TaxPayers' Alliance Briefing Note
The steel crisis explained

With Tata Steel putting its Port Talbot steelworks up for sale and saying the value of its UK steel operations are "almost zero", clamours for nationalisation of the ailing industry are growing.

Some perspective is needed.

British steel has been in decline for years. Production has halved from its peak 45 years ago and the UK is now responsible for just 0.7 per cent of global production. There are 31 companies that each produce more steel than the entire UK, 14 of them in China - it's clear that British Steel is not a major player in the global industry.

But how important is it to the UK?

In 2014, there were 535 businesses in the industry employing 34,500 people, more than half of whom were in either Wales or Yorkshire and the Humber. The total output of the industry was £2.2 billion, just 1 per cent of manufacturing and 0.1 per cent of total UK output.

There has been a 24 per cent fall in output from the steel industry compared with a 2 per cent increase in manufacturing output as a whole since 1990.

In terms of international trade, the UK exported £6 billion and imported £5.9 billion worth of steel, registering a small surplus.

So while the industry is important to areas like Port Talbot, it is less economically important to the UK as a whole.

Why is the UK industry failing?

The UK steel industry has fared considerably worse than those of other developed countries for a number of reasons. The US has slapped enormous tariffs on Chinese imports (almost 500 per cent in some instances) and UK producers have been crippled by overzealous and ineffective environmental measures that have made industrial electricity prices more than 50 per cent higher than in other major EU economies.

There has also been a lack of innovation. Unlike German plants which produce specialised products used in the car industry, UK plants have tended to produce basic products using out of date technology.

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The UK produces a lot of "rebar" (reinforcing bars used in construction projects), a product that Chinese plants have significantly increased production of in recent years. In 2014, Chinese producers accounted for 37 per cent of the rebar market, up from almost zero a year earlier.

What's going on in China?

The size and growth of the Chinese steel industry compared to ours is difficult to comprehend. China produces more steel today than the whole world did in 1997. The largest 14 Chinese steelmakers each produce more than the entire UK industry. The biggest Chinese steel company produces four times our total output.

Even though the national government is pushing for a slowdown, the biggest Chinese producer is set to increase supply by 20 per cent in 2016 due to previous decisions taken at the firm - slowdowns take years.

And Chinese exporters have been very effective at "gaming the system" to get around their government's attempts to cut trade subsidies. By creating slightly different alloys with a higher content of certain elements such as Boron, producers are able to qualify for the tax rebates Beijing has been trying to scale back.

What about tariffs?

Theoretically, the UK could raise tariffs on Chinese steel, making it more expensive to import steel and therefore making domestic steel cheaper in comparison.

Broadly speaking, the World Trade Organisation allows governments to act against "dumping" (exporting a product at a price lower than the price it normally charges on its own home market) provided that it can prove there is a "material" injury to the competing domestic industry.

But China is set to receive market economy status within the WTO later this year, which would mean any tariffs would have to be re-examined when this occurs, making a tariff a short-term stop gap solution at best and an expensive waste of time at the worst.

Given that the UK is a member of the European Union Customs Union, such actions would have to be taken at an EU level.

However as a country we consume more steel than we produce. Thus the current low world price of steel is actually beneficial to UK industry as a whole.

Nationalise the steel industry?

There is no reason to believe there will be a significant fall in global steel production anytime soon. Prices are likely to remain low for the foreseeable future so any bailout or nationalisation would be a blank cheque.

Given that in December the plant was losing £1 million every day, such a cheque could end up being very large indeed. This would be money not spent on public services or raised through tax increases or more borrowing.

And if all countries affected by the current glut decided to nationalise their industry, the result would be continued overcapacity and low prices.

We bailed out the banks. Why not steel?

Leaving aside the question of whether banks should have been bailed out, the situation simply isn't comparable.

When the government bailed out RBS their balance sheet stood at £2.5 trillion, six times larger than that of Lehman Brothers and 50 per cent larger than the entire UK economy. The steel industry accounts for only 1 per cent of total UK manufacturing, and 0.1 per cent of GDP.

Is domestically produced steel important for national security?

Even if this were the case, it's not much of an argument to keep the Port Talbot works running, producing millions of tonnes of steel. The construction of the two Queen Elizabeth aircraft carriers only requires 82,000 tonnes, several thousand of which have been imported.

It's unlikely in the extreme that we would find ourselves in a situation where we were unable to import steel. Even if this did occur, it would only be an argument to retain some capacity in such an event (possibly by mothballing some plants), not running the plants just to save jobs.

Besides, UK producers have to import the iron ore needed to make steel.

What can be done?

The government can make the country a better location for manufacturing by slashing energy costs. Steel manufacturing is a very energy intensive process, and according to the latest data the UK has the most expensive electricity in the EU for both industrial and domestic consumers.

The UK government have chosen extremely ambitious carbon reduction targets compared to other states participating in the EU Emissions Trading Scheme leading to the introduction of a carbon price floor in 2013. The UK price of carbon is £18.08 per tCO_2 whereas emissions allowances on the secondary market are around €5 tCO_2. Despite capping rises at the 2014 budget, further increases to £30 per tonne by 2020 are due.