PORT TALBOT STEELWORKS
Time for public ownership?

A further briefing from the Industrial Communities Alliance

It is no longer clear that Tata's ownership of the Port Talbot steelworks in South Wales is in the best interest of the workforce, the taxpayer or the UK economy.

- **The UK government's offer of £500m in investment support would, under Tata's plan, lead to the loss of two-thirds of the workforce**
- **It would also result in the UK's loss of sovereign capability to produce primary steel**
- **Carbon emissions would be shifted abroad, not reduced**

In pressing ahead with plans for early closure of the blast furnaces, Tata is also spurning requests to delay irreversible decisions until after the general election.

A quick recap: Tata's plan

Back in September the UK government and Tata Steel agreed proposals to invest £1.25bn, including a government grant of £500m, in an electric arc furnace using scrap steel to replace the present blast furnaces at Port Talbot. The government and Tata trumpeted this as a move away from carbon-intensive production and a big step towards net zero.

The true nature of Tata's plan has now become clear. It is about replacing UK production by imported steel. It is about profits, not the environment, and certainly not jobs.

The giveaway is the timescale. In January, Tata announced plans to close the first of Port Talbot's blast furnaces in the spring, with the other furnace and associated plant to follow later this year. As for the new electric arc furnace, even if all went well it would be towards the end of the decade before it was up-and-running.

That leaves a gap in steel production that would have to be filled in order to keep Port Talbot's rolling mills going. Tata's intention is to fill the gap by imports from its plants in India, where it is bringing new blast furnaces into production, and to supply some of Port Talbot's customers (such as the Trostre works in Llanelli) from its plant in the Netherlands. In effect, the CO_2 emissions would be transferred abroad, not reduced.

The electric arc furnace proposed by Tata is also an inadequate replacement for the blast furnaces and their downstream plant:

- An electric arc furnace can't produce primary steel (i.e. new steel from iron ore)

- Using scrap alone, an electric arc furnace can't produce the full range of steel needed for many purposes – there are too many contaminants

- To produce higher quality steel an electric arc furnace requires a proportion of pig iron to be added, which would need to be imported

The UK would therefore lose sovereign capability in a key area of industrial production, with all the resulting strategic, political and military implications.

Of course, once Tata has established a flow of primary steel from its plants abroad that would reduce the pressure to invest at Port Talbot. Despite what Tata has said, it would therefore not be surprising if the company were in due course to abandon its plan for an electric arc furnace. The plan for a single vast furnace with a capacity of 3 million tonnes a year – far bigger than the norm elsewhere in the world – has always seemed a shade unrealistic. It is also far from clear that in Britain there is an adequate supply of the well-sorted scrap metal that would be needed to feed it.

What's the alternative?

Community and GMB trade unions commissioned the consultancy Syndex to examine the alternatives to Tata's plan. Their proposals were submitted to the company at the end of November.

The Syndex plan recognises the need to decarbonise production and the role of electric arc furnaces, especially if they were able to draw on electricity from green sources. But the Syndex plan also involves a longer timescale:

- One of the two blast furnaces, which is in need of re-lining, would close as planned

- The second blast furnace would remain in operation until 2032

- There would be early investment in a smaller electric arc furnace, to be followed later by a second

- There would also be investment in a Direct Reduction Iron (DRI) plant – a furnace that uses natural gas (or eventually hydrogen) instead of coal – to maintain production of new metal and provide an input to the electric arc furnaces to raise the quality and range their output.

The Syndex plan would protect the majority of the jobs on the Port Talbot site, maintain UK sovereign capability, and eliminate CO_2 emissions. It is also a plan that is not very different from what is already happening at Tata's Ijmuiden plant in the Netherlands, where there is new investment in both DRI and electric arc and a re-lined blast furnace is coming back on stream.

The present deadlock

In January, Tata rejected the Syndex plan. Its concern was partly the additional cost. The company also expressed doubts – not subject to proper scrutiny – about the viability of keeping existing plant in operation whilst new plant is constructed alongside.

In February, Shadow Business Secretary Jonathan Reynolds MP travelled to Mumbai to meet senior Tata management to make the point that a Labour government would be willing to offer a more extensive package of support for a revised strategy. Tata have indicated that they are unwilling to put decisions on hold until after the general election.

With no shift in Tata's position, the trade unions at Port Talbot are balloting their membership for industrial action.

Why public ownership now makes sense

- It is wrong that the Exchequer should put £500m towards an investment that in Tata's hands would result in the loss of some 2,800 jobs at the plant (and more in the supply chain) and lead to greater dependence on imports

- A revised plan would maintain a strategic industrial asset – the ability to make primary steel – heading off the loss in UK sovereign capability

- Tata's dismissal of alternatives and refusal to delay irreversible decisions until after the general election is damaging to the workforce, the local economy and the national interest

- If the redundancies go ahead, the cost to the Exchequer in extra benefit payments and reduced tax revenue might be £50-60m a year[1].

How would public ownership work?

It would need to be the UK government that took over the plant. It's worth remembering here that the UK government has already made a commitment of £500m. Whether the takeover involved just the Port Talbot works or the whole of Tata Steel in the UK is something that would need to be worked out.

[1] Assumes a total Exchequer cost of £20,000 a year per redundant worker.

What's already known, however, is that Tata has long wanted to rid itself of primary steel production at Port Talbot, which in a number of years has been loss-making. Indeed, back in 2016 it considered selling or closing the whole plant. A deal should be possible at little if any cost.

Public ownership would buy time to put alternative plans in place. The workforce and local management would stay put for the moment. There would be a cost in keeping the existing operations running and investing in new plant, but without access to confidential commercial information it's impossible to put a price tag on this. There would however be substantial savings to the public purse in heading off redundancies and, if there were to be a change in government, a substantial part of Labour's proposed £3bn investment fund for steel should become available. In the longer term, the Port Talbot plant could be returned to the private sector.

There is a precedent. In 2016 Tata sold the UK's other big steelworks, at Scunthorpe in Lincolnshire, to Greybull Capital for the nominal sum of just £1. What's more, when the new company, *British Steel*, ran into financial difficulty in 2019 it operated under public ownership for almost a year before being sold on for £70m to the Jingye Group from China.

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Industrial Communities **Alliance**

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