

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

European Standing Committee C

STEEL: PRESERVING SUSTAINABLE JOBS AND
GROWTH IN EUROPE

Tuesday 7 February 2017

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The Committee consisted of the following Members:*Chair:* PHIL WILSON

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|---------------------------------------------------------------------------|---------------------------------------------------------------------|
| † Barclay, Stephen (<i>Lord Commissioner of Her Majesty's Treasury</i>) | † Hurd, Mr Nick (<i>Minister for Climate Change and Industry</i>) |
| † Chishti, Rehman (<i>Gillingham and Rainham</i>) (Con) | † Kinnock, Stephen (<i>Aberavon</i>) (Lab) |
| † Debonnaire, Thangam (<i>Bristol West</i>) (Lab) | † Kyle, Peter (<i>Hove</i>) (Lab) |
| † Fellows, Marion (<i>Motherwell and Wishaw</i>) (SNP) | † Morton, Wendy (<i>Aldridge-Brownhills</i>) (Con) |
| Ferrier, Margaret (<i>Rutherglen and Hamilton West</i>) (SNP) | † Tomlinson, Michael (<i>Mid Dorset and North Poole</i>) (Con) |
| † Fuller, Richard (<i>Bedford</i>) (Con) | |
| † Furniss, Gill (<i>Sheffield, Brightside and Hillsborough</i>) (Lab) | Kenneth Fox, <i>Committee Clerk</i> |
| † Howell, John (<i>Henley</i>) (Con) | † attended the Committee |

The following also attended (Standing Order No. 119(6)):

Blenkinsop, Tom (*Middlesbrough South and East Cleveland*) (Lab)

European Committee C

Tuesday 7 February 2017

[PHIL WILSON *in the Chair*]

Steel: Preserving Sustainable Jobs and Growth in Europe

2.30 pm

The Chair: Before we begin, it might be useful if I reminded Members of European Committee procedure. Proceedings must conclude no later than two and a half hours after we start. First, I shall call a member of the European Scrutiny Committee to make a brief statement about why the Committee decided to refer the documents for debate. Secondly, I shall call the Minister to make a statement. That will be followed by questions for up to one hour, though I have some discretion to extend the time if there is an appetite for me to do so. Thirdly, the Committee will debate the Government motion, and I will put the Question on the motion when it has been debated, or when the time available is exhausted, whichever comes first.

2.31 pm

Stephen Kinnock (Aberavon) (Lab): It is a pleasure to serve under your chairmanship, Mr Wilson. The UK steel industry is of vital national interest. The importance of steel to the maintenance of resilient supply chains and to the strength of our key defence, automotive, construction and rail industries cannot be overstated. As steel is so important, and as the UK steel industry faces major challenges, the European Scrutiny Committee recommended this communication from the European Commission for debate in April 2016. The communication sets out a wide range of proposals intended to ensure that the European steel sector can overcome its short and long-term challenges.

As we prepare to leave the European Union, the development of an effective policy framework to ensure the long-term viability of the UK steel sector becomes even more important. The European framework and rules will continue to apply to the UK until the moment of Brexit, but we need some idea of UK policy thereafter. It is obviously deeply disappointing that despite our repeated reminders, the debate has been delayed for so long. Our frustration at the failure to schedule the debate at a time of crisis in the steel industry led us to arrange a joint evidence session with the Committee on Energy and Climate Change, the Committee on Welsh Affairs, and the Committee on Business, Innovation and Skills in July 2016. Despite that session, a number of fundamental questions raised by the European Scrutiny Committee at the outset remain unanswered, and they assume greater significance given events since then. I hope that the Minister will shed light on those questions today.

The first question is about trade defence. We have asked the Government why they oppose the removal of the lesser duty rule in the face of a continuing flow of cheap steel from China. The long-standing deadlock on that in Brussels was broken in December, and it now

looks likely that the application of the rule will be subject to significant limits. What approach will the Government take to the UK's future trade defence regime to ensure that our steel industry is no less protected than that of the EU?

The second issue that the European Scrutiny Committee raised relates to market economy status for China. We have repeatedly asked the Minister for the Government's position and analysis on granting MES to China, and about whether there were any links between their opposition to limiting the lesser duty rule and wider UK-China trade and investment relations. We asked, in particular, whether bilateral and multilateral discussions thus far had had any success in addressing the challenge of overcapacity and unfair trading practices.

The third area is investment for innovation, modernisation and training. The communication highlights a number of EU funds that are available to strengthen competitiveness, innovation and training. The Committee asked the Government what steps they were taking to encourage industry to avail itself of funding opportunities and to address underutilisation. Although the Government have confirmed that the Treasury will guarantee EU funding obtained before we leave the EU, we asked them what arrangements they would put in place to ensure that the UK steel industry had access in the longer term to funds to support new technologies and modernisation, and, in other cases, to support workers facing structural change and redundancy.

Related to that is the question of state aid. In response to the Committee's questions on what reforms or additional flexibility the Commission might be considering in respect of state aid to the steel sector, and whether the Government would support those, the Minister informed us in late October that the UK has secured state aid compensation for UK energy-intensive industries for the impact of renewables and climate change policy on electricity costs. It is pertinent to ask, then, what approach the Government plan to take to support for the steel sector once the UK is no longer bound by state aid rules.

Finally, the communication on steel highlights energy prices, the emissions trading scheme and the circular economy package, which deals with recycling. There has been much talk in the House of the effects of high energy prices on energy-intensive industries; I will leave that point to other Members to raise. The Committee asked the Minister whether the Government envisaged any short-term amendments to the ETS to address challenges faced by the steel industry. The then Minister informed us in July that the Government were not planning any amendments to the ETS in the short term, and that they were working closely with industry towards an approach that better targets the available free allowances at the sectors that need them most.

The Minister informed us in his last communication that the UK remains an active participant in the latest phase of ETS negotiations, and was hopeful that a general approach could soon be agreed. I look forward to the Minister's briefing on the progress of those negotiations, to his comments on the approach that the Government plan to take in this area following our withdrawal from the EU, and to an informed and lively debate.

The Chair: I call the Minister to make an opening statement. I remind the Committee that interventions are not allowed.

2.37 pm

The Minister for Climate Change and Industry (Mr Nick Hurd): It is a pleasure to serve under your chairmanship, Mr Wilson, I think for the first time. I thank the hon. Member for Aberavon for setting out his stall in such a typically clear way.

I genuinely welcome this debate. The hon. Gentleman is right: this is arguably a pivotal moment in the evolution of steel-making in our country, for all sorts of reasons, not just Brexit. It matters a lot, not least because, as he was right to say, the steel sector is extremely important. It is right to describe it, as Members on both sides of the House do, as a foundation sector. It is important to the general economy, but also matters a great deal in certain parts of the country, and in constituencies where communities and livelihoods depend on it. The Government understand and respect that.

The hon. Gentleman regrets not having an earlier debate. I think he knows, because he is a reasonable man, that quite a lot has happened since the beginning of 2016, but there has been no shortage of debate about the steel sector in the House. In fact, many of us were convened not that long ago in Westminster Hall to address exactly this issue.

Let me start by setting out some of the background to the Commission's communication on steel, published in March 2016. During the past two years, the steel industry has faced very challenging global economic conditions. A combination of low demand in markets such as Europe and the US—demand has not recovered to pre-recession levels—and a slowdown in the rate of China's economic growth and investment created surplus production capacity on a huge scale, which caused steel prices to fall dramatically. It also led to an increase in the volume of steel products dumped on world markets, which had damaging effects on European steel producers.

Collectively, the EU is the second largest steel producer after China, with significant production in a number of member states, including the UK. Steel production accounts for over 1% of EU GDP and employs more than 300,000 workers, mainly in skilled technical jobs. Taking account of that European interest in the steel sector, the Commission communication was intended to set out what a response at EU level could be, and also what member states could do to support their steel sectors and ensure that they were competitive and sustainable.

The communication identified several areas for action at EU and member state level. At EU and international level, those included trade policy and tackling global steel production overcapacity. Within the EU, they included creating innovative and sustainable steel producers through investment in research and development, skills and energy efficiency, and clarifying the state aid rules on support for them. It also encouraged efforts to make the industry more sustainable, and in particular to encourage the recycling of raw materials and waste, as well as steel scrap.

With your permission, Mr Wilson, I will set out what action has been taken by the EU and the Government in those areas. First, on trade policy, which the hon. Member for Aberavon opened with, the communication identified the importance of protecting European steel producers from unfair trade practices. The Government have worked with the Commission and EU member

states to do that. There are now 41 trade defence instruments relating to steel in force within the EU. They have been effective in reducing the level of dumped products significantly, with reductions ranging between 70% and 90%.

The UK has worked with the Commission to accelerate the process of investigation and the imposition of provisional duties. That has been achieved in the two most recent investigations into hot-rolled flat products and heavy plates. In addition, the Commission proposed taking forward the modernisation of the EU's trade defence instruments first proposed in 2013. The UK is fully supportive of the modernisation of those instruments and we continue to work constructively with the Commission, member states and the European Parliament, because global production overcapacity is a challenge faced by all steel-producing countries and requires a global solution.

The World Steel Association estimates that, in 2016, about 70% of production capacity was utilised and 30% was surplus. That is why the G20 chose to act and created the global forum on steel excess capacity at the Hangzhou summit last September. The UK said clearly that we will actively participate in that with G20 and OECD partners to take forward the commitment to exchange information on capacity and to take effective action to tackle the problem.

The hon. Gentleman talked about investment. The communication identified the need for the steel sector in the EU to be sustainable and competitive, an objective the Government share. To support that, the communication sought to clarify the operation of state aid rules in relation to the steel sector. As hon. Members are aware, the steel sector is subject to specific rules, which preclude it from receiving regional or restructuring aid. However, it can receive other forms of aid, including support for research and development, skills development, and energy and environmental projects. The Government have already provided such funding, with significant investment at Warwick and Swansea Universities, funding provided by Innovate UK through the high-value manufacturing catapult centres, and by supporting research and development projects.

We are also able to assist the UK steel sector to access European funding opportunities, whether the research fund for coal and steel or the Horizon 2020 programmes. In addition, I am aware that European structural funds have been used to support projects that will benefit the steel sector in the UK in south Wales and south Yorkshire.

The communication highlighted the fact that state aid rules allow member states to compensate energy-intensive industries for the indirect financing costs of renewable energy support schemes. The Government have already taken action to compensate energy-intensive industries in the UK, including the steel sector. To date, the Government, on behalf of taxpayers, have paid £133 million in compensation to the steel sector for energy-intensive industries.

We fully understand the importance of the steel sector becoming more sustainable. I would go further than that. As the hon. Gentleman knows from previous debates, the Government are interested in helping to move the sector along from a story of survival and hanging on to one of growth and being a dynamic member of the supply chain in the UK. At the request

[Mr Nick Hurd]

of the UK steel sector, we have commissioned a future capabilities study to map the capabilities the sector will need to be competitive and to exploit new market opportunities. One aspect will be to consider technological innovation in steelmaking processes and product life cycle management, which will help to improve the long-term sustainability of the sector.

Our industrial strategy, the first stage of which was published last week, provides a great opportunity for the steel sector to share its vision of a sustainable future with us. We are actively asked it to share its post-Brexit plans and we will work with it, as we have said in public and in private, to ensure a long-term and sustainable future.

In conclusion, the Government have taken action to support the steel sector and respond to the requests made by the industry. We have taken action on trade through 41 trade defence instruments; provided £133 million to compensate for the costs of energy and renewables policy; and given an additional four and a half years for the sector to adapt to secure flexibility in the introduction of EU emissions regulations. We have issued new guidelines on the public procurement of steel, which I hope the hon. Member for Aberavon welcomes, and a pipeline of forthcoming opportunities for which UK steel producers can tender.

The Secretary of State and I will continue to work with the steel sector, the devolved Administrations and other stakeholders such as the all-party parliamentary group on steel and metal related industries, which recently published its report and of which the hon. Member for Aberavon is a distinguished member, to ensure a sustainable and competitive future for the UK steel industry.

The Chair: We now have until 3.37 pm, which is one hour after the start of the statement, for questions to the Minister. I remind Members that questions should be brief. It is open to a Member, subject to my discretion, to ask related supplementary questions.

Gill Furniss (Sheffield, Brightside and Hillsborough) (Lab): It is a pleasure to serve under your chairmanship, Mr Wilson. First, I thank my hon. Friend the Member for Aberavon for his helpful and insightful introduction. I also take this opportunity to congratulate him and his colleagues in the APPG on steel and metal related industries for their recent “Steel 2020” report, which has no small relevance to our discussions. I am sure the Minister has read it thoroughly.

In Yorkshire, the Royce Translational Centre at the Advanced Manufacturing Park in Rotherham will be delivered with £4 million of European regional development fund money. That is expected to support growth and innovation in companies employing more than 13,800 people and is estimated to generate £668 million in the Sheffield city region. Is it the Minister’s opinion that EU funding is still underused and suffering from low take-up and a lack of strategic use? Have the Government reduced their enthusiasm for directing industry towards EU funding?

We would welcome a commitment to match EU funds granted before Brexit. On current timescales, EU funds are set up to 2022, while the Government’s pledge is only up until 2020. Will the Minister confirm that the

total funding available post-Brexit will be significantly reduced due to the lack of access to EU funding programmes, including Horizon 2020?

Mr Hurd: I thank the hon. Lady for her question. The Chancellor of the Exchequer has made public statements about honouring EU funding commitments. Beyond that, in terms of support for things such as technical innovation and research, which she rightly talked about—it is fundamental to a more dynamic future for the sector—she will be well aware that the Government have made it extremely clear that we see innovation as the cornerstone of the industrial strategy. In fact, this Government have made the largest commitment since 1979 to science, research and innovation.

Through the industrial strategy, we are creating an environment in which sectors—as we have said, we fully expect the steel sector to be towards the front of the queue—come to us and say, “This is our vision of the future in terms of both sustainability and growth. This is how we think we can contribute to what you need in terms of productivity, jobs and better wages, but this is what we need from you in terms of unlocking that potential.” That is the kind of conversation we expect to have with a number of sectors, including the steel sector.

I do not know enough about the specific facility that the hon. Lady mentioned, which I am guessing is in her constituency.

Gill Furniss: No, it is alongside it.

Mr Hurd: Okay. I am certainly interested to know more about that. It seems part of an ecosystem that we need to nourish in the future, because access to innovation and new ways of making and doing things will be critical to the sustainable future that we all want for this foundation sector.

Tom Blenkinsop (Middlesbrough South and East Cleveland) (Lab): I have a number of questions for the Minister, some of which stem from the dialogue we had with his predecessor back on 6 July 2016 in a joint sitting of the European Scrutiny Committee, the Business, Innovation and Skills Committee and the Energy and Climate Change Committee. The main issue still outstanding for me is on trade defence measures. I asked the Minister’s predecessor about China playing by the rules and wishing to acquire market economy status. I asked whether it was

“the Government’s policy, whether we are in or outside the EU, to grant China market economy status. At the moment, China, of course, loses \$35 per tonne of steel it produces.”

Of course, we are talking about the Chinese state, because it owns the Chinese steel industry, which is unlike the case of any of our other competitors. I said to the Minister:

“You support the Commission’s strategy for bilateral and multilateral discussions to tackle overcapacity in the market. What specific measures so far?”

could she give as evidence to demonstrate that China was

“playing by the rules and reducing that overcapacity”,

or was it playing by its own statements? All the evidence showed that it was ramping up capacity.

Mr Hurd: I thank the hon. Gentleman for that question. Indeed, may I pay tribute to him for his persistence on this subject? There is rarely a moment when we discuss steel when he does not raise this issue personally. Since the referendum, the Government's objectives have not really changed: our priorities are to maximise the benefits to the UK from international trade, honour our international obligations, and take effective and proportionate action to tackle unfair trade where it arises.

The hon. Gentleman has followed more closely than I have over the years the conversations at EU level about China and market economy status. Clearly, there continue to be major misgivings about that and the continued actions of the Chinese, which is why they do not have the status, which is why they are in dispute. He will know as well as I do that before Christmas, the Commission published a proposal for a new anti-dumping methodology that will cover countries with market economy status and those without it. That proposal is well worth serious consideration, and that is what we are giving it. We want to understand the associated impacts of that. We are looking at that seriously, because it looks like a sensible response to the issue we face.

I come back to the point I made in my statement: overcapacity is a global issue. It is a major issue for the EU, but it is a global issue, which is why I think the initiatives through the G20 steel forum are important.

Tom Blenkinsop: I thank the Minister for that response. At about the time of that conversation with his predecessor, it was the Government's policy to support market economy status for China. Is that still the case? Will we support that, through European channels, while we remain a member of the European Union, and until Brexit? Will we support Chinese requests for market economy status, post-Brexit? Following on from that, European funding will obviously no longer be available post-Brexit; what are the Government's plans on trade defence mechanisms? While we remain a member of the European Union, we are subject to mechanisms that we have, in the main, opposed. What do the Government intend to have happened by this time in 2019, as regards those mechanisms?

Mr Hurd: On China's market economy status, I do not have much to add to what I said. Our focus is on examining the Commission's proposal, which we think is a sensible response to the situation. That is not without its difficulties, because there are different views in the European Council and in the Parliament, so that politically will be a challenge. However, that is where our focus is.

As for the future, post-Brexit, it is difficult/impossible for us to give the forward visibility and certainty that I understand Members want. We are where we are on that. My colleague the Secretary of State for International Trade is leading the work on future trade protection plans, and those will become clearer as we go through the Brexit process.

As I general point, I hope that we have made it clear through the industrial strategy, which is very much interlinked with the Brexit strategy, that this is fundamentally about how we strengthen the competitiveness of the British economy and important sectors within it. The hon. Gentleman knows from the conversations we have had that, within that, the steel sector is extremely important.

As I said in my statement, we have taken active steps to try to help the competitiveness of the sector through a difficult situation. There is more to be done, not least on energy costs, which I am sure we will get to, but I want to try to give the hon. Gentleman some reassurance. As we look to the post-Brexit future, although, naturally, I cannot give him the certainty and visibility he is pressing for, I hope that he takes some reassurance from my saying that we will not do anything stupid to undermine the competitiveness of the economy at this pivotal time. We have to get this right, which is why we need more time to think it through.

Tom Blenkinsop: One last question, if the Committee allows. On the Minister's predecessor's comments about outright opposition to any changes to, or retraction of, state aid rules in respect of rescue and restructuring regional aid for the steel sector, what are the Government's views on those issues, given the debacle at Redcar only two years ago?

Mr Hurd: While we are a member of the EU, we play by the EU rules, and we try to be as creative and intelligent in playing that system as anyone else. As I said in my statement, we have managed to release funds in quite a strategic way. I make no comment on the past, because I was not involved in that process. Looking beyond Brexit and at the Government's approach to using public money to support the competitiveness of key industries, that is work in progress, but the industrial strategy Green Paper is the first step.

Richard Fuller (Bedford) (Con): Of course, the question is not only what gets done, but how speedily those actions are taken. One problem with the EU is that it is lamentably slow. The document that is the source of the debate talks about

"Additional efforts to accelerate the process".

May I ask the Minister some questions on progress? Will he advise us of any progress that he and the Commission have made? For example, the document says:

"The Commission will further optimise its internal procedures, follow a stricter approach when dealing with requests for deadline extensions of questionnaire responses"

and

"streamline hearings by grouping them together."

Those are all very obvious things.

The Commission also says that

"additional reforms need to be considered, taking into account the inter-institutional debate".

Will the Minister advise us on what progress there has been on streamlining inter-institutional debate to assist the steel industry in the EU since May last year?

The document also talks about

"intermediary deadlines such as those for sampling of interested parties or parties' reaction to the disclosure of the essential facts".

Again, that refers to efforts to speed up any progress that is being made. Finally, the document says that

"the Commission will propose a prior surveillance system on steel products."

I ask those questions because an important consideration during the debates was that the EU had been slow off the mark compared to the United States, and it is

[Richard Fuller]

obvious that that is recognised in the document. It sounds to me that some fairly basic, fairly sensible steps were meant to be taken, but quite a few months have passed. Will the Minister update us on any progress that has been made on those issues?

Mr Hurd: I thank my hon. Friend for his questions. I do not think it is any secret: anyone who has dealt with the EU emerges from that process frustrated about the pace of action. That is perhaps not surprising, because getting agreement between 28 countries is convoluted. That is the reality of it; it is slow. The UK has played an honourable role in putting pressure on the system to improve. I would make a couple of observations in response to his questions. Whether the EU has been slow or not in responding, I am reasonably satisfied that we have made significant progress within that response. I cited the 41 trade defence measures that have been put in place, but more important is the impact of those measures, in terms of reductions of 70% to 90% in the level of dumped products. Slow or not, what has been put in place has clearly had an impact.

There has been some suggestion from Members on the Opposition Benches that the UK has been a drag anchor in the process, but that is not the case. We were in the lead in pointing out that provisional duties on products such as rebar and cold-rolled flat products were too low. We pressed for higher definition on that and got that. Higher duties were put on rebar from China. On 29 July, an increase from 9% to 13% was announced.

My hon. Friend talked about pace. Again, we were instrumental in pressing the Commission to conduct its investigations into cases more rapidly than usual, and there is some evidence of response to that. Driving pace continues to be a challenge for any UK Minister involved with the EU, but let us be clear about the context. There is widespread recognition across the EU, not least by the UK, that the sector has a deep structural problem with overcapacity, and it is no secret where most of the problem comes from. In that context, I doubt the EU scores anywhere near 10 out of 10, but it is certainly not at the lower end of ones and twos. There has been significant progress, and the policies put in place have had an impact.

Marion Fellows (Motherwell and Wishaw) (SNP): It is a pleasure to serve under your chairmanship, Mr Wilson. I wanted to ask the Prime Minister—[*Laughter.*] I apologise, but I hope I have woken everyone up by making them laugh. I think we are all rather more tired than normal today. The Prime Minister has said that we will be outside the EU customs union and the single market. In that scenario, we will not be part of anything that the EU is doing to deter Chinese dumping of steel in the UK. Can the Minister confirm that when the UK leaves the EU, the UK tariff on Chinese steel will be consistent with the strong common tariffs that EU states are trying to set at the moment? Is he aware of any World Trade Organisation rules or regulations on tariffs that may restrict the UK's ability to set a tariff on Chinese steel imports to deter dumping?

Mr Hurd: I thank the hon. Lady for that question, although it contained an announcement that might have career-limiting implications for me. I think we call

it an alternative fact. She represents a constituency in which a mothballed plant is coming back to life, and I hope she welcomes that. I congratulate Liberty and all the team involved. It is a good, positive sign for the UK steel sector.

In response to the hon. Lady's main point, which is a fundamental one, I frustratingly cannot give her the exact clarity and visibility that she and colleagues want, because we are about to embark on a complex negotiation, in parallel with which we have to work through a whole set of deep and complex policy responses to the implications of UK independence from the EU, which includes duties and future participation in the emissions trading scheme.

I come back to the point that I made to the hon. Member for Middlesbrough South and East Cleveland: we are acutely aware that we have to do everything we can in this country to maintain the competitiveness of the key industries on which many communities rely for income, jobs and skills. That has arguably never been more important as we take this big step of independence from the EU. That is our great challenge and responsibility as a Government.

Marion Fellows: I thank the Minister for his response, which did not give me the answers I was seeking, as he indicated. I thank him for mentioning the plant in my constituency, which was saved by a work party set up by the Scottish Government. It worked very hard in conjunction with the UK Government, and we managed to save the steel plant, for which I am eternally gratefully. It is important that we know that UK steel will be protected if and when we leave the EU.

Another issue that really affected the plant in my constituency was high electricity and power charges. The devaluation of sterling has had a big impact. We are tied to dollar prices, which makes things very difficult. Has the Minister made any assessment of the effect of that on energy costs for businesses? What support might the UK Government provide after we exit the EU?

Mr Hurd: I thank the hon. Lady for that question and, through her, congratulate everyone involved in what sounds like a very positive process and outcome in relation to the plate rolling mill in her constituency.

Energy costs have been front and centre of every conversation that I have had about the steel sector with leading management in the sector, trade unions and Members of Parliament who are passionate advocates of the steel industry in their constituencies. We recognise two things very clearly. First, I mentioned the £133 million, but even though we have gone a huge way to compensate the industry for policy costs, we still have not reached a point where we have the kind of competitive, level playing field that the sector and others—not just steel—are asking for, quite reasonably in the circumstances. We take that very seriously. If there were an easy answer, we would have pulled the lever, but we have removed something like 85% of the policy costs. We are now in a residual situation where the premium industrial electricity price in the UK reflects wholesale energy prices, network costs and a bit of policy cost. It is not a straightforward situation. We have said—I am sure that this is right—that we need to move on from a sticking plaster-type situation and look at the issue strategically and long term to ensure that our heavy, energy-intensive industry can compete on a level playing field.

As there is not a simple, straightforward solution that I can announce today, we announced in the industrial strategy—in case the hon. Lady missed it—that we are committed to publishing a road map later this year showing how we intend to reduce and control business energy costs. An external review looking at the opportunities to reduce the costs of decarbonisation in the power sector and heavy industry will feed into that road map. There is a very serious piece of work under way that I know from the conversations I have had with representatives of the steel sector is welcome. We are absolutely serious about it; we just need a bit of time to work through it properly, because there is not a silver bullet that we can fire today that will address the issue in a sufficiently strategic and long-term way. We take the issue very seriously, and I hope that the process we have set out reflects that.

Marion Fellows: Finally, will the Minister commit to contacting the Scottish Government, Skills Development Scotland and all the agencies that were involved in the steel taskforce that took part in saving the Dalzell works in my constituency? A lot of good work was done and a lot of innovative ideas were brought forward. If, as the Minister says, the Government are looking at different strategies, I think it would be useful to him to consult with people who have already applied some of those strategies.

Mr Hurd: I thank the hon. Lady for that constructive suggestion. Engagement with devolved Administrations is an incredibly important part of what we do, and I am more than happy to engage with her if she has specific ideas about how I should follow up her suggestion.

Stephen Kinnock: I thank the Minister for his comprehensive answers. The question that needs to be addressed is about the impact of Brexit and what sort of Brexit we are looking at. The Prime Minister said in her Lancaster House speech that she thinks that no deal would be better than a bad deal. That seems to indicate an openness to a WTO-type of Brexit, in which we resort to WTO rules. That is combined with an apparent ambition to get the article 50 negotiations and the future comprehensive trading relationship done within a two-year period, which seems to be a heroic assumption, to say the least.

In that light, does the Minister agree that the impact of a WTO type of Brexit would be catastrophic for the British steel industry, not so much because of the tariffs on steel, which at WTO levels look to be about 2% to 3%, but because of the automotive sector, whose fundamental role as the customer base of so much of this country's steel industry would be wrecked by a 10% tariff on every car we are trying to export into the European Union? Will he assure us that he will press the Prime Minister and other key colleagues as hard as possible to ensure we do not have that form of Brexit?

Mr Hurd: I thank the hon. Gentleman for his question, which I will answer in two parts. First, although I do not blame him for this, the situation we are in precludes any Minister responding to speculation about what the outcome is likely to be. We are embarking on a negotiation, which has to play out. The Prime Minister made it clear in her speech that we are aiming to maximise access and minimise friction—the friction point has been important in the conversations I have had with the industry.

That leads me to my second point. I represent the Department for Business, Energy and Industrial Strategy. A large part of our job is to listen to business and ask two questions, the first of which is: what are your priorities and concerns in relation to Brexit, in terms of both risk and opportunity? The second question, in relation to the industrial strategy, is: what is the most pressing and important issue supporting and underpinning the competitiveness of your sector, and your ability to create good jobs and pay better wages? Those are the conversations we are having at the moment.

It is no secret that tariffs are fundamental to the auto sector, which the hon. Gentleman rightly identified as being extremely important to the dynamic growth potential that we want in the steel sector. It was absolutely fundamental to the conversations that the Secretary of State and I had with Nissan. He knows that, and it is entirely clear why. It is our job as a Department to do two things: first, to ensure that that is properly understood by those leading the negotiations—it is—and, secondly, to reassure large, important companies such as Nissan and give them confidence in the fact that we are going to do everything we can to support the competitiveness of the car industry and the industries that supply it. Nissan made its decision, which everyone welcomed, and there is a series of ongoing conversations with other companies in the same vein. Their concerns are understandable. It is our job to listen to them and do what we can to reassure them, because significant jobs are at stake as a result of the investment decisions they make.

Stephen Kinnock: I thank the Minister for that response. I have one humble suggestion, which is that a push for an interim deal—a transitional arrangement—to smooth the transition into the new form of our relationship with the EU will be absolutely critical to avoid the cliff edge.

I have a specific question on energy and some more generic points. The specific question is this. The Minister rightly pointed out that the Government agreed to provide compensation to energy-intensive industries. That was cleared by the European Commission, in terms of state aid, which was very welcome. We also know that the period of time for that energy-intensive industry compensation package expired last month. The Government put in place no contingency measures, and nothing has been done to secure a permanent exemption for our energy-intensive industries, in terms of being able to provide that aid without having to keep going back to the Commission for approval. Will he give us a specific assurance that our steel industry will not face a cliff edge in April, when the compensation package ceases, with no transition to a new arrangement, which would be disastrous? That is the specific point.

On the more general point, the APPG report was mentioned earlier—I am sure that the Minister has read it closely. I encourage him to accept our recommendations, such as publishing an annual comparison of UK steel industry energy prices with those of our competitors; completing the energy-intensive industry compensation exemption package I just mentioned; looking at wholesale costs and developing mechanisms for UK steel producers to access lower-price wholesale energy, which is a critical issue; looking at network and transition costs, which are far too high in this country; and considering aid to energy efficiency—there are fantastic opportunities, such

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as the off-grid generator in Port Talbot, which would use gases from the blast furnace. What are his views in that context?

Another recommendation was to do with reform of the EU emissions trading scheme, because there is a real problem around what happens in 2021. What will we do to get long-term reform? There is also the broader issue of the remodelling of our energy model. Far too much pain seems to be concentrated in our manufacturing sector. There must be a better way of distributing the costs under climate change policy, which we all welcome. The costs are far too concentrated in our manufacturing and energy-intensive industries. The Minister has said that the Government are looking to reform the energy industry, so I suggest he uses our APPG report as a starting point for that process.

Mr Hurd: I thank the hon. Gentleman for his suggestions. He opened with a humble suggestion—experienced Ministers know that those are the most dangerous. I will, in the same spirit, take what he said on board and feed it to my Secretary of State, whom I am seeing after this Committee, because we have a meeting with the steel sector trade unions. I make that undertaking.

On the energy costs, the assurance the hon. Member for Aberavon is seeking is one that I gave on the Floor of the House at departmental questions the other day. As he knows, we have made a commitment on compensation. We have made it quite clear that we want to move to an exemption-type scheme. He knows because he is well informed, but that process is taking longer than we expected and wanted. We will therefore continue with compensation until that is worked through. I have made that undertaking on the Floor of the House and it stands, because we totally understand the need for consistency and visibility. I hope that that is reasonably clear.

On the broader challenge, I genuinely welcome the APPG report. As the hon. Gentleman knows, it feeds into what I hope is quite a deep collaborative set of conversations between Government and leaders of the steel sector about its future. Those leaders have embraced the challenge we have set, which was that we need to move on from the language of survival, sticking plasters and muddling through, to a situation in which we have politicians and society recognising the steel sector for what it needs to be, which is an incredibly important foundation sector and part of a dynamic and valuable national supply chain. They bind to that, and the process that we are working through is informed by the capability study we funded and input such as the APPG report. That will all feed into, I hope—if the right spirit and rigour are in place—some form of sector deal in which Government and industry can set out their mutual commitment to some form of agreed common goal. That is an exciting process and I hope he welcomes it. We welcome his contribution.

In that context, and going back to what I was saying, the hon. Gentleman and the report are quite right to identify that the issue of energy costs is now a complex one. We have to move from where we are now. After a lot of sticking plasters have been applied, we still have a gap. As he said, the factors determining that are complex and relate to wholesale energy costs, our energy mix and

network costs. They also relate in part to ongoing policy commitments. We need to take a bit of time and work with people who have an interest and expertise in this area, so that we thoroughly investigate all our options.

As the hon. Gentleman might expect, the Department has done a lot of work in this area, but it needs to be sweated a bit harder. Our commitment is to publishing a road map later this year to show what our strategy is. That will be informed by the review that we are setting up, which is, in part, an external challenge relating to our processes and work. This issue is of such importance that it requires a structure and process around it that leads to a strategy that is more long term than the sticking-plaster approach we have taken until now. That has not got us to where we need to be, in respect of having a level playing field for this sector and others—this is not just about the steel sector—that are, quite rightly, pushing us hard.

Michael Tomlinson (Mid Dorset and North Poole) (Con): I want to pick up the point about the automotive sector specifically and the 10% tariffs. The hon. Member for Aberavon said that our Prime Minister—not this Minister—said that no deal was better than a bad deal. However, does the Minister agree that the best way to get a worse deal is by saying that we want a deal at any cost? Specifically on tariffs, the value of the pound has dropped by some 15% since 26 June. Therefore, in the automotive industry there is still a 5% net even on 10% tariffs. Nobody wants tariffs—we all want free trade—but we can surely go into negotiations in the knowledge that we are already 5% better off.

Mr Hurd: I agree with my hon. Friend. The only thing I would add is that currencies move. Therefore, this is not necessarily a structural shift that we can rely on. It has provided some relief and some offset not only for the auto sector, but for the steel sector, as hon. Members who represent steel seats, if I can put it that way, are well aware. The message that I get from chief executives of steel companies is, “Yes, it is helping.” The picture is complicated because some input prices have increased, but either way, we cannot rely on that completely as the long-term solution for the steel sector. The sector is facing other big, structural issues, not least the massive, deep-seated problem of structural overcapacity, which we have to address. Arguably, that is even bigger and more fundamental than the issues raised by Brexit.

Tom Blenkinsop: Added to that, before I get to my question, there is an assumption—this was implicit in the previous question—that an object passes across a national boundary once, but of course, a tariff could be added multiple times depending on how many times the product has to go over national boundaries.

I want to revisit a question I have asked before—I asked this question to the Minister’s predecessor—on the Government’s opposition to any relaxation of state aid rules in respect of rescue and restructure and regional aid for the steel sector in the interim before we get to a change of situation in 2019. The Government said that they have

“reconsidered the arguments for relaxing the rules for steel in respect of both rescue and restructuring and regional aid. However, we are concerned that, in the context of global excess capacity”—

which is still there, of course—

“if Member States were able to offer rescue and restructuring aid, this would simply depress prices and allow inefficient plants to continue to the detriment of all.”

Of course, in that window of time, the second most efficient plant in the European Union closed—namely, Teesside Cast Products in Redcar. Does the Minister believe that that position is still logical, given the results?

My second point relates to previous rescue plans, which have worked, of course. Redcar was saved once before. Dalzell was saved as a result of Scottish Government and national Government action. There is also an argument about the saving of Scunthorpe steelworks. A mill is a lot easier to save than an integrated steelworks, but without any slab to squash at a mill, there would not be any product to squash. That shows exactly the integrated nature of steel, or rather, its British nature—rather than English or Scottish.

What lessons have the Government learned from those plans? We have seen Greybull come in and save the old long products division of Tata; Tata itself has changed its position through good interaction with the Government and trade unions, and Liberty, of course, has stepped in in a number of plants across the UK. What model have we learned from them? What lessons can we learn for a post-Brexit Britain that we can take forward and build on? What processes are the Government putting in flow to make sure that we have a materials strategy to develop a UK steel industry and attract further investment around our expertise, which is widely known across the world?

Mr Hurd: I thank the hon. Gentleman for a typically thoughtful intervention. On my predecessor, I think she was always logical, at least in her own mind. As for the state aid strategy, I come back to what I was saying before: we have to work through the whole set of complex, challenging Brexit issues and see where we come through, in terms of our ability to make funds available, and our strategy to support the competitiveness of our industries. That is clearly work in progress.

On Redcar, I recently had the privilege to visit the site. It was one of the most memorable and impressive ministerial visits I have ever been on. I was enormously impressed by the scale of the site and the industrial landscape that it sat in, and the clear sense of opportunity that still resides there, as well as by the people I met—not just their resilience in coping with a seismic shock, but how they had moved on from that into a determination to secure an attractive future for the site and the area.

The hon. Gentleman knows that my Secretary of State was born and bred in that area. We are determined to play what part we can in supporting a cost-effective regeneration of the site. There is clearly plenty of potential there, and plenty of players who are looking at that site and saying, “We want to be part of that. We have a vision for that site. We can see how we can regenerate it.” There are deep complexities associated with it, in terms of the costs of cleaning it up—the hon. Gentleman knows that—and there are complexities relating to charges that the Thai banks have on that, but there is a group of people who have our support and who are determined to work through all those issues. That visit simply further galvanised me into making sure that we play our

full part in that process, however difficult the challenge. The site has enormous potential to be reborn as a generator of great jobs.

Motion made, and Question proposed.

That the Committee takes note of European Union Document No. 7195/16, a Communication from the Commission on Steel: Preserving sustainable jobs and growth in Europe; and notes the action taken by the Government to secure a sustainable and competitive future for the steel industry in the United Kingdom.—
(*Mr Hurd.*)

3.28 pm

Gill Furniss: The UK steel industry is a foundation industry that underpins many others and has a supply chain that runs across the country. It is an innovative sector, with new products constantly being created. It is also a sector that requires careful planning and a co-ordinated strategy, particularly around trade but also around training, around access to funding for research and development and for innovation, and around decarbonisation and energy costs.

We are here due to the insufficiency of the answers given to the European Scrutiny Committee on the Government’s position across issues affecting the steel sector before the Brexit vote, so I would have expected the Minister to be at pains to make the Government’s strategy as clear as possible. I can see that he is not doing so, for several reasons, I understand the complexities of the negotiations ahead, but the Minister has left a lot of questions unanswered.

Recently in the Chamber, I noted in a question that the industrial strategy Green Paper referred to steel on only one occasion. The only clarification that I received from the Government then was that they had had very productive discussions with the industry; the Minister has certainly reiterated that today.

I am very concerned about the lack of any clarity on the compensation energy package. It is getting closer and closer every day, and we certainly do not want to be at the cliff-edge, as my hon. Friend the Member for Aberavon described it. I am sure we will all be pursuing the matter further. We really need some concrete answers about the Government’s plans for trade defence measures, about international co-operation on Chinese dumping and overcapacity, about what will be available once EU funding sources have gone, and about the ETS.

There is still a crisis in the steel industry. Steelworkers throughout the UK and working people in the industries that depend on steel all along the supply chain deserve some clarity on what is being done to support the sector at this crucial time.

3.30 pm

Stephen Kinnock: On behalf of the European Scrutiny Committee, I thank the Minister for his time today. To follow up on the additional challenges made by my hon. Friend the Member for Sheffield, Brightside and Hillsborough, we have not really talked enough today about the long-term future of the industry in respect of research and development and skills. I commend to the Minister the all-party group’s report, in which we make a number of recommendations such as establishing tripartite public-private partnerships that also involve the trade unions, to identify capability gaps so that we have the right skills for a future-facing industry.

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We need low-cost loans to support R and D and innovation. We want the Government to consider intervening more in incidents of corporate failure, particularly with soft loans and with the financial underpinning that is required for things like mothballing, which needs to be far more carefully and strategically managed. We feel that there is a real need to look at the opportunity of creating a national bank for industry that would give the kind of short and long-term financial assistance that is required for research and development.

Fundamentally, it comes down to primary steel making in this country. If we are committed to primary steel making, we have to ensure that we have a blast furnace capability that is fit for the future, has maximum efficiency and is able to make as broad as possible a portfolio of products to keep the British steel industry at the cutting edge. That will require support from the Government, and it will require industry to step up, along with our friends in the trade union movement.

3.33 pm

Mr Hurd: I thank all hon. Members who have contributed today—I genuinely welcome all their contributions.

A point that I omitted in my response to the hon. Member for Middlesbrough South and East Cleveland, but that was picked up by the hon. Members for Sheffield, Brightside and Hillsborough, and for Aberavon, was the need to support the industry in research, innovation and the exploration of material development. The Government have made a very big commitment and statement of intent with our support for innovation. It is generally recognised that we look to the future of steel making in the UK.

There is a fundamental issue about supporting the competitiveness of primary steel making, but there is a big challenge with the value that we add in this country.

Most commentators on the industry think that that has to be a large part of the future, and the process of research and innovation is a large agent of it. That is certainly part of the conversation that I expect to have with the sector as part of the construction of a sector deal. We want to hear from many organisations within the steel ecosystem, such as the Materials Processing Institute, on the sector's needs, and we expect their views to be reflected in the capability study that we have commissioned on behalf of the sector.

I do not want to leave Members in any doubt about the importance that we attach to that agenda or to the steel sector. The hon. Member for Sheffield, Brightside and Hillsborough spent a lot of time trying to check how many references there were to the steel sector in the industrial strategy. She rather misses the point, because we want to move on from the past where the industrial strategy was about picking a few sectors that the Government threw everything at. Some Opposition Members may regret that. Our challenge to sectors is this: here is what we want to achieve and this is what the strategy is about—improving productivity, securing better quality jobs in areas that need them, helping young people to get the skills they will need to take the jobs of the future—so how can they help us? What is their vision and strategy for growth and adding value, and what role can we play in helping to unlock the potential that they seek? We have made it very clear to the steel sector—it has embraced this—that we expect to hear from it because it is a foundation sector, as we have described. I do not use that word lightly because we want to move on from the process of picking winners, but we recognise that the steel sector is a foundation sector and our challenge to it is to work with us to move it on from a story of survival to one of growth.

Question put and agreed to.

3.36 pm

Committee rose.