e. not all workers are interchangeable, people have specific skills and tasks.
- An increase in test, track and trace will likely result in a rise in incidences of workers needing to self-isolate, possibly though the advice of the App rather than symptoms they experience. These self-isolations aren't predictable, and don't fit into neat three week furlough blocks. Flexibility will be required to bring people off furlough to cover for those self-isolating/on sick leave.
- Extended periods of furlough for workers can create unnecessary tension between employers and employees where large segments are on paid furlough whilst others continue to work full time.
- Long periods of time away from work can erode the skills base of workers whose skills must be continually updated.
- For some, there may be mental health implications of continued periods of work/life disruption.

17. In order to address these new challenges the Government should consider the following flexibilities:

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[7] OBR (14 April 2020) – *Coronavirus reference scenario commentary* presented a scenario of UK GDP fall of 13% this year
EY Item Club (April 2020) – *Spring Forecast* forecasts fall of 6.8%
National Institute of Social and Economic Research (28 April 2020) – *Prospect for the UK Economy* forecasts a 7% drop
[8] EY Item Club (April 2020) – *Spring Forecast* (April 2020) estimates that the UK economy will not return to 2019 levels until 2023 even in a scenario in which a 'no-deal' scenario is avoided at the end of this year.

- The Chancellor's 12 May statement referred to the ability to '*bring furloughed employees back part time'*, but it is critical that employers also have the ability to place those currently working full-time on to part-time work hours. The flexibility employers need now is the ability to place relatively large portions of their workforce on reduced hours, as market conditions require. For example: a 20% reduction in demand/production under the current scheme may mean 20% of relevant employees are placed on furlough. The adapted scheme should instead allow for all relevant employees to have their hours reduced by 20%, sharing the burden equally across the workforce and maximising productivity. **Simply allowing those currently on furlough to come back part-time will be of very limited use/benefit to the sector.**

- The flexibilities currently available to rotate workers on and off furlough should remain. Equally, employers should be able to rotate workers between part-time work, full-time work and full furlough

- The flexibility should remain to place employees on standard furlough (i.e. 0 hours) if necessary. Additional flexibility should also be provided around the minimum time periods of furlough, with one or two week blocks being made available.

- If possible, the Government should consider bringing in flexibility for part-time work from July. Such flexibility has been a requirement of steel companies since March, and bringing forward changes by one month would be of significant benefit.[9]

- Payment for those workers placed on part-time work could be best achieved through a 'top-up' model similar to the German 'Kurzarbeit' scheme. Here a government payment is provided for 60-67% of the 'gap' between an employee's contracted wage, and their temporarily reduced/part-time wage.

18. We are aware of the Government's concerns about scheme complexity and policing the hours worked by part-time workers, however there also are notable concerns about the cost of the scheme to the taxpayer and we believe a top-up system with the flexibilities provided above could reduce costs significantly. Putting this more flexible system in place significantly reduces the risk for the employer of bringing their business "back on line" or progressively emerging from a full or semi-hibernation state. This has a double benefit of avoiding redundancies and creates a shared incentive between the interests of an individual employer and those of the Government in getting as much of the economy working again as soon as possible.

## Recommendation 2: Maintain credit support for the medium term

19. As with the CJRS, the current business loan schemes are designed principally with a three month window of disruption in mind. With most steel companies ineligible for loans via the more substantial 'Covid Corporate Financing Facility' (CCFF), they are limited to the possibility of a maximum loan of £50 million via the Coronavirus Large Business Interruption Loan Scheme (CLBILS) unless able to access more company specific aid directly from the Government. A loan of this size represents as little as 2-5% of annual turnover for the major steel producers – and with the equivalent of 4% of annual turnover being lost on a monthly basis at current demand levels, and many in the manufacturing sector expecting 12-18 months of disruption[10], there is a growing need to look at developing a longer term approach to liquidity support. The following measures should be considered:

- **CLBILS Expansion**: The Government should lift the £50 million cap within the CLBILS and replace it with one linked to total company turnover. The EU temporary state aid framework allows government guarantees for loans of up to 25% of annual company turnover[11], double the annual salary bill, or with appropriate justification loans can be increased to cover the liquidity needs of a company from 12 months for large companies and 18 months for SMEs. The 25% of annual turnover threshold has been widely used in loan schemes implemented in many European countries.

[9] We welcome the Chancellor's consideration of bring forward the flexibility if possible. 12 May House of Commons response to question from Nigel Mills MP "Of course, if there are ways for us to do that sooner, we will…" https://hansard.parliament.uk/Commons/2020-05-12/debates/7B585642-7EC5-456E-8CFF-AC3605AF5473/Covid-19EconomicPackage

[10] Make UK (May 2020) – *Manufacturing Monitor*

[11] EU Commission Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak: https://ec.europa.eu/competition/state_aid/what_is_new/sa_covid19_temporary-framework.pdf

- **Improve CLBILS approvals rate**: As of 12 May just £359 million of loans had been provided through the loan scheme for large businesses, representing just 59 successful applications out of 358 made to date. With this the primary means of liquidity support for most large companies there is an urgent need for the Government to take steps to speed up the process and improve the approvals rate. Data for the 'Bounce Back' loans scheme shows that almost 270,000 loans, totalling £8.4 billion, have been approved through this scheme in just 8 days. Undoubtedly this much higher success rate has been achieved due to the Government's 100% guarantee of these loans. The Government should therefore move to a 90% guarantee for loans within the CBILS and CLBILS (the maximum allowed under state aid), which would substantially improve bank's approval rates.

- **Credit Reinsurance Scheme**: We warmly welcome the Government announcement on 13 May committing to introduce a credit reinsurance scheme to maintain pre-COVID levels of coverage. We must stress the urgency of getting something in place as soon as possible, as this is vital component in addressing the increasing liquidity problems many in the sector are facing. Steel companies, and many other manufacturers, operate business models that rely heavily upon credit insurance to maintain sufficient levels of cash-flow. As the crisis has taken hold, and the finances of companies across the economy have been hit, credit insurance limits are being progressively reduced and/or withdrawn by many providers. This in turn has a huge impact on companies' cash-flow positions as well as those of their customers who are then required to pay for goods in advance.

  We eagerly await further details from the Government but must stress the need for the final scheme design to match the general principles of the scheme now introduced in Germany or proposals put forward by the Association of British Insurers. Crucially the scheme must ensure that credit insurance is restored to those companies that have now had their limits completely removed. As the Government is aware, the scheme introduced in 2008/09 failed to provide this, allowing just for a 'top-up' of credit limits for those companies that had had theirs reduced rather than removed. As a result, just £19 million of the available £5 billion in cover was taken up. As suggested by the ABI, the Government should look to introduce a scheme that reinsures the credit insurer's liabilities and therefore does not require a separate application by policy holders or impact upon their relationship with their insurance providers.

## Recommendation 3: Support liquidity through reducing costs

20. In addition to the measures above that would unlock and maintain credit lines to companies, the Government must also consider what more can be done to improve liquidity by reducing the outgoings of companies whilst the economic recovery is underway. Two key measures that would help the steel sector immeasurably would be:

- **Electricity price relief** bringing UK industrial prices in line with European counterparts could unlock a further £50 million for steel companies over the next year. UK Steel has already provided details on the measures that could be implemented to enable this.[12]

- **Business rates reductions/relief** could unlock as much as £45 million of additional cash for the sector over the course of the next year. The Government has recognised the benefits of doing this within the retail and leisure sectors, and it should take the bold step of extending this support to the steel and wider manufacturing sectors. At the very least, Government should consider removing plant and machinery from business rates calculations, this would have a dual purpose of freeing up cash in the short term, and encouraging capital investment in the medium to long term as the economy begins to recover.

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[12] UK Steel (2019) *The Energy Price Gap: A New Power Deal for Steel.* https://www.makeuk.org/insights/publications/energy-price-gap-new-power-deal-uk-steel

## Priority 2: Stimulate Demand and Kick-Start the UK Economy

21. The support measures proposed above will be vital in supporting businesses in the coming months, and ensuring they remain viable to make a full contribution to the economic recovery the UK desperately needs. However, they are only short-term 'bridging' solutions to problems of cash-flow and working capital. In and of themselves they are not a solution to the much bigger problem of reduced demand and low consumer confidence that will hold the UK's economic recovery back unless addressed by bold government action. The timing of these actions is an important consideration, and clearly the Government may wish to delay major interventions until there is greater certainty on the impact its COVID-19 health and social measures are having. Noting this consideration, the policy proposals below represent the key priorities for the steel sector in terms of interventions that will stimulate demand in the coming months and years.

22. Creating demand for steel in and of itself will be hugely beneficial but we urge the Government to go further and also implement policies that will maximise the opportunities for UK steel producers in domestic markets and deliver the maximum value from tax payers money back into the UK economy. The economics for doing so are clear – for every tonne of steel produced in the UK £880[13] is added to the UK economy, and for every 1,000 tonnes sourced from UK steel mills each year – ten well paid, highly skilled jobs are created or protected[14]. All of this is lost if increasing volumes of steel are imported instead. In taking this more strategic approach to procurement, the Government has the opportunity to use this recovery and the committed spend on public infrastructure projects to start to deliver against its levelling up agenda, and the Prime Minister's own pledge to '*ensuring that the public sector buys British'*[15].

### Recommendation 4: Get Britain building, by supporting construction and accelerating infrastructure investments

23. The Government's March Budget trailed an estimated £640 billion in capital investment over the course of this parliament. Already a major priority before the crisis, the importance of investing in the UK's future infrastructure requirements has only increased in importance with the need to rapidly jolt the UK economy into recovery mode. The following measures/actions should be considered as part of the Government's restart and recover strategy:

- **Support the construction industry to get building again:** Construction activity has been severely disrupted[16] through concerns about the ability to social distance on constructions sites, disruptions in the supply of materials, and a high degree of market uncertainty. Taking action to address these issues is a top priority for the Government, including the continued provision of H&S guidance for the sector, tripartite working between Government, unions and companies to ensure confidence in the approach, and clear public messaging about the Government's decisions concerning COVID-19 and the construction sector.

- **Approve and accelerate the start of suitable infrastructure projects:** The steel sector warmly welcomed HS2's notice to proceed provided to key construction companies on 15 April. This project is not only hugely important to the UK's future transport requirements, but also to maintaining a strong pipeline of steel demand, and the modernisation of the UK's approach to construction and infrastructure projects. Building on this, the UK Government should quickly bring forward a list of additional priority projects whose development, approval and construction starts dates can be accelerated.

- **Publication of infrastructure pipelines:** As part of the Government's development and publication of its National Infrastructure Strategy (see recommendation 8) it should urgently publish updated National Infrastructure and Steel Pipelines both of which were due at the end of last year. These pipelines are an important tool in helping industry identify market opportunities and plan long term strategies in key markets.

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[13] ONS GDP Data: £2.8 billion GVA of steel sector 2019, £3.6 billion supply chain contribution, 7.3 million tonnes steel production
[14] UK Steel (2019) Maximising Value: Positive Procurement of Steel
[15] Prime Minister Speech on 29 November 2019: https://www.bbc.co.uk/news/election-2019-50601517
[16] IHS Market/CIPS snapshot showed the main construction activity index fell from 39.3 in March to 8.2 in April – the biggest fall on record

## Recommendation 5: Maximise the added value of public procurement decisions

24. Delivering best value for taxpayer money is a primary objective within public procurement and using competitively priced domestic steel does just that - every single tonne of UK produced steel an estimated £880 to the UK economy. BEIS's Steel Pipeline 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 £2.6 billion and support 6,000 jobs, compared to the use of imported steel. These are high-quality, well paid jobs in areas where such jobs can be hard to come by.

25. There is a need for the Government to take a wider, longer-term view when making assessments of the best value for the economy provided by purchasing decisions. It may be that in some instances the UK produced steel may not be the lowest priced 'upfront costs' as an exporting producer seeks an additional marginal sale below cost. However encouraging purchasing decisions purely on lowest upfront price frequently will not provide the best value to the UK taxpayer as it does not take into account the value added in the UK supply chain of procuring a UK produced steel products.

26. There are also clear environmental benefits to backing British industries. Steel transported a few miles across the UK has a much lower carbon footprint that that transported halfway across the world. Not only that, but an industry-government collaboration can invest in the new technologies and production methods that will continue to decarbonise the steel making process. Much of our steel production is already highly environmental friendly – for example all UK rebar, required for building foundations and structures, is produced by recycling over a million tonnes of scrap steel each year. A truly circular economic model and, as our electricity supply is decarbonised, an increasingly low-carbon one. Every UK steel company has ambitious targets to become low-carbon, the Government and industry should work together to ensure the 'low-carbon' steel we all use in the future is British. We urge the Government to take the following steps realise these objectives and maximise opportunities within the recovery for UK steel producers:

- **UK Steel Charter:** All Government departments, bodies and, projects to sign up to the UK Steel Charter[17], signalling a step change in the Government's approach to procurement and sending a powerful message to British businesses that, within the constraints of its WTO commitments, the UK Government will support British businesses, and meet the Prime Minister's own commitment to "buy British".

- **Steel Procurement Policy Note:** UK Government's own guidance on procuring steel for major projects[18] should be updated to reflect the Prime Minister's own commitment to ensuring the public sector "buys British". This should include requirements to record and report on the origin of steel used in major projects, to assess the positive contribution the supply of steel will make to UK jobs and GVA, as well as extending the coverage of the guidance to include regulated private sector projects such as those funded via the Contracts for Difference scheme.

- **Targets for the UK steel content:** The Government should set an overarching target for the UK steel content of major infrastructure projects. This would not be a legally binding target, but rather a statement of intent, ambition and confidence with which to drive improvements in public procurement.HS2 should be the first project to adopt such a target.

## Recommendation 6: Stimulate the UK automotive market

27. Steel demand from UK manufacturers into the high value automotive supply chain have fallen by an average of 70% in the last month. The automotive sector, was already having to adapt to rapidly changing market conditions in advance of the COVID-19 crisis: from reductions in demand for diesel vehicles, to anticipated disruptions to EU wide supply chains, to stiff new emissions standard requirements, and the current crisis has significantly added to these challenges. In light of the additional pressure coronavirus has placed on automotive producers, and the thousands of manufacturers in supply chains, there is an urgent need for sector specific measures to kick-start the automotive market and stimulate demand. Three important proposals are:

[17] The UK Steel Charter is a steel sector and trade union initiative aimed at driving positive change within public and private procurement practices to maximise supply opportunities for UK steel producers and their supply chains. https://www.makeuk.org/insights/publications/uk-steel-charter

[18] https://www.gov.uk/government/publications/procurement-policy-note-1116-procuring-steel-in-major-projects-revised-guidance

- **Reopening of car dealerships:** When it is safe to do so the Government should work with affected businesses and representative organisations to prepare car dealerships to open again safely, this will include providing guidance on how to do so. It will also be important for the Government to be clear in its public communications that it is safe and reasonable to return to these outlets and what to expect when doing so. Public confidence here is critical.

- **Vehicle scrappage scheme:** Careful consideration should be given to the introduction a vehicle scrappage scheme this year to boost demand. The Government can draw on the lessons learnt from the 2009 scheme[19], proposals drawn up in recent years to address air quality concerns[20] and numerous schemes offered by the industry itself. Naturally the Government would wish to use any such scheme to further its objectives towards climate change and air quality – and it will be important to attempt to internalise the economic benefits of these objectives when assessing the validity of a scrappage scheme alongside more traditional economic considerations.

- **VAT Reductions on vehicles:** The Government should also consider implementing temporary tax measures to support the purchase of vehicles, such as plug-ins and hybrids. Removing or reducing VAT on electric vehicles, in conjunction with a scrappage scheme, could help to stimulate demand and reduce the impact of the cut in the plug-in grant made in the Budget, particularly when consumers may be vulnerable to being swayed into higher CO2 vehicles, given the currently depressed oil prices, which are likely to be on the roads well into the 2030s.

## Recommendation 7: Adapt trade and customs policy to aid recovery

28. The UK steel industry was already facing increasingly challenging trading conditions in advance of the COVID-19 pandemic. A combination of weakened demand for steel in most markets, continued global steel production overcapacity, the UK's scheduled withdrawal from the EU Single Market and Customs Union, US Section 232 tariffs, and wider global trade wars, has combined to deliver a set of uniquely challenging circumstances to operate in. With the COVID-19 crisis resulting in the sharpest and deepest reduction in steel demand on record, these significant challenges have grown immeasurably. At this time, it is imperative the UK Government does all it can to stabilise the UK steel market and ensure UK producers can continue to play on a level playing field. The following measures will be critical in achieving this:

- **Effective UK Steel Safeguards:** EU and UK combined steel demand fell by 3% last year, but tariff free quotas continued to increase to the equivalent of 111% of historical import levels. With steel demand now at just 55% of historical levels and not likely to recover fully for perhaps 2-3 years, it is clear the steel safeguard measures will need major reform and extension. Now outside the EU, the UK Government should urgently be considering what steps it can take as an independent trading nation to strengthen the measures at a UK level after they are introduced in January 2021. This should include reducing the Tariff Rate Quotas in line with actual steel demand, and extending the measures beyond their current expiry date in July 2021.

- **EU and UK Trade Agreement:** Securing a comprehensive trade agreement with the EU in advance of leaving the structures of the Single Market and Customs Union is of critical importance to the steel sector and the current crisis has amplified this hugely. The failure of the EU and UK to reach an agreement would have been disruptive at the best of times, but asking businesses and workers to adapt to it in the midst of this unprecedented economic crisis would be irresponsible and make the UK's recovery unnecessarily difficult. The Government has adopted a pragmatic approach in the light of the Pandemic to do "whatever it takes". In the emerging aftermath of the human and economic disruption caused by the Pandemic it seems entirely appropriate for the Government to maintain this pragmatism and avoid a second level of discontinuity and disruption caused by the failure to maintain practical trading mechanisms. A deal must be reached and a crucial element of this for the steel sector will be securing mutual exemptions for UK and EU steel producers from respective safeguarding measures in 2021.

[19] https://www.nao.org.uk/wp-content/uploads/2010/03/0910490.pdf

[20] http://content.tfl.gov.uk/proposal-national-vehicle-scrappage-fund.pdf

- **Transitional Simplified Customs Procedures:** The Government previously announced that it would not implement any of the 'simplified procedures' it had planned to in the event of a no-deal on the grounds that businesses had time during 2020 to prepare for changes to customs procedures.[21] Given the unprecedented challenges businesses are now facing, the assumptions this assessment of business readiness was based on have now fundamentally changed. UK businesses will have no time to adequately prepare for a drastic change in trading and customs rules between the UK and EU. Likewise the EU both as the central body and the member states are also completely distracted, quite rightly by the pandemic, and therefore are also not prepared. Any successful trading system requires both parties to work effectively together in both directions, therefore pragmatically there needs to be an assessment about both UK and EU's readiness in the light of COVID-19. Whatever the outcome of the UK/EU negotiations it is pragmatic for the Government now to commit to implementing all measures it had been planning to in the event of a 'no-deal Brexit' to minimise the impact on fragile businesses at the end of the year.

[21] https://www.gov.uk/government/news/government-confirms-plans-to-introduce-import-controls

## Priority 3: Laying the Foundations for a Sustainable Recovery

29. Discussions on the UK's future relationship with the EU has dominated the last four years, with domestic policy and implementation suffering enormously. The Covid-19 crisis and the recovery it necessitates, presents an opportunity for the Government to address major policy challenges as part of the UK recovery plan.

30. Firstly, from climate change and infrastructure investment, to an enhanced industrial strategy and addressing the productivity puzzle, the long standing challenges facing the UK are not ones that can be parked without major negative implications. Secondly, as the Government has made clear – the regulatory and political freedom that will be delivered by leaving the EU provides us with the opportunity to do things differently, to take bolder and more decisive action when it is the right thing to do. Finally, and most importantly, the current crisis demands that the state will play a much bigger role in the UK economy for the foreseeable future, spending bigger sums and making more substantial interventions then we have seen for decades. In developing its longer term strategy for recovery we would like to highlight the following priorities:

### Recommendation 8: Publish the National Infrastructure Strategy

31. The Government's recent Budget announcement of a £640 billion public spend on infrastructure will provide the resources to bring forth the 'Infrastructure Revolution' the Government has promised. With this commitment, effectively tripling annual capital expenditure[22], there is now an even greater need to finally publish a National Infrastructure Strategy (NIS) in response 2018's National Infrastructure Assessment (NIA) – its continued delay leaves the UK desperately lacking an overarching forward plan that can stitch together the myriad of different projects, objectives and investments. The NIA effectively provides the Government with an off the shelf strategy, but clearly due consideration must be given to renewed priorities in light of the current crisis. Of particular importance to set out in the strategy will be:

- **Decarbonisation:** Setting out what major strategic investments will be made in the next decade to place us on the road to net-zero. Of critical importance to the steel sector will be: major additional investment in decarbonising the power sector (including offshore wind and nuclear), delivery of a charging network for plug-in vehicles, development on carbon capture and storage and hydrogen, and wider steps in industrial decarbonisation.

- **Energy Supply:** Intimately linked with the challenges of decarbonisation, the UK has significant electricity capacity challenges, as power from unabated fossil fuel plants reduces we must plug the gap with new nuclear and a range of renewables, some of which will be world firsts, all of which will come with their own 'system' challenges. Now more than ever, the energy market and investors need confidence in the direction of travel. It is crucial that the 4th allocation round for Contracts for Difference goes ahead as planned next year, and that the long delayed Energy White Paper is finalised and published as soon as possible.

- **Transport:** The Government should set out clearly its future rail network priorities beyond the first phase of HS2 (including Northern Power House Rail, the details of the £4.2 billion settlement announced for city regions), details on how the additional £27 billion on roads will be spent, the need for investment in port capacity/infrastructure to deliver on the UK's new trading ambitions, and details on the Government's plans for airport capacity.

- **Regional Settlements:** The Government should respond to the NIA's recommendation that new powers and budgets (£43 billion) be devolved to metro mayors and city leaders. The Government previously committed to consulting on how this could be done, such a consultation should be expedited to inform details on regional spending and devolution in the strategy. This will be a core component of delivering on the 'levelling up agenda'.

### Recommendation 9: Develop a world-leading Net Zero Carbon Strategy

32. We are approaching one year since the UK became the first major economy in the world to legislate for a net-zero carbon target. This Government's bold ambition stakes out the UK's commitment to leading the world in

[22] Analysis of the most recent national infrastructure pipeline indicates the £640 billion 2020-2025 capital investment commitment represents a huge increase in annual public expenditure (£120 billion/year compared to NIC projection of £40 billion/year in public expenditure: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/759222/CCS207_CCS1118987248-001_National_Infrastructure_and_Construction_Pipeline_2018_Accessible.pdf

tackling carbon emissions and ensuring temperature rises remain below 2ºC, but it is vital this ambition is now followed up with necessary strategy and details – this is what will ultimately drive the investment that will deliver on the ambition.

33. The road to a net-zero economy is one of critical importance to the steel sector and one it is committed to working proactively with the Government to achieve. The UK's consumption of steel (both imported and domestically produced) is currently a major source of emissions, but steel is also part of the solution – from low-carbon vehicles, wind turbines, tidal lagoons, energy efficient buildings, and all manner of low-carbon public transport options. With the UK's consumption of steel projected to grow in the years ahead, the issue of steel production emissions is one we cannot shy away from. With limited influence over the industrial policies of other countries, it is essential the UK policy looks to drive low-carbon investment in UK steel production, including through the creation of a market for 'low-carbon' steel products.

34. The following elements of a net zero-carbon strategy are of particular importance to the steel sector:

- **Industrial decarbonisation**: The Industrial Strategy Challenge Fund, Industrial Energy Transformation Fund, Clean Steel Fund and others should be expanded with increased budgets and higher match-funding to supercharge investments in decarbonisation of manufacturing processes. The Government should build on and extend its work on industrial decarbonisation, mapping out the policy framework and interventions required to develop a market for low carbon materials in the UK. This would likely include carbon border mechanisms, product standards and certainty around future carbon pricing.

- **Decarbonised power supply**: A key step towards Net Zero is the decarbonisation of the electricity sector. The UK has already significant steps in lowering grid intensity by almost two-thirds over the past 10 years, planned the coal phase-out, and overseen exponential growth in renewable power. However, at the same time, industrial consumers have seen their power prices significantly increase compared to their international competitors. As the UK takes its final steps towards completely greening its power supply, it also needs to place renewed focus on delivering competitive power prices, and for ensuring the significant UK energy consumer spend on energy infrastructure is directed in a manner that grows and supports domestic supply chains – delivering money back to the country.

- **Low-carbon vehicles**: The Government is currently consulting on ending the sale of new petrol, diesel and hybrid cars and vans in the UK by 2035, or earlier if a faster transition appears feasible. The changeover to low-emission vehicles must be accelerated by increasing the support for charging infrastructure and regulations supporting vehicle purchases. Equally important is the need to anchor the automotive manufacturers in the UK, to ensure that we enjoy the full industrial benefit of the transportation transition in terms of jobs, GVA contribution, and investment in UK plc.

- **CCUS and hydrogen infrastructure**: Carbon capture, utilisation, and storage (CCUS) and hydrogen are going to play vital roles in lowering emissions in foundation industries, and as such, plans for rapid deployment of infrastructure and pipelines to deliver these should be created and published. This will allow industry to start planning for potential investment in new low-carbon production methods.

## Recommendation 10: Drive forward the Industrial Strategy

35. The Government's development of an official industrial strategy since 2016 has undoubtedly been a hugely positive development for the steel sector and wider manufacturing. Above all it has set important targets for increasing innovation investment, and created a framework and coordinated plan for doing so via the Industrial Strategy Challenge Fund. The steel sector has been an important beneficiary of this strategy to date, with significant innovation funding allocated to the steel related 'Decarbonising Industrial Clusters' and 'Transforming Foundation Industries' challenges, as well provision of significant capital investment funds in the form of the Industrial Energy Transformation Fund and the Clean Steel Fund.

36. Collectively these represent perhaps the most significant steps forward in targeted policy for the foundation sectors in decades, providing the building blocks to help enable the sector to address the major technical challenges of the future. Crucially this includes: new materials/product development, decarbonisation, digitalisation, and circular material use.

37. However, in spite of these significant steps forward in industrial policy the Government will be aware that significant work remains and that progress outside of innovation/ISCF development has been less significant, particularly in the area of business environment improvement. The development of an industrial strategy is not a discrete task, but a continuous process to constantly ensure the Government's industrial policy continues to reflect and adapt to our changing circumstances and competitive pressures. As the UK turns to restart and recovery it is essential the Government once again picks up the mantle of an industrial strategy and regains the momentum of recent years. Much of what is crucial to the steel sector in this regard has touched upon above: with regards to infrastructure investment, public procurement policy, and industrial decarbonisation – but additional elements that we urge Government to give consideration to in the weeks and months ahead are:

- Maintaining Innovation during recover: The steel sector has a strong record on innovation in response to immediate need and customer requirements. Where is has perhaps been less strong is long term strategic investment. With paybacks uncertain, and often stretching to 5-10 years – the business case is a more difficult one to make for investment even in healthier economic times. In the midst of a recession and severe downturn in demand three is a risk of losing years' worth of critical innovation investment required to address the challenges facing the sector. Clearly programmes such as the ISCF are important here, but further action is likely to be required.

  One possible solution lies in the Research Fund for the Coal and Steel. As the UK leaves the structures of the EU at the end of the year it will lose access to this fund, but will receive around £200 million in returned funds. This money should quickly be established as a UK research fund for the steel industry. Critically within the EU this funding isn't subject to the usual state aid rules as the money is considered industry funds. If the UK were to follow a similar approach, this would allow higher contributions to steel industry projects than typical UKRI funding and thereby help improve the business case for investment within steel companies.

- Business Environment Improvements: At the heart of discussions the steel sector has had with Government in recent years, particularly with regards to the Sector Deal process, were improvements required to the UK's business environment. Most importantly, the steel sector has long called for action to level the playing field with European competitors with regards to electricity prices and business rates. The former costs UK industry an additional £50 million each year, with UK electricity prices for steel producers 60% higher than those of their German counterparts. This not only increases productions costs today, but deters investment and makes the UK a less attractive place for low-carbon steel production reliant as it is on more electricity intensive processes than traditional steel making. Similarly, with UK businesses rates some 5-10 times higher than those experienced elsewhere in the EU, UK producers pay £40-50 million extra each year. As the Businesses Secretary recently noted[23] the Government's control of state aid/subsides policy next year gives it the flexibility to do something on these issues. We urge the Government to use that flexibility to support the steel sector as soon as possible.

[23] Secretary of State for BEIS letter to UK Steel 20 April 2020.

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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