

THE UK GOVERNMENT'S STEEL STRATEGY

An assessment

The UK Government launched its long-awaited *Steel Strategy* on 19 March. This is a hugely important document for the steel industry, and perhaps for other manufacturing industries too because of the precedents it sets.

For steel, the strategy needs to be seen as part of an emerging story under the present government which also includes averting the closure of the Scunthorpe blast furnaces, backing for an electric arc furnace at Port Talbot, working to find a buyer for speciality steel plants in South Yorkshire, reductions in the industry's electricity prices and the planned introduction of a 'carbon border'.

Welcome aspirations

The government sees the UK steel industry as being of strategic national importance. As became apparent last year in the context of Scunthorpe, it has bought into the importance of sovereign capability. This underpins much of the *Steel Strategy*.

The government's initial aim is to stabilise the sector and to return domestic production to around 40-50% of domestic steel demand, compared to 30% at present. Back in 2010 domestic supply accounted for 50% of the UK market and as recently as 2023 for around 40%.

In the longer term, the government forecasts growth in the UK's demand for steel and sees important opportunities for new investment in UK production.

Good news on quotas and tariffs

The most significant aspect of the *Steel Strategy* is a commitment to introduce a new system of quotas and tariffs on imported steel. This matters because there is a huge surplus of steel on the world market, much of it at subsidised prices, that without controls on imports could simply obliterate the remaining UK production.

From 1 July 2026, when existing import controls expire, overall quota levels for steel imports will be reduced by 60% compared to current arrangements and steel coming into the UK above these levels will be subject to a 50% tariff. The intention is that the quotas will be set at a level that allows the on-going import of steel that the UK does not or could not produce itself.

The UK is not alone in introducing controls on imported steel. It is a route that other G7 countries are also following. The tough controls on steel imports do however represent a sea-change in the UK's approach to international trade, which has hitherto been based on the minimisation of barriers. If it has now been accepted that the steel industry is of strategic importance and for reasons of sovereign capability should be protected, the same principle might justifiably be applied to other important branches of manufacturing.

No commitments on investment

What the *Steel Strategy* doesn't do is allocate any of the remaining £2.5bn from the National Wealth Fund that the government has earmarked for the steel industry.

At the moment £500m is committed to the new Port Talbot furnace (but this is additional to the £2.5bn). It also looks likely that the subsidy to British Steel (at Scunthorpe and on Teesside), which the National Audit Office expects to reach £600m by June this year, will be taken from the £2.5bn. Surprisingly perhaps, where the remaining money will be spent is still to be determined.

Instead, the government's approach is to try to establish a commercial environment in which investment projects in steel will come forward. The import tariffs, lower electricity prices as a result of a reduction in network connection charges, a commitment to public procurement and a growing UK market for steel are all intended to encourage investment. Whether this works in bringing forward investment projects remains to be seen.

What is clear, however, is that the government sees future investment as involving electric arc furnaces rather than traditional blast furnaces, not least because of their lower carbon emissions. The precedent is therefore the recent developments at the Port Talbot works, where the blast furnaces closed in 2024 and an electric arc furnace is being built. Scunthorpe is expected to follow suit, though there is no intention to shut its blast furnaces before alternative capacity is open.

There's also no explicit plan in the *Steel Strategy* to reduce British Steel's huge losses. The assumption must be that with tougher import controls in place from June onwards, British Steel will be able to sell more steel and up its prices, thereby reducing its losses.

Primary steel production still in doubt

The expectation in the *Steel Strategy* is that the electric arc furnaces will be fed mainly by scrap metal. This is also 'green' in that it recycles material and the UK produces a lot of scrap steel that is currently exported. It does mean, however, that if the remaining blast furnaces at Scunthorpe were to close the UK would no longer produce any primary steel and, without imports of primary metal to feed into electric arc furnaces, the UK would be unable to produce all grades of steel.

A report from the Materials Processing Institute, commissioned by the government and published alongside the *Steel Strategy*, spells this out:

“Analysis of the expected product mix shows that steelmakers collectively will also have an intermediate requirement for around 1m tonnes p.a. of ‘primary iron’, that is iron derived from virgin iron ore, to blend with the scrap and other alloying elements across a range of higher performance products.”

The report goes on to say that:

“Whilst this need can be met initially from offshore supplies of blast furnace pig iron or direct reduced iron (DRI)....this primary iron should aim to be supplied from DRI or similar reactors.....This emergence of EAF + scrap + DRI is in line with the majority of current US steelmaking capability and with all major steelmaking transformation investments currently announced across Europe during the early 2020s”.

The *Steel Strategy* makes no commitment to investment in direct reduced iron, perhaps because the government has been listening too much to the UK’s steel employers, who have no current plans to invest in DRI technology. Instead, the *Steel Strategy* assumes that UK producers can import the primary iron they need and that any investment in DRI would be a commercial decision for them to take.

If the UK government really wants to establish sovereign capability in steel production, it needs to bring forward investment in DRI. The Materials Processing Institute says that, depending on the scale of domestic production targets and sovereign capability targets, the UK may require up to 3m tonnes p.a. of DRI capability.

Takeaway messages

- **The commitment to import quotas and tariffs is a huge step towards protecting and growing the UK steel industry.**
- **Most of the funding available to the steel industry from the National Wealth Fund remains to be allocated.**
- **True sovereign capability in steel production won’t be established until there is a commitment to investment in direct reduced iron – and that’s still missing.**

***National Secretariat
Industrial Communities Alliance
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