



Government's response to the North East Regional Committee's Second Report of Session 2009-10 into Teesside Cast Products

Presented to Parliament by the Secretary of State for Business,
Innovation and Skills

By Command of Her Majesty

April 2010

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Introduction

The North East Regional Committee published its second Report of Session 2009-10 on Teesside Cast Products on 8 March 2010. The Government welcomes the Report and thanks the Committee for its work.

The Government responds specifically to the conclusions and recommendations on page 19 of the Report. The paragraph numbers and relevant text have been reproduced from the Committee's Report and are set in bold type above the Government's response.

The Government's Response

- 1. The central priority for Corus and for the Government, the trade unions and the region must be to find a way to return the plant to operation as soon as possible and to maintain the jobs of a highly skilled workforce until what may well be a temporary downturn in world steel prices has been worked through. In particular, the development of the offshore wind industry, the infrastructure required to implement carbon capture and storage and the other opportunities in developing the low carbon industries of the future will all need substantial quantities of good-quality steel. It seems counterproductive and classically short term, to remove a local steel producer from the area just as these industries are developing. (Paragraph 10)**

Since Corus first proposed mothballing some facilities at Teesside Cast Products (TCP) in May 2009, there has been extensive ministerial engagement to try and secure the long term future of the plant. The Government continues to engage with Corus and Tata at the highest levels to ensure that all possible options, including the potential sale of a majority stake that would secure the future of Teesside Cast Products are pursued and we will continue to work towards this end.

Ultimately, the decision to mothball the TCP plant is a commercial matter for Corus. As Jon Bolton, Managing Director of TCP explained when giving oral evidence to the Committee, the key issue for TCP is lack of demand for its steel slab at viable prices and the need for a strategic partner willing to invest and to take significant volumes of steel slab. Jon Bolton has also stated to the Committee that Corus believe that any increased domestic demand as a result of the developments in offshore wind, carbon capture and storage and low carbon industries more generally can be met from their other existing UK operations that have also been operating below capacity.

The Government is committed to helping the North East economy thrive and will not walk away. Corus's decision presents challenges and we will keep working to try to secure a future for the plant, but we must also look for and develop other opportunities to diversify and strengthen the Tees Valley economy. The £60 million support package announced in December 2009 is being delivered through the Tees Valley Industrial Programme (TVIP). It will address immediate issues arising from the mothballing of the TCP plant and provide longer term support for the Tees Valley economy, including diversification into Carbon Capture and Storage (CCS) and low carbon industries.

- 2. The short-sighted decision by Corus to close its rolling mill at Redcar and Lackenby eight years ago has left it unable to respond flexibly to changes in the world steel market in a way that would guarantee continued production on Teesside. This is not simply a statement that benefits from 20:20 hindsight. They were told at the time by the local trade unions and politicians that this would be the result of their action. The Government would be well advised to note the fact that local trade unions and politicians have a track record of forecasting outcomes correctly, and, in reflecting on that fact, they should give additional weight to their views in relation to the present situation. (Paragraph 17)**

The Government acknowledges that local trade unions and politicians have specific knowledge and experience to offer and we recognise that they are important partners in devising and delivering a recovery strategy for the sector and the region.

The Prime Minister, Lord Mandelson, the Regional Minister and other ministers have met or spoken to the trade unions, local politicians and MPs in respect of the situation at Teesside to explore every avenue for supporting the workforce to help those workers who will be made redundant, to explore what more can be done to secure a future for the plant and to provide support for the wider Tees Valley economy.

- 3. We urge the Government to continue to work with Tata and Corus and the unions on both sites to explore fully the inherent potential in the Llanwern proposal and to seek support from the European Union to progress the initiative. (Paragraph 18)**

Any decision on linking slab production at Teesside to hot rolling facilities at Llanwern is a commercial and operational matter for Corus. The key issue for TCP is lack of demand for its steel slab at viable prices and the need for a strategic partner willing to invest and to take significant volumes of steel slab. This is what needs to be achieved if the plant is to re-start and have a viable future. The Government will continue to work hard towards this end.

4. Any agreement on compensation from the consortium must fully consider the impact on the public purse of the disgraceful and reckless behaviour of members of the consortium and, where appropriate, compensation to the public purse should be paid. (Paragraph 21)

The services provided to assist those workers being made redundant are services that would be provided in response to any such large scale redundancy situation. The Government does not have a mechanism or powers for recovering such costs from companies. Any agreement on compensation under the terms of the arbitration arrangements is a commercial and legal matter between the parties concerned and not a matter for Government.

5. The Government is to be commended on its swift response to the mothballing announcement. (Paragraph 23)

The Government welcomes the Committee's recognition of the swift response to the mothballing announcement. The establishment of the Corus Response Group in May 2009 and the announcement of the £60 million support package by the Secretary of State for Business, Innovation and Skills in December 2009 have shown the Government and regional partners' commitment to supporting both the workers at TCP and the wider Tees Valley economy.

The Response Group is chaired by One North East and representatives include Corus, Vera Baird MP, Business and Enterprise North East (BENE), Jobcentre Plus, Learning and Skills Council, North East Chamber of Commerce, Confederation of British Industry, Engineering Employers Federation Northern, Redcar and Cleveland Borough Council, Teesside Works Multi Union Chair, Communitas, Tees Valley Regeneration, Tees Valley Unlimited, and the Government Office for the North East.

The Response Group continues to provide support to workers and businesses affected by the mothballing decision. Since the mothballing process commenced, the focus has been on supporting workers to find new employment or opportunities. Jobcentre Plus and partners have carried out over 1,600 briefings with TCP and contract workers and, along with Corus, hosted a jobs and opportunities event on 8 and 9 March 2010 attended by over 1,000 individuals and 56 employer organisations. Business Link has also engaged with 250 employees through initial self employment sessions, and 153 are receiving follow up support.

The £60 million support package being delivered through the Tees Valley Industrial Programme is being run jointly by senior representatives from One North East and the Department for Business, Innovation and Skills. An advisory group, led by One North East and made up of industrialists and key partners in the Tees Valley has been established to support and oversee the programme's development and deployment.

Investment totalling over £10 million has already been announced. One North East is continuing to work intensively with companies and partners to develop business and infrastructure investment projects. Business investment projects are due to be approved in March. To date the following projects have been approved:

- £2.4 million Apprenticeship Fund is to be allocated to support engineering apprentices in the Tees Valley, including those who may be affected by the partial mothballing of Corus and the impact on its supply chain.
- £1.5 million combined with matched funding from Redcar and Cleveland and Darlington Borough Councils will help 1,800 people through Enterprise Coaching.
- £1.4 million to support new business start ups and diversification of existing firms in the Tees Valley.
- £5 million Energy Efficiency package to help Tees Valley companies improve their resource efficiency by reducing energy use, explore the potential of low carbon technologies and reduce CO2 emissions.

6. We deeply regret that the Teesside Cast Products plant at Redcar and Lackenby has now been mothballed. We believe that it should have remained open while any hope remained that TCP, Corus and Tata could find alternative markets for its steel, alternative uses for the site, and potential alternative buyers for the site. Now that the plant has been mothballed, we seek an absolute guarantee from Corus that sufficient staff will be maintained on site to enable a return to production as soon as market conditions permit, and we urge all parties to utilise European wage subsidies and other supportive measures to maximise employment opportunities at the mothballed site to ensure the quickest possible restart of operations if and when new operators are in place. (Paragraph 29)

7. We are disappointed that Corus ruled out any possibility of a wage subsidy scheme to maintain production at Redcar and Lackenby under any circumstances. We are disappointed, too, that the Government, having explored all possibilities, has concluded that a wage subsidy would not achieve the desired objective. We urge the Government to keep an open mind on this question should a future operator for the plant emerge. (Paragraph 34)

The Government fully appreciates the impact of the decision taken by Corus on the local community on Teesside, but ultimately it was a commercial decision taken by the company. Decisions on staffing and the operational needs for the maintenance of plant and equipment are matters for Corus.

The Government has provided its views to the committee on wage subsidies. We have extensively examined the economic case for UK wage subsidies and concluded that this is not a feasible, cost effective or sustainable option. That remains our view.

The Government is concentrating on helping the people who are without work – to get them back to work as quickly as possible – and also on improving the economic potential of the area.

As we indicated in our written evidence to the Committee, the Government must also take account of the EU State Aid rules that are stricter for the steel industry than for other sectors and prohibit direct operational aid such as wage subsidies. If a viable proposition for the future operation of the plant emerges then the Government will work with any potential operator to try to ensure a successful outcome.

- 8. We believe that Corus should make clear immediately whether it will release land for projects that could provide new jobs and investment for Teesside, and we hope that it will release that land. If Corus fails to give such a commitment, or if it is seen to be holding back in any way, both national and local government should act in the public interest to acquire the land. Corus's responsibility to the community which has served it well should also make it contribute substantially and swiftly to the work needed to make those sites available for new projects. We call on the Government to ensure that the "polluter pays" principle is rigorously applied on land made available for uses that may replace some of the jobs likely to be lost by Corus's decision to reduce its Teesside operations. (Paragraph 38)**

The Government continues to work with regional partners and Corus to explore options for alternative uses for land and ways in which it can support any proposals. Ministers have engaged with Corus and its parent company, Tata Steel, at a senior level to explore alternative uses for the land and infrastructure.

Central Government has no powers to acquire land compulsorily for regeneration purposes. Local authorities, regional development agencies and the Homes and Communities Agency do have such powers, but before they could be used, a project proposal and funding would have to be in place to redevelop the land.

If remediation of contaminated land is required in order to make it suitable for a new use, then the Town and Country Planning system would be employed to achieve these ends. In this case, Redcar and Cleveland Borough Council would be the relevant regulatory body.

It is unlikely that in a new use circumstance an existing owner of land would be under any legal obligation, at least with respect to the main environmental legislation and the polluter pays principle, to fund remediation works. However it is always open to the person responsible for the site to do more than can be enforced through regulatory action.

Remediation can be required at a site if contamination has occurred as a result of a breach of environmental permit conditions or if a site is already posing unacceptable risks to the environment in its current state as a result of past land-use not associated with the current permit. In such instances the polluter pays principle would apply and the owner would be expected to finance any works necessary to deal with the contamination. The Environment Agency is responsible for regulation in such circumstances.

9. We recommend that GONE and ONE find out as a matter of urgency whether European Globalisation Adjustment Funding would be available to assist those who might be made redundant at TCP. If such funding is available, we recommend that they do not give the matter "the fullest consideration" but apply immediately. (Paragraph 40)

European Globalisation Adjustment Fund (EGF) funding has to be over and above the provisions that nation states have in place to help redundant workers. It is not available for direct state aid to keep plants open or to reopen them. The UK has one of the most developed employment support packages and EGF must 'complement', not replace, Member State actions. Any decision to proceed with it must be on the basis that it adds value to the considerable support which is in place already. This would exclude using it for Jobcentre Plus and Rapid Response Service activity.

In order to fulfil this requirement and the strict criteria for any EGF application, the Department for Work and Pensions (DWP) is preparing an economic analysis, a statistical breakdown of the actual number of redundancies, assurances on legal requirements, costings for bespoke training and evidence that appropriate financial management systems are in place.

10. Whether or not any tranche of European Union funding is available or UK state aid for TCP possible, the Government also needs to address the clear perception among witnesses to our inquiry that the UK fares less well than its EU partners in supporting troubled work forces through such funding. In particular, we urge the Government to look closely at the evidence submitted by Mr Lowther for Tees Valley Unlimited and at background information provided by Mr Stephen Hughes MEP, which spell out the significant advantages that other European countries and industries seem to enjoy. (Paragraph 41)

We have examined the evidence supplied by Tees Valley Unlimited and BIS officials provided the Committee with a paper responding to these proposals. Countries make policies that best suit their own economic, social security and employment frameworks. In the case of wage subsidy programmes, some, but not all, EU countries operate wage subsidy programmes that reflect the differing taxes, costs and subsidies levied on labour.

In the case of wage subsidies the Government does not tend to provide specific help to individual firms because, as previously set out, we do not believe that it is the right approach. However, the Government is very aware of the impact of burdens on business and, in configuring its tax and labour market position, has reached a position where the tax wedge – the difference between total labour costs and take home pay – is low relative to other countries. Therefore, all firms in the UK tend to benefit from a smaller tax wedge on labour than other countries, rather than getting help through wage subsidies.

The Government's policy is to concentrate its help on getting those who lost their jobs back to work as quickly as possible and on improving the economic potential of the area. The policy of helping people back into work includes both the help provided by national bodies such as Jobcentre Plus and also specific help for the people affected by the mothballing of the Corus plant. European Social Funds (ESF) already provides some of the resources for this help.

11. Corus will soon receive new Carbon Emissions Trading Allowances. If any such allowance relates to Redcar and Lackenby, any profit made from trading the allowance on plant that is not emitting simply because it is not working must be put into supporting the work force and the regional economy. (Paragraph 43)

The Government has a legal duty to issue EU allowances to installations covered by the EU Emissions Trading System (ETS) by the 28 February each year. Under the rules set out in the UK National Allocation Plan, Teesside Cast Products is entitled to receive its full allocation for 2010. These allowances have been issued and are now the property of Corus. How these allowances are used is a commercial decision for Corus. The Government has no powers to intervene.

Under the current system rules (until the end of 2012), future allocations will depend on the extent to which the site has closed all its operations covered by the EU ETS. Even though Corus has mothballed steelmaking activities on the site they plan to keep open a number of EU ETS qualifying activities – coke ovens and some power generating capacity – and will be required to surrender allowances to cover emissions from these ongoing activities. Corus will be required to keep the Environment Agency, as the scheme Regulator, updated with any further changes at the plant, and if all EU ETS activities on the site cease they will receive no future annual allocations of allowances.

From Phase III of the EU ETS (2013 -2020), there will be significant changes to the allocation rules and the free allowances given to Teesside Cast Products will be revised in accordance with these harmonised EU-wide rules. In addition, for companies which receive free allowances from 2013, there will be a new closure rule. This will mean that free allocations will be reduced to installations when they are deemed to be partially closed.

12. We recommend most strongly that the Government choose the Tees Valley as one of the areas to pilot carbon capture and storage projects later this year. The Tees Valley is home to 18 of the North East region's 21 largest emitters of carbon and has the infrastructure and expertise to make such projects work. Such projects also offer a future to a region still more dependent than most on traditional heavy industry and desperately in need of good news at a time of grave economic difficulty, including loss of jobs now Teesside Cast Products has been mothballed by Corus. (Paragraph 46)

On 17 March 2010 the Government published its Industrial Strategy for the Development of Clean Coal¹. The strategy sets out the Government's approach to ensuring that UK business makes the most of the opportunities offered by the UK CCS Demonstration Programme, including plans to strengthen the skills and innovation base.

The Government has committed to bringing forward four commercial-scale CCS demonstrations on coal fired power stations supported through a new CCS financial incentive estimated to be worth up to £9.5 billion over the next two decades. The competition for the first of those projects is already well underway and we intend to launch the competitive process for a further three projects by the end of 2010. The selection of these projects will be based on five key themes: value for money and affordability; coverage of CCS technologies; location and the potential for co-location of projects; timing of the competition and phasing of projects; and knowledge sharing.

Undertaking these projects will, amongst other things, provide direct job opportunities and develop engineering and integration capabilities and start to develop the supply chain and skills base. The location for the potential demonstration projects will be left open to bidders who are best placed to identify attractive sites for these developments. Clearly, and as the Committee points out, Teesside may well prove attractive in this respect.

In parallel with the publication of the Government's Industrial Strategy we also announced the creation of the first Low Carbon Economic Area (LCEA) for CCS, to be led by Yorkshire Forward in the Yorkshire and Humber region. LCEA's are aimed at accelerating low carbon economic activity in areas where existing geographical and industrial assets give clear strengths to a particular location. The LCEA in the Yorkshire and Humber region will bring together all aspects of CCS on a regional basis, focusing on enabling the commercial demonstration, infrastructure, innovation supply chain and skills required to take advantage of CCS. The LCEA will also stimulate collaboration with other areas to enable the UK to exploit emerging opportunities in CCS and achieve genuine national significance and impact. We expect other examples of CCS LCEA's to come forward in due course.

¹ Clean Coal: An Industrial Strategy for the development of carbon capture and storage across the UK
www.decc.gov.uk/occs

Half of the £60 million support outlined in the Tees Valley Industrial Programme will be used to equip Teesside to realise its potential to be part of a low carbon manufacturing base. This will include investment to redevelop land and infrastructure and to develop bio-based materials, reduce energy usage of industry, carbon capture and storage initiatives and support for technology transfer and new business practices. This support will help it take advantage of the opportunities of low carbon technologies, creating alternative employment.

- 13. The decision taken by Corus to mothball the Teesside Cast Products plant at Redcar and Lackenby with the loss of around 1,600 jobs will have a devastating effect on the local economies of Redcar and Cleveland and Middlesbrough, on the sub-regional economy of the Tees Valley and on the wider North East. The central priority for Corus, for the Government, for the unions, and for the region must be to find a way to reopen the plant as soon as possible and to maintain the jobs of a highly skilled work force until market conditions allow the plant to operate profitably again, as it has in the past. Corus must continue to seek either a market for the slab made at Redcar and Lackenby or to find a buyer interested in taking over the operation. Mothballing must be real and viable, and that has to mean keeping not just the plant, but the highly skilled work force, ready to restart production at short notice when market conditions change. (Paragraph 47)**

Decisions on the process of mothballing the plant, including numbers of staff required to maintain the plant, are a commercial matter for the company. A package of training involving Train to Gain to build the industry-specific skills of Corus employees is being discussed with Corus; and in addition there is a wide range of fully-funded skills provision on offer for those who have been made redundant, to equip them with the skills to compete effectively for current and emerging vacancies in the Tees Valley.

The Government recognises the effect on the local economy due to the mothballing of Teesside Cast Products and we are continuing to work closely with Corus and regional partners to find a long term solution for the TCP plant. We are also providing support for the wider Tees Valley economy. It is estimated that the £60 million Tees Valley Industrial Programme will create up to 3,000 jobs and sustain a further 10,000 jobs in the longer term, and secure investment to support the region's industrial transition to a low carbon and advanced manufacturing economy.

- 14. The future for the North East economy relies heavily on carbon capture and storage and on the development of renewable energy sources, for both of which substantial quantities of steel will be necessary. That steel will not, regrettably, be the slab produced at Redcar and Lackenby since Corus chose to close the plate mill. The irony that a region crying out for steel is closing a steel works will be lost on no one. (Paragraph 48)**

The Government has supported demand for steel through bringing forward capital spending on construction projects during the recession and other initiatives such as the car scrappage scheme. Meeting demand from these sources or, potentially, CCS and other areas is something Corus considers it can do from other sites. The Government will continue to do what it can to ensure the UK makes the most of the shift to a low carbon economy.



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