

STEEL STRATEGY

Submission to the UK Government consultation from the Industrial Communities Alliance

Industrial Communities Alliance

The Industrial Communities Alliance (ICA) is the all-party association of local authorities in the industrial areas of England, Scotland and Wales. Its membership covers most of the significant sites of UK steel production.

The principal role of the ICA is to secure funding and policies that will deliver regeneration in the areas covered by its member authorities, which have been hard hit by job losses over many years. As part of this role, the ICA has maintained a strong interest in industrial strategy and in the steel industry in particular. Indeed, the future of steel has been a regular item on the ICA's national agenda.

The ICA's interest in steel reflects the industry's importance to several local economies around the country. The steel industry provides jobs, often well-paid, and supports numerous other jobs via its supply chain and local consumer spending. Nearly all these jobs are in less prosperous parts of Britain. The steel industry is also of strategic importance to the UK economy, to the rest of the UK manufacturing and to national security. For these reasons the ICA membership sees the retention of a substantial steel industry as a key aspect of the UK's sovereign capability as an advanced industrial nation.

The consultation

The ICA welcomes the government's commitment to provide up to £2.5bn in financial support to the steel sector via the National Wealth Fund, in addition to the existing £500m public investment at Port Talbot.

The ICA shares the government's view that the dozen specific issues identified in the consultation document are the ones on which decisions will need to be taken in developing a Steel Strategy. However, the ICA notes that at this stage the government is not proposing specific solutions.

The ICA also notes that the majority of the 30 questions posed in the consultation document are of a technical nature that can only be answered satisfactorily by companies in the steel sector. The present submission does not therefore set out to provide responses to these questions but instead addresses the strategic issues on which the ICA would wish to comment. All the concerns raised below have regularly been discussed and the present submission was agreed at the ICA national meeting on 28 March.

Strategic priorities

1. Don't rule out state ownership

Excepting the unusual case of Sheffield Forgemasters, UK steel production is in private hands, and indeed foreign ownership in the case of the largest works. Private or foreign ownership is not necessarily bad. However, there is the potential for a conflict of interest between private owners (especially perhaps those with steel plants in other countries) and the best interests of the UK economy. The conflict is greatest when large sums of UK taxpayers' money are about to be invested, as in the case of the UK steel industry. What suits the companies best may not always be what best suits the government, the taxpayer and the UK's national interests.

The ICA has noted that the government has not ruled out taking British Steel into public ownership if it proves impossible to agree a satisfactory investment deal with its Chinese owners. This is an option supported by a range of MPs from across the political spectrum and by the steel trade union, Community.

Public ownership is an option that the ICA would support in the context of British Steel or any other vital part of the UK steel industry

2. UK primary steel production should be maintained

The consultation accepts that there is likely to be a transition to electric arc furnaces. These are able to recycle scrap to produce new steel, but using scrap alone it is not possible to produce all grades of steel via electric arc furnaces. Indeed, even the scrap itself needs improved sorting if it is to be of use. To produce the highest-quality steels requires the input of virgin iron products such as pig iron, presently produced by blast furnaces.

If the UK is to retain its ability to produce the full range of steels, primary steel production therefore needs to be maintained in order to avoid reliance on imports of either inputs to electric arc furnaces or finished steel. Also, if primary metal is imported to the UK this will simply shift carbon emissions abroad, where it will almost certainly be produced in traditional blast furnaces. This would be undesirable, economically and environmentally.

From the point of view of national security and defence procurement, in the present uncertain international climate it would be foolhardy for the UK to abandon the production of primary steel. It would also make the UK an international outlier – the only G7 country, for example, unable to produce primary steel.

3. The UK should invest in Direct Reduced Iron

If the UK is to move away from the use of blast furnaces but still wishes to be a producer of primary steel it will need to invest in Direct Reduced Iron (DRI). DRI is best understood as a furnace that instead of using coal to extract the metal from iron ore (as in current blast furnaces) the ore is heated and the metal extracted using natural gas or hydrogen.

DRI technology is maturing. However, it is not presently part of the UK plans of either Tata Steel or British Steel, the two main steel producers. This is unsatisfactory. It means that if the remaining blast furnaces at Scunthorpe were to be shut down the UK would become wholly reliant on imported primary metal. This may of course suit the two producers, who could import metal from their plants in India, China and the Netherlands.

Long-distance supply chains of this kind, especially perhaps from East Asia, would add to concerns about sovereign industrial capability and national security, and don't help environmentally either because of carbon emissions.

4. Blast furnaces should not be closed until there is an alternative UK supply of primary metal

This is a question of scheduling. At Port Talbot, the argument put forward by the trade unions was that at least one of the blast furnaces should be kept in production until the new electric arc furnace came on stream. This was rejected by management, with the result that the Port Talbot rolling mills will for several years have to be supplied by imported steel. A similar situation will arise at Scunthorpe if the Chinese owners proceed with their plans for the early closure of the blast funaces.

If there is no early investment in DRI there will be an on-going reliance on imports to provide feedstock for any electric arc furnaces producing the higher grades of steel.

There are dangers in a potential hiatus in UK steel industry capability. Once a flow of imports has been established there is a distinct possibility that the two main UK producers may back-track on their commitments to invest in new plant. Their argument may be that it is simply cheaper to import steel for processing, especially if the supply comes from their own plants elsewhere that have spare capacity. This would be a route to the disappearance of much of the remaining UK steel industry and should be avoided.

5. Invest in downstream capacity

Although primary steel production in the UK is under threat, there is no possibility that the UK market for steel will disappear. Steel remains central to many features of modern life – construction, manufacturing, consumer goods, defence etc. etc. There are no parallels with the coal industry, for which UK demand has almost entirely disappeared. It is important therefore that the UK retains the domestic capacity to supply many of the numerous on-going markets for steel.

As the consultation acknowledges, for example, the cumulative demand for steel for UK wind turbines might be of the order of 25m tonnes by 2050. This will require an adequate supply of steel plate, in particular, which in turn may need investment in appropriate UK plant to supply the market.

6. Protect UK steel production from cheap imports

The UK steel industry faces an existential threat from the surplus of steel on the world market. The global overcapacity is simply staggering, as the employers' association UK Steel has pointed out, and is set to be compounded as the growth of the Chinese economy slows. There is even a potential surplus of 'green steel' on the world market, produced by electric arc furnaces.

The consultation acknowledges the threat posed by global overcapacity. What it does not set out are proposals for averting this challenge. The proposed Carbon Border Adjustment Mechanism by itself is unlikely to be sufficient, especially if it is introduced a year later than the equivalent EU measure, which risks diverting cheap steel imports from the EU to the UK. Traditional 'trade remedies', which address specific distortions to trade from specific countries, are also unlikely to be enough.

To adequately protect steel production, tariffs will be needed. Given the scale and immediacy of the threat, complex and targeted measures run the risk of leaving the UK exposed. Better, perhaps, to implement blanket measures now with a view to developing more targeted measures in time. The government will note, of course, that in the present global context the UK would not be alone in deploying tariffs.

7. Reduce electricity prices

High electricity prices have for many years been a problem for UK steel producers. With a transition to electric arc furnaces, the problem will only become worse. Electricity prices for UK steel producers are widely acknowledged to be higher than in the rest of Europe and possibly the highest in the world.

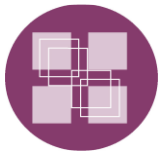
The consultation notes the challenge posed by electricity prices but, as with the threat from global overcapacity in steel, it does not propose any specific solutions. The previous UK government was lobbied long and hard on industrial electricity prices and never came up with a satisfactory solution.

Frankly, if the new government is at all serious about finding a lasting way forward for the UK steel industry it now needs to deliver lower electricity prices. Exactly how lower prices are delivered is less important than the lower prices themselves.

8. *Use public procurement to support the UK steel industry*

Public procurement can play a role alongside other measures (tariffs, investment, lower electricity prices etc.) to help support the UK steel industry. There are infrastructure projects, in particular, that require large amounts of steel – HS2 is an obvious example and more generally there is a potential demand for UK steel in renewing the rail track across the country. Much defence infrastructure and equipment also requires an input of steel. With the UK steel industry under such acute pressure, it would be remiss if public procurement were not to be deployed to support UK production.

The UK has international obligations to respect under World Trade Organisation agreements, but in practice WTO rules have rarely if ever prevented countries from finding loopholes and procedures that favour their own producers. Indeed, there is an ‘opt-out’ in WTO rules covering defence and energy security. The UK steel industry is a national asset, important for sovereign capability and national security. These national priorities need to override other concerns.



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