



Welsh Affairs Committee

Oral evidence: The steel industry in Wales, HC 130 Monday 23 May 2016

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Members present: David T.C. Davies; Glyn Davies; Stephen Kinnock; Liz Saville Roberts; Craig Williams; Mr Mark Williams.

Questions 138-161

Examination of Witnesses

Witnesses: **Andrea Leadsom MP**, Minister of State, and **Phil Van Heyningen**, Head of Industrial Energy Use, Department for Energy and Climate Change, gave evidence.

Q138 Chair: First of all, can I begin by asking you if you would agree with the point made by steel producers and other heavy manufacturers that energy prices in the UK are too expensive at the moment and that we should be looking for ways to reduce them?

Andrea Leadsom: As we have just discussed in the last hearing, we are absolutely investing in energy infrastructure. The reason why electricity prices in the UK are higher than elsewhere in the European Union is precisely because nobody invested in the electricity infrastructure, so we are now making the investment that should have been being made in the last 20 or so years. Second only to the mess that the Labour Government left the economy in was the mess they left the energy sector in. Let us be very clear about that. We are now having a blip because we have to make the investment that they failed to make.

In answer to your question, gas prices in the UK are relatively cheap compared to the EU15. Electricity prices are high compared to the EU15, so the steps that we are taking—

Q139 Chair: But would you agree that they are too high? I am not disputing where the blame lies or trying to allocate it—I would probably tend to agree with you, of course—but would you agree with the principle that they are too high?

Andrea Leadsom: Yes, I think electricity prices are too high and I certainly think we are doing everything possible to bring down those costs and, in particular, to help support the energy-intensive industries to deal with those costs.

Q140 Chair: Right, but would you agree that one of the reasons—and this is what was put to us by the steel producers and others as well—why they are high, too high, in fact, as you agree, is because of the carbon floor price? Would you agree that that has been a factor?

Andrea Leadsom: As I say, I think I have given my reasons. The lack of investment in the energy infrastructure is the reason we are now being forced to invest late in the day in renewing our energy infrastructure. We need something like—

Q141 Chair: With all due respect, you would agree—and you have just done so—that electricity prices are too high anyway? You have just agreed with that proposition, albeit that you blame a previous Government, which is fine, but you would agree that at this moment, at this time, electricity prices are too high for manufacturers?

Andrea Leadsom: I have agreed with you that electricity prices in the UK are high compared to the EU15.

Q142 Chair: We must do more to help users of electricity, commercial users?

Andrea Leadsom: What we are doing is a tremendous amount to try to help energy-intensive industries. We are investing in our energy infrastructure to make sure that we have secure, affordable and lower-carbon electricity for the future. As things stand, what we are doing specifically to mitigate the impact for energy-intensive industries is to provide compensation for them against policy costs that, as I have just explained, are designed to renew our energy infrastructure. We now have EU state aid approved to enable us to exempt energy-intensive industries from policy costs. That will help a great deal.

Q143 Chair: You would agree that one of the policy costs was the carbon floor price and that, effectively, we are now compensating industries for a policy that we introduced?

Andrea Leadsom: I do not agree with the direction of your questioning because what we are trying to do—

Chair: You do not know what direction I am going to take. I am just putting the facts. I am not trying to catch anyone out here. I am saying that we, the UK Government—a UK Government—have introduced a carbon floor price and now it is compensating industries for the impact that that carbon floor price is having.

Andrea Leadsom: The basis on which you are saying that is not right. We have also introduced new offshore wind projects. We have also introduced new nuclear projects. Obviously, as a result of our decision to meet the energy trilemma, which is a clean energy future where we keep the bills down and the lights on, we have taken policy steps. By definition those policy steps have an impact on the price, so what we are seeking to do is militate against that by compensating and then, as soon as we can, exempting energy-intensive industries from the impact of that to enable us to avoid carbon leakage.

Phil Van Heyningen: Specifically in relation to the carbon floor price, of course, as well as the compensation paid to energy-intensive industries such as steel, the Treasury has also capped the rate of the carbon floor price in recognition of the discrepancy between the EU carbon price and the carbon floor price trajectory. Treasury has said that they will make a further announcement on the future trajectory of the carbon floor price in the autumn statement.

Q144 Chair: How long did it take to get EU agreement to an exemption from state aid rules for energy-intensive industries?

Andrea Leadsom: The state aid clearance I think came in December 2015.

Q145 Chair: When was the application put in?

Phil Van Heyningen: It was BIS-led on the process of getting state aid clearance, so I do not have an exact date for when the process began.

Andrea Leadsom: We can write to you with that.

Q146 Chair: It took a while, I understand. Effectively, if we want to exempt industries from policies that we introduce, we have to have permission from the European Union to do so?

Andrea Leadsom: That is correct.

Chair: Right, okay.

Q147 Liz Saville Roberts: None the less, given that the European Parliament voted against giving China market economy status—and that against the wishes of Conservative MEPs—is it not evident that the steel industry would be better served by the European Union, which prioritises European workers' interests, rather than by the UK Government alone, which prioritises the interests of China?

Andrea Leadsom: That question does not make any sense to me. Why do you say the UK Government prioritises the interests of China?

Liz Saville Roberts: Because Conservative MEPs voted in favour of giving China market economy status, which in itself encourages the present situation with the steel glut.

Andrea Leadsom: The UK Government entirely support the UK steel sector. Nobody could have done more. If you talk to the EEF, UK Steel, the trade body, they will say that, particularly in the energy space, the UK Government have done all they possibly can. I just do not accept what you are saying at any level.

Q148 Chair: I let you get away with that but, to be fair, Ms Leadsom is the DECC Minister, not the Business Secretary, so we probably are going into—

Andrea Leadsom: I think the BIS team could not have done more. They have worked so hard to try to support UK steel, and Welsh steel in particular. They have absolutely bent over backwards, so I just think it is quite an insult to suggest that they are looking after Chinese interests. That is just rubbish.

Chair: Do you have a further question, perhaps on whether or not things are now price competitive?

Q149 Liz Saville Roberts: Yes—a question in relation to the energy prices for UK steel producers and whether they are now sufficiently price competitive to enable them to be competitive with foreign rivals.

Andrea Leadsom: Are you talking about the UK steel sector or energy generally?

Liz Saville Roberts: UK steel producers.

Andrea Leadsom: Yes, so most UK steel producers use coal-fired power and for those the competitive issue with specific regards to energy prices they are competitive. The issue is the electric arc furnaces. As I understand it—and please let us be clear this is a BIS lead—where electricity costs are concerned, it is the smaller group of UK steel manufacturers that use electric arc furnaces who are exposed to the relatively higher costs of electricity who by 2020 will be exempted from 80% of policy costs. As I keep saying, this is why we are investing in the electricity infrastructure to get the electricity costs down. We are doing a lot with interconnectors and so on to try to get access to cheaper electricity. It is absolutely the focus for this Government to get those costs down, but we are up against this lack of investment. What we are doing as an interim measure is we are exempting those energy-intensive industries from policy costs, 80% of it by 2020, to try to ensure that we keep competitive. But, as I say, those who have the coal-fired power are in a much better position. We understand that their energy costs are about 3% of their total costs.

Paul Van Heyningen: Yes. The Office for National Statistics figures show that electricity costs are about 3% of total costs of the steel industry as a whole. There are different ways to work out these figures, so you can hear slightly different figures. As the Minister has said, that figure will vary considerably for different types of producers of steel, so we do understand there are different figures.

Q150 Liz Saville Roberts: How does this compare, if I might ask, with what other countries are doing to balance the tension inherent in reducing carbon emissions and supporting steel industries?

Andrea Leadsom: Well, Germany, for example, exempts I think all businesses or all large businesses from policy costs and obviously that adds to householders and smaller businesses, as I understand it, but I am not an expert in what other countries are doing. Do you want to add to that?

Paul Van Heyningen: A number of other European countries are providing compensation or exemptions of different kinds in a similar way to the UK. As the Minister said, Germany provides an exemption, not for all businesses but for the most energy-intensive businesses as well.

Q151 Liz Saville Roberts: Is there anything to prevent the UK from doing that?

Andrea Leadsom: That is exactly what we are doing. As we just said, from December 2015 we have had EU state aid agreement to exempt energy-intensive industries from policy costs. As things stand they receive compensation, but we need to make changes to the way in which we collect costs and then exempt them from them. I think we will be able to do that by 2020.

Certainly the trade body, the UK steel trade body has said, and I quote, “Government has done everything it can on compensation, it is pretty maxed out”.

Q152 Glyn Davies: I have a couple of questions about the European Commission's trading system. Rule me out of order if the questions are more appropriately put to a BIS Minister—

Chair: I expect the Minister will do that.

Glyn Davies: I am sure the Minister will tell me, I don't mind. It may well be. The way in which the emissions trading system works can be a bit of a mystery, but what I have in my mind is that the European Commission want to make amendments to that, to change the system. Is the British Government's position open to amendments to the European emissions trading system?

Andrea Leadsom: The UK is putting forward its own ideas for how the ETS scheme will be revised and we are very keen to see it become much more effective. It has had too much slack in the system, which has meant that there has not been a proper price for emissions certificates, which has led to a failure to create a level playing field across the EU. That is now being reviewed and the UK has put our ideas forward to that review. So yes, I think the UK is definitely trying to work with the EU to resolve the problems.

Q153 Glyn Davies: Is UK industry—I am thinking about steel—currently benefiting from the free allocation allowances under the trading system?

Andrea Leadsom: Some industries have in the past received more allowances than they need to cover their emissions, particularly due to falling production levels following the 2008 financial crisis. However, as the total amount of emissions allowed under the ETS scheme declines each year, the total amount of free allowances available reduces. So what the UK is pushing for is an approach that better targets the available free allowances on the sectors that need the most. That is the ones with high emissions and heavily internationally traded. So I imagine that steel would be at the top of that list. UK steel, among other industry bodies, has publicly supported the UK's approach so we are working carefully to try to further our proposals with the EU.

Q154 Chair: Isn't one of the unintended consequences of the current scheme that if a company shuts down a steelworks, then they would be able to sell the emissions that they are now no longer making on the European market? So there is a kind of unintended effect where it becomes profitable to move companies out of the EU and then to sell the emissions certificates.

Andrea Leadsom: As I say, that is why the ETS scheme is being reviewed and tightened up. I think people would agree that it has had weaknesses and excessive emissions certificates allowances being available is one of the weaknesses of the system in the past.

Q155 Chair: I think you were a banker in a past life, Minister, and a very successful one. I cannot help thinking that you must think this is a pretty daft system paying people money not to emit things and paying them money effectively to shut down their companies, move them elsewhere, giving compensation back to companies for taxes that you have already levied after you have gone through a bureaucratic steeplechase. It is not something you would have ever considered particularly useful in the private sector, is it?

Andrea Leadsom: Speaking as an Energy Minister in the Government, I would say that it is very important that we get this scheme reviewed and tightened up so that that leakage and the weakness in the system cannot continue. Do you want to add anything, Paul?

Paul Van Heyningen: I don't think so.

Q156 Chair: Can I ask you another question, then, which we put to Anna Soubry, the Business Minister? I asked her if she had any figures for the percentage of British steel that is used in renewable energy products and I am still waiting for some figures on this.

Andrea Leadsom: Yes. So, unfortunately, as things stand, we do not have tight records, but what I can tell you is that since I became Energy Minister this is my absolute top subject: what are we doing to get more UK supply chain? In particular, I am frustrated that in the offshore wind space, unfortunately, not only have most of the investors come from abroad, but also so has much of the supply chain. I don't think it is good enough. I have been very clear with developers who are benefiting from the generosity of the UK bill payer that they need to pull their finger out to make sure that the UK supply chain maxes out their contribution to the build of these offshore wind projects. The same is true with nuclear. We are absolutely keen as anything to ensure that the UK supply chain benefits enormously from these projects that are being built at the expense of the UK bill payer.

In terms of UK steel—which is your question—we don't have hard data but we will be working on getting it. It is obviously going to take time because it has not been something that has been recorded in the past. What I can tell you is that, whenever I meet with developers, I am rattling them and saying, “We want to see more UK, what more can you give to the UK?” I think there is huge potential if we can succeed in that.

Q157 Chair: Anecdotally, of course, one of the few manufacturers of the towers was in my constituency. I opened it with the former Energy Minister, Mr Hendry, and it has now closed down because—as they put it to me anecdotally—they were watching foreign made wind turbines floating past them literally on the Severn. Do you share my view that it is ludicrous that we are taxing companies—

Andrea Leadsom: Totally, yes. Not only that, but when things float past they have probably floated a long way in a diesel-run ship, which is utterly ludicrous as well.

Q158 Chair: They are only able to do it because of the generosity of the high-tax-paying manufacturers who are themselves leaving because they are paying so much for their energy costs, unless they are compensated in time for it. None of it makes any sense to me at all. I think the Business Minister described the whole thing as “barmy and we wouldn't start from here.” Is that fair description? I thought it was.

Andrea Leadsom: I am not privy to exactly what she said. I would not use her words but what I would say is we have had a policy reset in the energy space. We are making massive investments in energy infrastructure, as I have said time and again, which is vital for our future energy security. It should have happened before, over the last 20 years. So now this Government is absolutely taking that by storm. It is one of my top priorities, and I know the BIS Minister as well, Anna Soubry, is absolutely determined to make sure that the UK supply chain benefits from these big investments, including UK steel.

Q159 Liz Saville Roberts: Of course we welcome what you say about the policy initiative and the supply chain. Can you give us any idea of the percentage of the steel approximately that would be used in Wylfa Newydd that is UK supplied? If you cannot give us an exact-ish figure, what is the means by which you will ensure that UK steel is used at Wylfa Newydd?

Andrea Leadsom: As things stand, we don't have a specific design plan, so it is not possible for me to give you that number. You will also be aware that we are not permitted to require UK content under EU law, so what we will be doing is persuading as far as possible with, I think, very willing developers who absolutely express the desire to use UK content wherever it makes sense to do so. So we are pushing against an open door. I am sorry, I cannot give you any hard and fast numbers but I can tell you that we expect to be working closely with developers on maximising UK steel and other supply chain content. Can you add anything to that, Paul?

Paul Van Heyningen: Not really.

Q160 Chair: I think it is a very important point that Ms Saville Roberts has just raised here. If an energy project is reliant on a strike price or some form of Government support in order to be profitable, is the company obliged to put out to tender contracts for the supply of materials or expertise across the whole of the EU, or can they themselves decide, "We're a private company. We are going to give the whole lot to local companies and buy local produce even if there is somebody in Europe who can do it cheaper"?

Andrea Leadsom: I believe that they have to procure right across the EU, but equally they can decide to give the contract to UK suppliers, and certainly what I can say is that the UK Government now have a procurement policy that allows taking account of the local jobs and economic situation and not just the cheapest price. So I think that is very important.

Q161 Chair: So they have to put the contract out to tender across the EU but they can—

Andrea Leadsom: I think so. Is that right, Paul? I might have to check that. Does anyone know? I think they do have to. Do they have to? Yes? We think they do have to.

Chair: I appreciate it is a fairly technical question and I wonder, having thrown it out there—

Andrea Leadsom: We will clarify that with the Committee.

Chair: Yes, that would be most helpful. That is all from me. Nobody else is catching my eye so thank you very much indeed, Secretary of State, for that.

Andrea Leadsom: Thank you. Great, thanks very much.

Chair: If we could have that answer at some point. I know it is a bit technical and a legal matter but it is of great interest. Thank you very much.