

**Pwyllgor yr Economi,
Masnach a Materion Gwledig**

**Economy, Trade, and
Rural Affairs Committee**

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Rt Hon Vaughan Gething MS

First Minister of Wales

Welsh Government

Jonathan Reynolds MP

Secretary of State for Business and Trade and

President of the Board of Trade

UK Government

Jo Stevens MP

Secretary of State for Wales

UK Government

18 July 2024

Dear Vaughan, Jonathan and Jo,

The future of Welsh steel

Congratulations Jo and Jonathan on your new appointments. To briefly introduce myself, I chair the Senedd's Economy, Trade and Rural Affairs Committee, the Senedd Committee which has been leading on the response to Tata's announcement and the future of Welsh steel. I am aware that it may take some time to establish Westminster Committees following the general election, and until that happens I am aware our Committee is the only Parliamentary Committee looking at this matter.

Since last September we have held a number of evidence sessions with the key players on the future of the steel industry. With a new UK Government in place, I would like to take the opportunity to set out the Committee's evidence-based position on the future of Welsh steel and the impact of Tata's proposed transition.



**Senedd Cymru
Welsh Parliament**

This is a very complex issue, and I have attempted to summarise a great deal of evidence received by the Committee. As a result, this letter is quite long so I have included an overview of our position and a list of our recommendations at the start.

Overview

Whilst the Committee recognises the need to ensure best value for public money we believe the UK and Welsh Governments must take a wider view than just looking at the issue in purely financial terms. We urge the UK and Welsh Governments to invest in a way that supports the best outcomes, including considering national need for steel and the needs of the workers, rather than backing the cheapest option.

The Committee continues to support the retention of Blast Furnace 4. We feel the blast furnace brings value to Wales and the UK as a sovereign asset and the good quality jobs it provides.

We must find a long term solution that works for everyone. It is not long since the Port Talbot steelworks faced a similar uncertain future, and it is not fair on the workers or their communities to go through the fear this uncertainty brings a third time.

We believe the Port Talbot plant has the potential to play an important role supporting the UK to maintain a primary steel-making capability, to produce a product that can be used to support decarbonisation efforts and to continue to provide good quality, productive jobs. It is vital that the UK and Welsh Governments work with partners including Tata and the trade unions to realise this potential, and to support the steelworkers, their families and their community.

Our recommendations to support these aims are as follows:

Recommendation 1: The UK Government should prioritise securing the continued operation of blast furnace 4 through the transition period in its negotiations with Tata.

Recommendation 2: The Welsh Government should urgently develop proposals in devolved areas such as skills and procurement that complements UK Government investment in Tata.

Recommendation 3: Once an agreement has been concluded with Tata, the UK Government should undertake a robust lessons learned exercise in relation to its investment at Port Talbot. It should publish the conclusions of this review.

Recommendation 4: The UK Government should prioritise securing wider investment in Tata's sites as part of its negotiations. Where it would provide a better solution, this should include considering whether to co-invest with steel producers in developing these investments as a shared UK-wide resource, prioritising locating these in Welsh steelmaking communities.

Recommendation 5: The UK Government should ensure that trade unions play a role in the remainder of its negotiations with Tata so that employers and unions are aware of its expectations. The UK

Government should also work with social partners to develop and publish principles for similar future negotiations.

Recommendation 6: The UK Government should prioritise developing plans to reduce electricity prices for the steel sector and other energy-intensive industries.

Recommendation 7: The UK Government should introduce measures to restrict scrap exports to countries with lower environmental standards, and ensure that high-quality UK scrap steel is used by domestic producers.

Recommendation 8: The Welsh and UK Governments should both consider setting procurement targets for use of domestically-produced steel in public sector infrastructure contracts. They should also explore how other European countries have used social and environmental procurement clauses to support their domestic steel industries, introducing these where appropriate.

Recommendation 9: The UK Government should address the concerns of the steel industry about the EU's Carbon Border Adjustment Mechanism (CBAM) and bring forward the introduction of a UK CBAM to 2026, ensuring it is carefully designed to meet the needs of the industry.

Recommendation 10: The UK and Welsh Governments should work with the Transition Board at pace to develop proposals to support redundant workers and the local community to recover from any job losses that take place. These should learn from good practice in the UK and beyond, and should include a focus on bridging the gap between any job losses and the longer-term possibilities presented by decarbonisation and floating offshore wind.

Keeping Blast Furnace 4, and securing the best deal with Tata

The Committee welcomes the new UK Government's early focus on this issue, and wishes you every success in your efforts to secure a deal that works for Tata, the workforce, and our steelmaking communities. It is absolutely vital for the workers, contractors, their families and the community that we find a resolution that works for now and for the long term.

The Committee has consistently called for blast furnace 4 to be retained through the transition at Port Talbot, and we remain convinced that this is the best route to a transition that works for everyone. As you will be aware, on 6 February the Senedd passed a unanimous resolution that there is a viable future for blast furnace steelmaking as part of a just transition to support the Welsh economy and protect a UK sovereign asset. You will also know that, on 4 June, the Senedd unanimously passed a resolution highlighting that retaining the capacity to produce primary steel is central to Wales' economic interests and our transition to net zero.

The Committee acknowledges the challenging financial position Tata is in, and accepts that losing £1 million a day is not sustainable for any business. We also understand the concerns Tata expressed to us in evidence about building a new electric arc furnace (EAF) while continuing to operate a blast

furnace, wanting to optimise the layout of the site, and the additional costs that would result from the approach set out in the multi-union plan.

The evidence we heard from the steel unions acknowledged and addressed these concerns. Alisdair McDiarmid from the Community union told us that a further £500 million investment from the UK Government would be required to deliver the multi-union plan. The unions' experts Syndex concludes that the multi-union plan would deliver positive earnings before interest, taxes, depreciation, and amortization (EBITDA) over the transition period, which Tata's management agrees with, although the multi-union plan would deliver a less positive financial return than Tata's proposals. Syndex also found that building a new electric arc furnace while maintaining blast furnace 4 is "complex but possible", and that, while safety concerns must be taken seriously, "from an engineering point of view a solution exists to build the EAF while the BOS is in operation".

We are clearly not experts in steelmaking and therefore cannot come to any conclusions on technical matters, but have sought to listen to all arguments made on the feasibility of the proposals advanced by Tata and the unions to inform our views. However, we are in a much better position to comment on the human and strategic costs of the transition, particularly given Wales's experience of large-scale job losses in the coal and steel sectors.

We believe that government should take a wider view than just looking at the bottom line, and that government investment should support the best outcome rather than the cheapest. We share Community's view that the overall human and long-term strategic costs of proceeding with Tata's proposals will be much higher than those resulting from the multi-union plan. Dr Dean Stroud of Cardiff University highlighted the impacts of large-scale redundancies, saying that they include "wide-scale generational unemployment, worklessness, high levels of economic inactivity, increased ill health, high levels of deprivation, and also the loss of skills from the region", all of which come at a considerable cost to the public purse.

The wider impacts of the proposals on steelmaking communities must be considered. Professor Dave Worsley of Swansea University told us that at least three additional jobs in the supply chain rely on each direct job at Tata's site in Port Talbot, and that once the wider community is considered, five jobs rely on each direct job. Analysis by Professor Calvin Jones of Cardiff University suggests that we could see annual wage losses of £200 million in Port Talbot as a result of Tata's plans.

Based on all of the evidence we have heard, we call on the UK Government to prioritise securing the continued operation of blast furnace 4 through the transition period in its negotiations with Tata.

The Welsh Government also has a part to play in securing a better deal. It must urgently work to understand how it can complement what the UK Government is able to offer to Tata in devolved areas such as skills and procurement. What the Welsh Government is able to offer should then be included as part of an overall package of combined investment from the two Governments.

Recommendation 1: The UK Government should prioritise securing the continued operation of blast furnace 4 through the transition period in its negotiations with Tata.

Recommendation 2: The Welsh Government should urgently develop proposals in devolved areas such as skills and procurement that complements UK Government investment in Tata.

A long term resolution

Any resolution must be for now and for the long term. The Committee welcomes the UK Government's commitment that job guarantees will form part of its discussions with Tata. As we were told by Unite, it is important any funding is accompanied by strong terms and conditions that will lead to good quality jobs being retained and a fair transition for the workers.

The Committee recognises that Tata has already had significant governmental support. Both the current situation and the crisis in 2016 have put workers, their families and steelmaking communities through significant stress. It is important that, following the sizable support that has been offered, Tata is in a position to continue operating the plant sustainably without another significant injection of public money in the future. It is also important that the deal made between the UK Government and Tata ensures that the steel used in floating offshore wind turbines in the Celtic Sea is made in Wales. We want to see an agreement that will allow their workers to continue to productively support the Welsh economy without the fear of redundancy around the corner.

Given the scale of UK Government investment and the controversy associated with the previous UK Government's plans, the Committee strongly believes that a robust lessons learned review must be undertaken once the future of the plant is secured. It is likely that we will see similar transitions across the UK and it is vital that those communities are treated fairly and supported well through the transition by their employers and relevant public bodies. The conclusions from this review should be published in a way that allows communities and sectors affected by their own transitions to learn from what worked and what did not.

Recommendation 3: Once an agreement has been concluded with Tata, the UK Government should undertake a robust lessons learned exercise in relation to its investment at Port Talbot. It should publish the conclusions of this review.

Wider investment in Tata's sites

The Committee has been encouraged by reports that negotiations have included a focus on future wider investment, and would urge all parties to proceed with this where a good case can be made.

Tata is open to further investment, and has said it will consider the case for a Direct Reduced Iron (DRI) plant if business conditions and Government investment are right. Ben Burggraaf of Net Zero Industry Wales told us that the decommissioned Baglan Bay power station, which has a direct connection to the natural gas transmission network, "should be large enough to support a 3 million

ton per annum DRI plant". We are aware of concerns, in particular from the Community union and Syndex, about whether there is a business case for Tata to invest in a DRI plant. However, Community and Professor Dave Worsley told us that there is a better case for a shared DRI facility that can be used by all UK steel producers. Given the infrastructure available in the Port Talbot area, we believe this makes it a good choice for the location of a shared DRI facility if this is the preferred option.

We also heard from Unite and Community about the potential for building a plate mill in Port Talbot, which we understand forms part of the ongoing negotiations. Alisdair McDiarmid highlighted the need for a plate mill in the UK. Peter Hughes from Unite highlighted the importance of a plate mill for making floating offshore wind turbines, saying that "you can actually make everything that's going out into the Irish sea in Port Talbot, built in Port Talbot, produced in Port Talbot, and manufacturing sites".

Recommendation 4: The UK Government should prioritise securing wider investment in Tata's sites as part of its negotiations. Where it would provide a better solution, this should include considering whether to co-invest with steel producers in developing these investments as a shared UK-wide resource, prioritising locating these in Welsh steelmaking communities.

Industrial relations

Throughout our work, we have heard significant concerns from the unions about their level of involvement in decision-making. This is encapsulated by Alisdair McDiarmid telling us that, "the way the discussions between Tata and the Government were conducted was unacceptable, with absolutely no trade union involvement at all". Charlotte Brumpton-Childs of the GMB highlighted that while details of the deal were "drip fed through the media", "we've had to piece it together before we had a proper meeting with the business". We expect to see greater union involvement in similar negotiations in the future, and have been encouraged to hear that the new Secretary of State for Business and Trade has met with both workers and unions in his first week in the role.

Over recent months, the Committee has been disappointed to hear that Tata has sought to undermine workers' rights through threatening to reduce the generosity of voluntary redundancy payments if industrial action was taken, although we are pleased to hear that Tata has now re-confirmed its commitment to offer an enhanced redundancy package during the current round of voluntary redundancies. We were also shocked by the tactics used by Tata in relation to the proposed industrial action by Unite members, which we felt placed unacceptable pressure on workers. However, we are pleased to hear that Tata and the unions are now back in negotiations with the UK Government on a better deal, and on a Memorandum of Understanding between the company and its workforce.

Recommendation 5: The UK Government should ensure that trade unions play a role in the remainder of its negotiations with Tata so that employers and unions are aware of its expectations. The UK Government should also work with social partners to develop and publish principles for similar future negotiations.

Industrial strategy

We note that the new UK Government has committed to developing an industrial strategy, and establishing an Industrial Strategy Council with representation from the nations and regions of the UK.

The absence of an industrial strategy was seen by unions as having contributed to the challenges faced by the steel industry, with Alisdair McDiarmid saying that the lack of a long-term approach had led to little progress in addressing the industry's key asks. Professor Vera Trappmann from Leeds University told us that acting earlier and having an industrial strategy that looks at decarbonisation would have been a better approach to dealing with the challenges at Port Talbot. This chimes with evidence we heard from Tata, who told us that for the steel industry to pick up, the UK needs to increase the contribution of manufacturing to the economy and that they would imagine a new industrial strategy is required.

The Committee believes that Welsh steel should be at the heart of any new industrial strategy. The Welsh and UK Governments must work together to achieve this and help support the future of Welsh steel production and the associated good quality jobs.

Supporting the Welsh steel industry going forward

EAF steelmaking will play a major role in decarbonising the steel industry not just in the UK, but across Europe. Experts raised a number of key issues with us that are critical to supporting the steel industry throughout its transition to EAF steelmaking, with widespread consensus between steel producers, unions and independent experts. We urge the UK and Welsh Governments to prioritise these issues as part of its work to place steel at the heart of an industrial strategy.

Energy prices

Analysis by UK Steel highlights that British steel producers pay more than twice as much for their electricity as competitors in France and Spain. UK Steel has said that, while the support provided by the British Industry Supercharger is welcome, other decisions made by the previous UK Government on electricity market reforms mean that current policy on electricity prices is “like giving with one hand, while taking with another”.

Celsa Steel said to us that the UK Government should work towards achieving parity with other European nations by reducing network charges and reforming the wholesale electricity market. They say this would involve “delinking electricity prices from gas and making the most of renewable energy sources to lower costs for energy-intensive industries like steel”. Ben Burggraaf told us that competitors such as France and Germany agree longer-term power purchase agreements with energy intensive businesses such as steelmakers, which removes price volatility. He said that, as renewable energy deployment scales up in Wales, this might be a viable way to lower prices.

With the shift towards EAF steelmaking, prompt action to reduce the electricity prices paid by the steel sector will become even more important. The Committee calls on the UK Government to work with the sector to prioritise tackling this issue.

Recommendation 6: The UK Government should prioritise developing plans to reduce electricity prices for the steel sector and other energy-intensive industries.

Scrap steel controls

Tata told us that, of the over 10 million tonnes of scrap steel produced in the UK each year, 8 million tonnes is exported. They have said that the plentiful supply of scrap steel is one reason they chose to move to EAF steelmaking, however they expect there will be a lot of work to do to develop a domestic supply chain.

We heard that UK Government action is required to ensure Tata and other domestic producers have access to a sufficient supply of scrap steel sourced from the UK, particularly the high-quality scrap needed to make products that add the greatest value. Celsa told us that restricting the export of scrap steel to countries with lower environmental standards could help retain high-quality scrap within the UK, and that similar measures are being implemented in the EU. Alisdair McDiarmid and Professor Dave Worsley called for measures to protect scrap which can be used to make the high-quality steels used in Port Talbot, which will likely need to include legislation and export controls.

The move towards greater use of UK scrap steel by domestic producers presents economic and environmental opportunities. To make the most of these, we believe that action is required to restrict exports to countries with lower environmental standards, and to ensure that high-quality scrap is used by UK producers.

Recommendation 7: The UK Government should introduce measures to restrict scrap exports to countries with lower environmental standards, and ensure that high-quality UK scrap steel is used by domestic producers.

Public procurement

We heard from the unions that around 40 per cent of steel used in UK infrastructure projects comes from outside the UK. Alisdair McDiarmid told us that half of that could be made in the UK, and called for procurement targets and social and environmental clauses to be introduced, as is the case in France and Germany.

Both steel producers and unions have called for Government action in relation to procurement. Celsa said to us that the Welsh Government needs to leverage public procurement to favour domestically produced steel. One way it says this could be achieved is setting local content targets for public sector projects, especially those related to green infrastructure such as wind turbines and hydrogen

facilities. Tata has called for the UK Government to set targets for domestically-made steel in public projects, and to incentivise the private sector to source steel from domestic manufacturing supply chains.

Procurement can be a powerful lever for supporting local economies, and procurement of steel is no exception. However we are concerned that in half of the cases where public infrastructure projects use steel from outside the UK, products made in the UK could have been used. We call on the Welsh and UK Governments to take action to address this, and its potential causes.

Recommendation 8: The Welsh and UK Governments should both consider setting procurement targets for use of domestically-produced steel in public sector infrastructure contracts. They should also explore how other European countries have used social and environmental procurement clauses to support their domestic steel industries, introducing these where appropriate.

Carbon Border Adjustment Mechanism

The previous UK Government outlined plans to introduce a Carbon Border Adjustment Mechanism (CBAM) for emissions-intensive sectors of the economy from 2027. However, steel producers have called for the introduction of this to be brought forward to protect the UK from carbon-intensive steel imports, as the EU's CBAM will require EU importers to pay charges based on emission levels of emission-intensive products from 2026.

Celsa told us that doing this “ahead of the EU's timeline can protect the UK steel market”, and that mutual recognition with the EU's CBAM will prevent trade diversion and keep a level playing field for UK producers. Tata has called for the UK CBAM to be brought forward to 2026, and says it will need to be carefully designed to avoid undesirable outcomes. They say that, under current proposals which do not address the import of steel containing goods and competing materials, there is a “high risk that manufacturers will move their operations outside of the UK and EU and import carbon intensive finished goods into both markets”.

We support Welsh steel producers in calling for the introduction of the UK CBAM to be brought forward to align with the introduction of EU changes, to address the risk of potential carbon-intensive imports affecting them.

Recommendation 9: The UK Government should address the concerns of the steel industry about the EU Carbon Border Adjustment Mechanism (CBAM) and bring forward the introduction of a UK CBAM to 2026, ensuring it is carefully designed to meet the needs of the industry.

Future work of the Transition Board

Securing a just transition for the workforce is of critical importance. We welcome the prompt re-establishment of the Transition Board by the new Secretary of State for Wales, and that she has

commissioned a rapid assessment of what support can be offered immediately to workers and communities.

Alongside the funding allocated to the Transition Board, the previous UK Government's approach was to look at long-term investments such as floating offshore wind and the freeport. While we recognise the benefits of these investments, we are also acutely aware of the need to bridge the gap between any job losses and those long-term investments coming to fruition.

We were told by Dr Dean Stroud about the need to learn from the closure of the Ebbw Vale tinplate works, and the need to focus on creating jobs that meet the needs of the workforce, and retraining opportunities that reflect the reality of the local labour market.

We also heard that the Ruhr Valley in Germany is an example of a relatively successful industrial transition, with Dr Stroud telling us that upskilling workers prior to closure of the coalfields led to them being able to undertake skilled, value-added, high-waged work. Dr Stroud also highlighted the role played by social partnership in securing these outcomes.

We heard from Professor Vera Trappmann that short-term work allowances and transfer agencies have been particularly successful when deployed in Germany. While the Government paying workers' salaries is costly, she told us "the benefits are huge", as many of the effects of redundancy are prevented.

Recommendation 10: The UK and Welsh Governments should work with the Transition Board at pace to develop proposals to support redundant workers and the local community to recover from any job losses that take place. These should learn from good practice in the UK and beyond, and should include a focus on bridging the gap between any job losses and the longer-term possibilities presented by decarbonisation and floating offshore wind.

On behalf of the Committee, I wish you every success in securing the best possible deal that works for the company, its workforce, and steelmaking communities. I look forward to your response.

Yours sincerely,



Paul Davies MS

Chair: Economy, Trade and Rural Affairs Committee

We welcome correspondence in Welsh or English