Dear energy fuels de industrialisation in the UK

Much of industry needs plentiful supplies of low cost energy. Industry is about transforming basic materials taken from the earth into materials, and then cutting, shaping and assembling these into manufactured goods. Transformation of silica into glass or iron ore into steel or oil into plastic requires very large amounts of heat energy. Creating components and final products from materials requires substantial energy to cut, shape, bend, bolt, glue and assemble.

The UK following EU rules and guidance has decided on a dear energy policy. Unsurprisingly this has triggered de industrialisation. The government says it has an industrial strategy, but its energy policy makes it more and more likely that industry will gravitate to cheap energy USA or lower cost China than stay at home. In the name of decarbonising our industry we will end up importing more industrial products from countries that burn as much or more carbon per unit of output but at cheaper prices. We have already lost most of our aluminium industry from this problem, and seen a big reduction in our steel industry and petrochemical capacity.

Let's take the current case of the steel industry.

British Steel made a profit of £92m to March 2017, and a loss of £29m to March 2018. Losses have probably got worse since March 2018. Turnover rose in the year 2017-18. The main problems were

1. The crippling costs of the EU carbon permits scheme. BSC had to find more than 10% of turnover for this item alone, leading to a UK government loan to cover the £120 m carbon tax.
2. Dear energy costs, with UK electricity substantially dearer than US electricity thanks to the EU/UK energy policy
3. Intense competition lowering steel prices in Europe, as countries like China diverted steel away from the US market following tariff impositions there. Prices fell around 15%.
4. High cost of debt finance introduced by rescue company Greybull who took the company over for £1 in 2016

The business is being offered for sale in whole or parts by the Receiver with bids closing 12 June.

Possible solutions

The business needs cheaper energy one way or another. It needs assistance to counter the high costs of the carbon tax, if we are to use energy here to make steel instead of import it. There will be some kind of refinancing with a probable reduction in debt service costs as a result of the Administration. It can work at more sales of specialist steels with higher value added, as they seek to do, and can ask for more sensible help in gaining UK domestic orders for the their rail and construction steel products. Many of the solutions needed to help them require permissions within EU rules over contracts, competition, and subsidies, or are simply illegal.

The single biggest cause of the financial collapse of this business is the huge energy bill from dear energy combined with carbon permits. I have always urged the EU and UK government to understand dear energy means de industrialisation, but they refuse to listen.

The company owns some crucial plants – 4 blast furnaces, a Basic Oxygen facility, 4 casters and 3 mills.

I used to be responsible for Darlington Simpson rolling mills (not a BSC facility)) to make long and flat product so I have past working knowledge of part of the industry.