

COMMISSION FOR CARBON COMPETITIVENESS – CALL FOR EVIDENCE

Chair:

John Penrose MP
Weston-Super-Mare

Commissioners:

Arjan Geveke
Energy Intensive Users Group

Jo Gideon MP
Stoke-on-Trent Central

Stephen Kinnock MP
Aberavon

Company Name or Organisation:	
Please tick one box from the list that best describes you/your company or organisation:	
	Small business (1-49 employees)
	Medium business (50-249 employees)
	Large business (250+ employees)
	Representative organisation
	Academia
	Political representative
	Other (please describe): Trade Union
If you are responding on behalf of a representative organisation, how many members do you have and how did you obtain the views of your members:	
If you would like your response or personal details to be treated confidentially please explain why:	

Witnesses are invited to submit written evidence to the Commission for Carbon Competitiveness prior to oral evidence sessions.

Witnesses are also welcome to submit for the record any existing position papers, economic analyses or policy documents that they may have that will be of relevance to the Commission's enquiry.

In no more than 1,500 words, please outline your individual or organisation's views in relation to the following:

- The economic, social and environmental impact of carbon leakage on your business/sector [if applicable] and/or the UK more widely.
- Your views on existing UK carbon pricing policies and mechanisms, including the UK Emissions Trading Scheme (UK ETS).
- Your views on potential alternative carbon leakage mitigation policies, including a UK Carbon Border Adjustment Mechanism (CBAM).

Please submit your evidence and this form to CCC@hanovercomms.com no later than 14/03/2023.

For further enquires please contact CCC@hanovercomms.com

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Commission for Carbon Competitiveness, Community Union Response

About Community

Community is a general trade union with members across the economy. We are the largest and leading union in the steel sector, leading negotiations with all major steel employers including Tata Steel, Liberty Steel, Outokumpu, British Steel, Celsa, Sheffield Forgemasters, and smaller and downstream producers.

We welcome the opportunity to respond to this consultation and strongly support the development of a UK Carbon Border Adjustment Mechanism (CBAM). A CBAM is one of the key priorities we have identified as necessary for supporting the future of the UK steel industry and is essential to delivering the successful decarbonisation of the steel industry.

The steel industry

The steel industry is an essential foundational industry, supporting our wider manufacturing and defence sectors across the UK, and will be worth £6 billion by 2030. The value of the exports from Britain's steel industry is £3bn, a key contribution to international trade. Steel made in the UK underpins everything from the construction of major infrastructure to the development of paint, food packaging and hospital beds.

A significant 33,000 people are directly employed by Britain's steel industry, and an additional 40,000 people work in the steel supply chain. Those jobs and their surrounding communities are reliant on the future of the industry in areas such as Yorkshire and the Humber and South Wales where steel jobs are higher paid and better-quality jobs than local averages.

Steelmaking communities are strong communities built around the key infrastructure of the steelworks. Community research has found that over 88 per cent of steelworkers are the main earner in their household. Steel jobs support economic prosperity across the whole of the United Kingdom and are critical for levelling up.

Community's research demonstrates that the benefits of steelmaking go far beyond those immediately affected and their households, but also extend into the wider community. Policymakers must recognise the economic dependence of areas like Port Talbot on the steelworkers. Polling carried out by Community in steelmaking constituencies in 2022 showed that 91.5% of people agreed or strongly agreed that the steel industry makes an important contribution to their community, and 88% agree/strongly agree that the steel industry is a source of pride for their community¹.

In parallel, we conducted direct polling of steel workers with similarly striking results. Steelworker feedback is clear in showing the importance of steel jobs to their communities: 52% had other family members working in the steel industry or the supply chain and 94% told

¹ Community Union, 2022, Our Steel Industry, <https://indd.adobe.com/view/bc8b5138-3578-4d96-b4e1-e4434aa2794a>

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us they were proud to be a steelworker. Finally, and most crucially, 90% told us they believed that “the future of my local community relies on the future of the steelworks”².

Recent developments from Liberty and British Steel leave us in no doubt that the steel industry is in a perilous situation, and that action needs to be taken to protect UK steelmaking communities.

As a nation, we have learned harsh lessons about the impact of plant closures on families, communities, and workers. When the former SSI plant in Redcar closed we saw serious consequences, including mental health difficulties and family breakdowns. Whilst a majority of former steelworkers did find new employment, these jobs tended to be more insecure, lower paid and on worse terms and conditions than the steel jobs lost. Our report “A Just Transition”³ highlighted these tragic consequences and drew out key lessons for the government to ensure that this never happened again. The social impact of any plant closure that happens now will be worse than previous cases because there is no longer EU funding available to support workers affected (as for example, happened in Ebbw Vale in 2001 when that plant closed).

However, the steel industry currently stands at a crossroads, and major recent announcements are extremely concerning for the future of our steel industry across the UK and demonstrate the extreme pressure the industry is under.

The ETS

The UK’s current carbon pricing mechanism, the ETS applies to domestic production, but no price is applied to imports of the same products.

The UK emissions trading system has become increasingly costly for the steel industry. The cost of complying currently costs the sector £120mn, 60% of the average annual capital investment of the sector. This is because carbon prices have increased in cost and allowances for steel companies have also reduced. Current reforms are anticipated to make this situation worse. If, as UK Steel have forecasted, costs could increase to over £400mn a year towards the end of the 2020’s, leading primary steelmaking economically unviable. There is a risk that current emissions trading schemes could delay the steel industry from decarbonising because the costs cut into capital expenditure.

The UK government must offer fair carbon pricing, in order to ensure that primary steelmaking is competitive. Whilst evidence suggests that the damage caused by the emissions trading scheme to date has been limited, this is partly because exemptions have rightly been made for critical industries⁴. But without measures applying equally and fairly to imports, applying such measures will fatally harm the UK steel industry, contributing to de-industrialisation, but without reducing emissions. This is especially true of an industry like steel which is so heavily integrated into international trade, where high emission steel from competitors abroad is ready and waiting to flood the market.

A Carbon Border Adjustment Mechanism

² ibid

³ David Coats, 2021, A just Transition, Managing the Challenges of technology, trade, climate change and COVID-19, <https://communitytunew.wpenginepowered.com/wp-content/uploads/2021/07/Just-Transition-Report.pdf>

⁴ Geels and Gregory, 2023, Low-carbon reorientation in a declining industry, a longitudinal analysis of coevolving contexts and company strategies in the UK steel industry (1988-2022), Energy Research & Social Science, <https://doi.org/10.1016/j.erss.2023.102953>

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A CBAM applies carbon prices on imports equivalent to those faced by domestic producers, ensuring that domestic steel producers face a level playing field with producers abroad.

The UK must mirror the European proposals for a CBAM. Doing so will prevent the UK industry from being outcompeted by steel producers who face lower carbon prices. High carbon prices imposed domestically will increase domestic production costs but will likely not reduce overall carbon emissions because customers will choose cheaper (but higher carbon) imported steel. High emission steels are likely to flood the UK market, particularly when they cannot reach the European market due to the EU's own CBAM. Increased import volume will depress prices, further harming the competitiveness of UK produced steel. This will result in the closure of UK steel plants, job losses, and significant harm to the UK economy.

Furthermore, imports of high carbon steel are one factor preventing the development of a domestic low carbon steel market. If UK steelmakers face being outcompeted by high carbon steels imported from abroad when they take steps to produce green steel, then the incentive to invest in the R&D and plant changes required to produce green steel is reduced. Production costs for low carbon steel are also potentially higher, skewing incentives by making green steelmaking less competitive. A CBAM will therefore support the decarbonisation of steel production.

That the EU is well underway in the development of its own CBAM presents a serious challenge to UK competitiveness. When the EU CBAM is implemented, foreign producers of high-carbon steels will struggle to competitively supply EU customers, and consequently the incentive to flood the UK market with these products is significant. Furthermore, if UK producers are not exempt from the EU CBAM, then there could be a major trade barrier for UK steels reaching the UK's most significant export market. We are concerned that even if the UK does determine it will implement a CBAM, there could be a delay between the implementation of the two measures, which would create disruption in the steel market, and trade barriers.

As our research shows, should the UK fail to deliver an appropriate policy environment for decarbonisation, steelworkers and their communities would be irretrievably harmed. The risk of plant closures is high if the policy environment continues to make UK steel making uncompetitive.

A CBAM is an essential policy for supporting the steel industry. Supporting the steel industry protects jobs and communities, as well as the downstream manufacturing and construction that steel supports.

Of course, a CBAM is not a silver bullet for the industry. Community has long called for energy intensive industries like the steel industry to face equivalent energy prices to countries like France and Germany in order to support the international competitiveness of the UK industry. This includes reducing network charges and providing energy price guarantees to give producers stability and security. Our priorities also include essential capital investment to support the transition of the industry to green production methods.

Evidence submitted March 2023

Please contact research@community-tu.org for further information