UK Exit of TATA Steel Port Talbot -a triggering point for increased unemployment and HR challenges

"Port Talbot steelworks is the beating heart of our economy and of our community"

- Stephen Kinnock,
MP for Aberavon, the UK

Introduction

Tata Steel is one of the world's most geographically diversified steel producers, with operations in 26 countries and commercial offices in over 35 countries. In Europe TATA is one of the largest steel producers. Through serving many demanding markets worldwide, including Aerospace, Automotive, Construction, Consumer Products, Defence & Security, Energy & Power, Lifting & Excavating and Packaging, TATA stresses that customer needs are different in each market. The Tata group was founded on the principle that its activities should always benefit society. Tata Steel is guided by the same long-term vision. They operate in a way that is safe for people and respectful to the environment. TATA behave responsibly and with care towards the communities surrounding and impacted by the operations (About Tata Steel).

TATA steel was established in 1907 as first integrated private sector steel company in Asia. In 2008, Tata Steel India became the first integrated steel plant in the world, outside Japan, to be awarded the

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Deming Application Prize 2008 for excellence in Total Quality Management. Tata Steel is the second largest steel producers in Europe with a diversified presence across the continent. Subsequently, Corus was acquired by Tata Group in April 2007 and joined the Tata Steel family in a transaction that created one of the world's largest steelmakers, with a major presence in Europe as well as Asia. There are five strategic priorities developed for Europe: *Customer Focus, Innovation, Operational Excellence, Responsibility and People* (About Tata Steel)

Unfortunately, China's dumping of steel into the UK market has shattered the TATA steel operations and TATA steel has decided to sell its Port Talbot plant. China's low-cost metal producers have been widely cited as the main culprit for the glut. In particular, the world's second largest economy has been accused of "dumping" cheap steel on to global markets, due to a slowdown in domestic demand. Consequently, the UK government stepped up and discussed with Cyrus Mistry, Chairman, TATA Sons not to sell the Port Talbot plant as it may create problem for over 15,000 employees.

Though, Sanjeev Gupta, a steel giant is the highest bidder among other for TATA steel Port Talbot plant, he had requested for exceptions in pensions and green taxes. Latter, Tata Steel is close to agreeing to keep the Port Talbot steel plant open after the UK government offered the Indian company a multimillion-pound loan to persuade it to remain in the UK (Heritage).

The Brexit development has acted like a further spanner in Tata Steel's efforts to get rid of loss-making UK business. Steel products exported by Tata Steel UK enjoy free trade with other European countries by virtue of Britain being part of European Union. Now with the hive-off, Brexit may delay the sale process of Tata Steel's UK operations as it will elevate the level of uncertainty within the region. Furthermore, on account of sharp volatility in currency especially the pound sterling, there could be re-negotiations with respect to different aspects of the potential deal (Divekar, 2016)

Research by the Institute for Public Policy Research (IPPR), warned that if no buyer is found for Tata's UK business - which represents the bulk of Britain's steel industry - it could see unemployment in areas which rely on the company rise significantly for at least 20 years (Tovey, 2016)

The IPPR's research also warned that the collapse of Tata's UK steel business - which employs about 15,000 people directly but supports at least 25,000 jobs - could leave the Government facing a £4.6bn bill (Tovey, 2016). Accordingly, HR Department of Port Talbot need to gear up for the challenges with regard to downsizing the employees, retaining the required employees, compensation & benefits in case of restructuring. If TATA decides to sell the plant, then a series of HR issues like separation of HR, Managerial changes, HR policy amendments to be deliberated.

Key Words: *TATA steel UK Plant, Port Talbot steel plant, Steel dumping, Scenario of steel companies, Employment related issues in steel companies, Merger of steel companies*

Background Note

TATA Steel- Evolution and Growth

TATA steel was established in 1907 as first integrated private sector steel company in Asia, Tata Steel Group is rated one among the top-ten world steel companies with a crude steel capacity of over 29 million tonnes per annum. TATA Steel is now the second-most geographically-diversified steel producer internationally, with business operations in 26 countries and a commercial presence in over 50 countries. The Tata Steel Group, with a turnover of Rs. 1, 48,614 crores in FY 14-15, has over 80,000 employees across 5 continents and is a Fortune 500 company (About Tata Steel).

Tata Steel's larger production facilities comprise those in India, the UK, the Netherlands, Thailand, Singapore, China and Australia.

Operating companies within the Group include Tata Steel Limited (India), Tata Steel Europe Limited (formerly Corus), Tata Steel Singapore and Tata Steel Thailand. The Tata Steel Group's vision is to be the world's steel industry benchmark in "Value Creation" and "Corporate Citizenship" through the excellence of its people, its innovative approach and overall conduct. Underpinning this vision is a performance culture committed to aspiration targets, safety and social responsibility, continuous improvement, openness and transparency (About Tata Steel).

In 2008, Tata Steel India became the first integrated steel plant in the world, outside Japan, to be awarded the Deming Application Prize 2008 for excellence in Total Quality Management. In 2012, Tata Steel became the first integrated steel company in the world, outside Japan, to win the Deming Grand Prize 2012 instituted by the Japanese Union of Scientists and Engineers. Tata Steel founded India's first industrial city, now Jamshedpur, where it established India's first integrated steel plant in 1907. The Jamshedpur Works currently comprises of a 9.7 MTPA crude steel production facility and a variety of finishing mills. Tata Steel is the second largest steel producers in Europe with a diversified presence across the continent. It has a crude steel production capacity of over 18 MTPA in Europe - more than two thirds of the Group's total capacity. The manufacturing facilities at Tata Steel Europe comprize manufacturing hubs (Strip Products Mainland Europe, Strip Products UK, Long Products Europe and Downstream Operations) and Integrated Businesses (Plating, Cogent Power, and Specialty Steel) (About Tata Steel).

UK (& Ireland) - There are two steelmaking facilities (Port Talbot and Rotherham). In all, there are 11 manufacturing locations and 13 distribution centers.

The Netherlands - There is one steelmaking facility (IJmuiden) and five manufacturing locations with two distribution centers.

In **rest of Europe**, there are 15 manufacturing locations and nine distribution centers.

Entry into UK market- acquisition of corus by TATA

Tata Steel in Europe was formerly known as Corus and rebranded as Tata Steel in 2010. In 1999, Corus was formed through merger of British Steel and Koninklijke Hoogovens. Corus was acquired by Tata Group in April 2007 and joined the Tata Steel family in a transaction that created one of the world's largest steelmakers, with a major presence in Europe as well as Asia (Heritage).

- The Shotton Works, at Deeside, UK Shotton is home to Tata Steel Colors, an international business, manufacturing pre-finished steel for building solutions, domestic appliances and manufactured goods markets.

- The Building Systems business comprises a network of manufacturing bases in France, Germany, Switzerland, and the Scandinavian countries, providing a wide range of steel products for the building industry worldwide.

- Tata Steel's packaging operations manufacture light gauge steel for packaging and non-packaging applications, based in IJmuiden, Netherlands, with other production plants in the Netherlands, South Wales, Norway and Belgium.

- Tata Steel's Tubes business in Europe is a leading supplier of hot finished and cold formed steel tubular products. As a major manufacturer, the Company has manufacturing sites and sales offices in the UK, Netherlands, Belgium and Poland.

TATA Steel Port Talbot Plant

Source: http://www.express.co.uk/news/uk/486075/Tata-Steel-are-to-slash-400-jobs

TATA's strategy for Europe

Tata Steel, in the wake of becoming the international standard in value creation and corporate citizenship in the steel industry, aimed to develop long-term partnerships with customers in the chosen markets of Europe by unlocking the potential of steel. Also, strived to create innovative products and services to help the customers tackle their challenges and be more successful in the markets. As revealed in the TATA webpage, there are five strategic priorities developed for Europe: *Customer Focus, Innovation, Operational Excellence, Responsibility and People*.

Steel dumping by China

China's low-cost metal producers have been widely cited as the main culprit for the glut. In particular, the world's second largest economy has been accused of "dumping" cheap steel on to global markets, due to a slowdown in domestic demand, in a bid to gain market share.

Since its economy has started to cool, China has been infiltrating international markets with more of its low-cost offerings. Steel exports from China are said to have increased by 28pc to 43.5m tonnes in the first six months of this year, despite production falling by 2pc (Critchlow, 2015). The European commission has launched an inquiry into Chinese subsidies for steel sold to the EU after European steelmakers warned that dumping was likely to increase.

The inquiry is based on a submission from the European Steel Association (Eurofer), claiming that Chinese producers benefit from government subsidies such as preferential lending rates and low energy charges. The subsidies have allowed Chinese companies to export to the EU at prices that damage European steel producers. The European commission said Eurofer had also provided credible evidence that imports would increase soon as China diverts steel to the EU from the US and other countries that have clamped down on dumping. The inquiry is the first move announced by the commission since Tata Steel revealed its decision to pull out of the UK, directly threatening about 12,000 steelmaking jobs and many more that rely on the sector. The investigation was launched under a new "threat of injury" mechanism. This does not require proof of injury before proceedings start (Sean Farrell, 2016).

The UK government has called for tougher action from the commission but has opposed scrapping the lesser-duty rule, partly because it could have increased prices for British shoppers. Eurofer has criticized the UK for resisting the change and taking a softer line against dumping than the US. China's steel exports to the EU have more than doubled since 2013 from 3m tonnes a year to almost 7m tonnes as producers have sought to offload surplus stocks. China's overcapacity of at least 340m tonnes is double the entire capacity of Europe's steel industry. Britain's steel trade body and unions have called on the UK and the EU to take urgent action to stop Chinese steel dumping, after the US government increased tariffs to more than 500% (Sean Farrell, 2016).

This has led to a global steel glut, which has plunged European producers into crisis. India's Tata has put its UK steel factories up for sale, putting thousands of jobs at risk across the country, including more than 4,000 in Port Talbot. There are seven bidders jostling for the business: a management buyout team, steel and property group Liberty House, three foreign steelmakers and two private equity firms.

Going gets tough for TATA steel porttalbot

Port Talbot Steelworks is an integrated steel production plant in Port Talbot, West Glamorgan, Wales, capable of producing nearly 5 million tonnes of steel slab per annum, making it the largest of all three major steel plants in the UK and one of the largest in Europe. The majority of the slab is rolled on-site at Port Talbot and at the Newport Llanwern site to make a variety of steel strip products. The remainder is processed at other Tata Steel plants or sold in slab form. The works covers a large area of land which dominates the south of the town with the blast furnaces and steel production plant buildings being major landmarks visible from both the M4 motorway and the South Wales Main Line when passing through the town (Heritage).

Banners fixed by Union members of TATA Steel

Source: http://www.wsj.com/articles/tata-steel-to-cut-1-050-u-k-jobs-as-steel-crisis-deepens-1453118448

TATA's offer to sell and bidding of buyers

Tata Steel plans to sell its plant in Northern England to give it the "best chance of survival" as the UK industry has been struggling under a flood of cheap steel being dumped in from China, which has depressed prices. According to The Sunday Times, the Indian steel giant hopes the sale of its Scunthorpe plant in north Lincolnshire will take place subsequently. The firm is weighing up the closure of its long-products arm, of which Scunthorpe forms the core. A plan to sell it to US industrial tycoon Gary Klesch collapsed in the summer. Various bidders are shown interest and there is a possibility of a management buyout as well. The UK's Department for Business is understood to be trying to attract buyers with a promise of long-term supply contracts, including a deal to feed Network Rail with steel for its multi-billion-pound overhaul of the railways. But, the chances of a rescue that would keep open Scunthorpe's two blast furnaces preserving the site as one of just two in Britain capable of turning iron ore into steel are thought to be slim. That could mean Scunthorpe is reduced to a finishing site for steel shipped in from abroad. The UK industry has been struggling under a flood of cheap steel being pumped in from China, which has depressed prices. The problems have been exacerbated by the strength of sterling and high energy costs. Tata had bought the Anglo-Dutch steel maker Corus in 2007 for 6.2 billion pounds, just before the financial crisis hit, and renamed it Tata Steel Europe. The firm said it is "assessing all strategic options" for the division and doing all it can to give it the "best chance of survival." The Community union, which represents workers at Tata, said: "We believe there's a sustainable future for the industry." (Critchlow, 2015)

The feared collapse of Britain's steel industry would damage local economies on a similar scale to that of the end of the coal mining industry in the 1980's. New research suggests the closure of Tata Steel's Port Talbot plant could leave a scar on employment in the community that would last for decades and be similar in scale to the destruction of the mining sector. The crisis in the UK steel industry intensified when Tata's Indian parent refused to back a turnaround plan for its loss-making strip business, which centers on the giant Port Talbot works in Wales, and put the whole of its British operation up for sale.

The Government has pledged to "do all it can" to remove hurdles in the way of a possible deal with a new owner for the Tata plants, and unions have called for temporary nationalization to be considered to keep the them running, making them more attractive to buyers. The Government said there have been expressions of interest from several bidders. Commodity group Liberty House has expressed the interest to be the possible buyer. A management buyout backed by a financial investor is also understood to be a frontrunner. Its bid is based on an earlier turnaround plan refused by Tata's Indian board. Under the plan, the blast furnaces at Port Talbot, which employ 60pc of the staff on site, would be retained. The plan would also be given a more realistic timeframe to return to profit than the one year presented to Tata's bosses (Tovey, 2016).

Bidding for Tata Steel's port Talbot

Subsequently, Sanjeev Gupta's Liberty House group has confirmed that it will be submitting its bid for Tata Steel's loss-making UK businesses. The commodities trading firm, which emerged as an early frontrunner for Wales-based Port Talbot Steelworks. Gupta is being advised by several former Tata Steel executives including Jon Bolton, who until last year was the head of Tata's Long Products business in Europe. Bolton joined Liberty House to run its steel business in Scotland, also bought over from Tata. Liberty House is reportedly working with Macquarie Capital, which is prepared to support the bid with funding, and the State Bank of India (Sanjeev Gupta's firm Liberty to bid for Tata Steel's Port Talbot unit today, , 2016).

Deloitte and Grant Thornton are among other firms involved which, among other issues, will advise Liberty House on dealing with the nearly 500 million pound funding deficit in Tata's pensions scheme, considered the biggest stumbling block in clinching the sale. Gupta, a Punjab-born graduate in economics and management from Cambridge University, has completed the acquisition of Tata's Scottish plants in a back to back transaction, which saw the Scottish government acquire the two plants of Dalzell and Clydebridge in Lanarkshire and immediately sell them to Liberty House. Other bidders for the remaining Tata Steel UK assets include Albion Steel, a UK start-up business with industry veteran Tony Pedder on the board (Sanjeev Gupta's firm Liberty to bid for Tata Steel's Port Talbot unit today, ,2016).

State loan offer to TATA

Latter, Tata Steel is close to agreeing to keep the Port Talbot steel plant open after the UK government offered the Indian company a multimillion-pound loan to persuade it to remain in the UK. After failing to receive assurances that any prospective buyer would keep the plant open for more than three years, the company turned to the UK government to ask for further financial incentives to stay. Tata is understood to be discussing a state loan of hundreds of millions of pounds on "commercial terms". That could partly replace an existing £900m loan from Tata's parent company to Tata Steel UK. The talks follow the opening of a government consultation into potential legal changes to the deficit-hit British Steel pension fund that would reduce its onerous liabilities by several billion pounds. Those initiatives — led by Sajid Javid, business secretary — have gone a long way to convincing Tata to abandon the sales process and keep hold of the plant. "Whatever happens, Tata will be there to stay," said one person close to the company, who added the final decision still has to be approved by Tata's board in Mumbai. The board is due to meet during the week of the UK's referendum on EU membership in the last week of June 2016 (Peter Campbell and Jim Pickard, 2016)

The intervention by ministers comes after a frenzied two month effort by Tata to find a buyer for the UK operations, which employ 15,000 workers in factories around the country. The government is desperate to avert a meltdown of the steel industry just weeks ahead of the EU referendum and has been pressuring Tata to keep running its plants. However, both the proposed loan and the pension changes risk setting the UK on a collision course with Brussels over state-aid rules. Tata had been planning to sell the plant after incurring steep loses — at one point losing up to £1m a day on its operations. The company has already sold its Scunthorpe plant for £1 to Greybull Capital. But Tata was underwhelmed by the offers it received for its flagship Port Talbot site. Of seven bids received by Tata, several have dropped out or were rejected early on. Those that remained were not considered to offer viable ownership of the site for the long term. A £900m loan to Tata Steel UK from its parent company had left the Port Talbot plant's operator facing crippling debt interest payments. Last year Tata's UK operations paid almost £200m in debt interest, according to its latest accounts, though not all of this will relate to the loan from India. Reducing debt interest payments will make a significant difference to the running costs of the plant. However, one person involved with the talks cautioned that any state loan would be smaller than £900m because borrowing at that scale would be more likely to breach state-aid rules. Another major hurdle has been the £14bn British Steel Pension Scheme, which with 130,000 members and an estimated deficit of £700m is seen as a huge burden (Peter Campbell and Jim Pickard, 2016)

Brexit impact

The Brexit development has acted like a further spanner in Tata Steel's efforts to get rid of loss-making UK business. As if selling of the plant was any easy for Tata Steel since the time the company announced its plan to do so amid a hostile business climate, Britain's move has only worsened matters. As buyers will now have to study even the trade ties of Britain with other European countries, certainly the sale process will be further delayed (Divekar, 2016).

According to Sudarshan Shreenivas, a senior analyst with Fitch Ratings. "All this while potential buyers must have looked at the Europe market as a whole, now with Brexit the entire trade equation of Britain with other European countries will change, this means there will be rethinking, recalculations and renegotiations by buyers, which will in turn lead to a delay in the entire sale process of the plant" (Divekar, 2016).

Steel products exported by Tata Steel UK enjoy free trade with other European countries by virtue of Britain being part of European Union. Now with the hive-off, exports from UK will be impacted as trade barriers will come in place, said analysts. "Agreed that pound will depreciate going ahead but its benefit could be minimal-to-nil in the long term as tariff barriers will nullify the effect," said an analyst with a local brokerage. Currently, about 12% of steel produced by Tata Steel's UK operations is exported to the other EU members. Overall European operations contributes about 52 percent to Tata Steel's consolidated revenue (Divekar, 2016).

"Brexit may delay the sale process of Tata Steel's UK operations as it will elevate the level of uncertainty within the region. Furthermore, on account of sharp volatility in currency especially the pound sterling, there could be re-negotiations with respect to different aspects of the potential deal," said ICICI Direct in its report. Tata Steel UK operations capacity stands at 5.5 million tonnes and is currently a loss maker. Apart this facility, the company has business in Netherlands which still remains part of EU and is EBITDA positive. However, evidence say that the company is also looking to sell its business at Netherlands and is in talks with Thyssenkrup (Divekar, 2016).

TATA Steel and thyssenkrupp merger talks

Thyssenkrupp, Germany's biggest steelmaker, entered into the talks with Tata Steel about a consolidation of beleaguered European steel mills that are hit by overcapacity, weak demand and cheap imports. Tata Steel had suspended the process of selling its troubled UK arm while it held talks with potential partners, including Thyssenkrupp, about alternative and more sustainable solutions for its entire European business. In addition to its UK operations, Tata Steel Europe also owns the former Hoogovens steel plant in the Netherlands. Thyssen spokeswoman Nicola Roettger, said "her company has long said it believes that a consolidation of the European steel industry is necessary, due to the extremely difficult economic situation, we have also said already that in such a situation, everybody's talking to everybody else. Among other (conversations), we are also talking to Tata Steel" (Tata Steel UK union warns against any fire sale , 2016).

Tata indicated that the talks, which could include a possible joint venture, were at a preliminary stage and the European approach was in addition to its attempts, launched in March, to sell its main British steel-making operations, which include its Port Talbot blast furnace plant in southern Wales. The firm said the British vote to leave the European Union, and the outcome of the UK government's consultation on Tata Steel UK's British Steel pension scheme, had prompted a rethink on the sale.

Nightmare of unemployment

Research by the Institute for Public Policy Research (IPPR), warned that if no buyer is found for Tata's UK business - which represents the bulk of Britain's steel industry - it could see unemployment in areas which rely on the company rise significantly for at least 20 years. The IPPR's research also warned that the collapse of Tata's UK steel business - which employs about 15,000 people directly but supports at least 25,000 jobs - could leave the Government facing a £4.6bn bill. The costs would come from lost VAT receipts and income taxes, as well as benefit payments to unemployed steel workers. Tata Steel is close to a deal to save its Port Talbot plant despite Britain's vote to leave the EU, as sterling's slump potentially boosts the industry's survival prospects (Tovey, 2016).

MPs and trade unions have said the steel industry faces a new crisis after the referendum result, with bidders for Tata Steel UK ready to pull out of the process. Sources familiar with Tata Steel's thinking, however, say the company is still working on a deal with the government to keep its UK business, and that the slump in sterling's value could help the industry. More than 11,000 jobs are at risk after Tata Steel announced in March that it was considering pulling out of its UK business, which includes the Port Talbot steelworks in south Wales. The company began a sales process for the business, and seven potential bidders were shortlisted, but it has decided to work on a deal to keep its UK concern after the government pledged to offer hundreds of millions of pounds of support and restructure the company's pension scheme. A senior source close to the Indian company said it was still likely to keep the business, which would be a boost to the beleaguered Conservative government, whose efforts to help Port Talbot have been criticized (Tovey, 2016).

The company believes the impact of Britain voting to leave the EU, which threatens to spark years of uncertainty for businesses, could be softened by the weakening of sterling. The pound fell to its lowest levels in 30 years against the dollar on Friday, which means it will be more expensive for China to export steel to Britain. Cheap imports from China have been one of the factors behind the crisis facing the steel industry. It is understood, however, that Tata Steel's main concern is whether the government will be strong enough to push through changes to the British Steel pension scheme, which need to be enshrined in law. The latest figures show the deficit has ballooned to £700m, up from £485m last year, and its liabilities are almost £15bn (Tovey, 2016).

Under the government's plan, drawn up with trustees and trade unions, the scheme would be spun off into a new "shell" company and the inflation-linked annual increase benchmarked against the consumer price index rather than the retail price index, potentially saving billions of pounds in future liabilities. The pension protection fund and some MPs, however, have said this could create a dangerous precedent and encourage other companies to walk away from their pension liabilities.

Tata Steel UK union warns against any fire sale

The employees union of Tata Steel UK has warned the company against conducting fire sale of its more profitable speciality steel business, leaving the Port Talbot and UK strips plants in the lurch. In a letter written to the Tata Steel management, Unite, Britain's largest employees union, has asked Tata Steel to give binding commitment on the future of Port Talbot and its UK steel strips business. Unite is Britain and Ireland's largest trade union with over 1.4 million members working across all sectors of the economy. The development follows unconfirmed reports quoting that the steelmaker was planning to pause its proposed sale of loss-making UK units, while going ahead with a separate sale of its speciality steel business and tubes operation. Reminding Tata Steel of its promise to act responsibly, Unite warned the company against ducking its promises and conducting a 'fire sale' of its speciality steel business, while allowing Port Talbot and its UK strips business to 'wither on the vine'. In addition to demanding guarantees over the long-term future of Port Talbot, Unite said it would