House of Commons

International Trade Committee

Oral evidence: Trade and the environment, HC 75

Wednesday 1 March 2023

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Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Paul Girvan; Sir Mark Hendrick; Lloyd Russell-Moyle; Andrew Western; Mick Whitley.

Questions 1 - 60

Witnesses

I: Cameron Witten, Senior Policy Adviser (Trade), Green Alliance, and Catherine McBride, Fellow, Centre for Brexit Policy, and Member of the Trade and Agriculture Commission.

II: Gareth Stace, Director General, UK Steel, and Dr Diana Casey, Director, Mineral Products Association. (See page 16)

Written evidence from witnesses:

– UK Steel (TEN0032)

Examination of witnesses

Witnesses: Cameron Witten and Catherine McBride.

Q1 **Chair:** Good morning and welcome to the International Trade Committee. It will probably become the business and trade Committee—we await further developments. This is our inquiry into trade and the environment. We have two panels of two this morning. First, I will make a short apology, as we overran in our private meeting, hence we are starting late in public, but we had many things to discuss.

We have two panels of two. We have with us, first of all, Cameron Witten and Catherine McBride. I will ask you both to introduce yourselves on your own terms, with name, rank and serial number.

Catherine McBride: My name is Catherine McBride. I am a fellow of the Centre for Brexit Policy, so you know where I stand on that, but I am also on the Trade and Agriculture Commission. We are an independent commission, but we advise the Department and the International Trade Secretary about trade deals. I have read the trade deals and looked at a lot of the clauses and things in there, as I know you guys have as well, so I have a lot of information that I used when assessing the Australian deal for them. I have read all the Australian Government reports on forests and things like that.

Q2 **Chair:** I am surprised that you want to get into Brexit, because I remember an MP telling us all that it has been discussed to death and that there is no more to discuss, in a very short intervention in the House of Commons a number of years ago. I am surprised that the subject is even mentioned.

Catherine McBride: If only, yes.

Cameron Witten: Thanks again to the Committee for inviting me here today. My name is Cam Witten. I am a senior policy adviser on international trade at Green Alliance. Green Alliance is an independent, non-partisan think-tank and charity working to increase political ambition on climate and the environment.

Q3 **Chair:** Thank you both for joining us. It is good to see Cameron's good Scottish Gaelic name. I will not translate the meaning of the name at all at the moment. I want to kick off with you, Cam, first. How effectively have the Government used trade agreements to maintain environmental standards, particularly regarding their declared goals on climate change?

Cameron Witten: That is a good place to start. There are some bright spots, it is fair to say, but it is a bit of a mixed bag. We have begun to see a bit of divergence in the deals that have been agreed since Brexit, and it seems to depend to a large extent on the negotiating partners across the table from us and on how ambitious these trade deals end up being when it comes to climate and the environment.

There are good things in the Trade and Co-operation Agreement, for example. There are good things in the deal with New Zealand. The language is a bit watered down in the deal with Australia. There are definitely going to be much more challenging negotiations in future. This is part of the reason why we have been calling, for a while now, for the establishment of a clear public trade strategy, which I know the Committee has been calling for as well, and the establishment of core environmental standards that underpin all of these FTA negotiations. There has already begun to be a bit of divergence, and it really seems to depend on who our negotiating partners are and how ambitious the Government end up being on the environment. Things like core standards, a clear trade policy and clear red lines that underpin all of our trade deals would be a good starting point to help make sure that there is at least a base line, and then the FTAs can be used as an opportunity to go further where there is more ambition and more agreement among like-minded partners.

Catherine McBride: The CPTPP is an excellent trade deal, because it covers a lot of countries that have very different standards of living and a very different exports orientation, yet it puts in an environmental chapter that is doable and enforceable. Unfortunately, a lot of trade deals—not just the new ones—do not bother with the environment at all, even though, if you are suddenly going to be a very wealthy country joining a trade deal and prepared to pay a lot more for, say, fish than the Vietnamese are used to getting, there is a chance that they could rake their oceans and deliver you with the fish. It is very important when you go into that kind of trade deal with very wealthy countries and very poor countries that you have some sort of limit on what can be sold and what cannot be sold, and to do that in a way that is enforceable by every country's own Government. It is a very good trade deal from that perspective.

When I go through information on various things, you will see that, in fact, rather than the UK coming in as the country with high environment standards and joining these reprobates who are just burning their jungles and eating their wild animals, it is the exact opposite. In fact, if the UK joined, we would have the lowest level of forested area per land mass of every country in the CPTPP. That is pretty shocking, so it is really important that we take it seriously.

A lot of the things in the environment chapter are to do with the Pacific. You might think, "That is nothing to do with us", but, in fact, the UK's exclusive economic zone includes over 800,000 square miles around the Pitcairn Islands. That is something that, if we do join, we will have to be prepared to protect, because, right now, there are nations in the Pacific that are not party to this agreement and that are quite happy to overfish wherever they can.

We also have to look at our own exports, because the UK now exports plastic garbage and paper garbage to a lot of countries in the Pacific. The

Chinese refused to take our garbage a few years ago, so they have stopped being our biggest place of export for garbage. Unfortunately, some other Pacific nations are still taking it and they have stepped up when China stopped taking it.

Q4 **Chair:** I hear what you are saying about preventing a country overfishing its resources to deliver to a richer country, but is there any way that the environment could be used as protectionism, where you can say, "I do not want your fish, because I am very worried that you might fish and I am only taking so many to protect your environment", but you are protecting your own fishers, or whatever subject matter it might be?

Catherine McBride: We could to an extent, but you will find that we already have trade deals with the countries in the CPTPP that have the highest CO2 emissions. Japan is off the chart compared with the UK, and we have a trade deal with it. The poorest nations in the CPTPP and the ones that we do not already have a trade deal with, although we do have one with Vietnam, have very low emissions.

In fact, by joining this, we would not really be able to put up a lot of trade barriers. We might say, "You are taking all your fish out of the water", but we already have a deal with Vietnam. Admittedly, that deal has limits. It has a lot of quotas on agricultural food. People do use environmental issues as a way of protecting their positions, and they should not.

You may or may not have just received a pack. I was hoping that this would be in a PowerPoint and I could talk you through it. Quite frankly, the greatest thing you can do for the environment is to increase trade, because starving and impoverished populations eat whatever they can find, and they do not care if it is an endangered pangolin. They burn whatever they can find.

Q5 **Chair:** In the way that seals eat salmon and do not care how many salmon swim up the river—

Catherine McBride: They are probably starving too. You cannot tell starving people that they cannot eat the only food that they have. If you trade with them and allow them to build up their income, you will discover that they will start eating better-quality food and will burn less carbon-intensive things. It is a win-win. We have a lot of evidence to say that that happens.

One of the things that you will see in here is a chart of the forested area. You can see that the UK is right at the bottom, but that Vietnam, one of the poorest countries by GDP per capita, has a lot more forest than the UK. On the next chart, in which I am sorry I did not write all the details, Vietnam's forested area has increased dramatically in the last 30 years. They are industrialising, but without burning down their forests and clearing the land.

Q6 **Chair:** They are abandoning the countryside, effectively, and letting it grow back to jungle. Is that what is happening? Is it nature taking over rather than man acting?

Catherine McBride: That is a problem in a lot of forested areas. A lot of the tropical forests that you will find in this agreement grow back very quickly. Clearing land is either a constant job or, the moment you turn around, it is back again. That will certainly be the case in Vietnam and also in the case of Peru and Malaysia. A lot of people are aware of Peru being a very dry country on the Pacific coast but, if you go over the hill and down into the Amazon valley, it is Amazonian jungle, which most people think is only in Brazil. It is in all of those countries and it is definitely in Peru.

It does grow back very quickly. The type of woods that you have in that sort of jungle grow quickly. They are softwoods. About one in 100 trees in Peru are mahogany, for instance. It has to get to the jungle canopy to survive, so they go up very quickly. A lot of it is not wood that you are going to be cutting down anyhow.

Chair: Thank you for the maps showing the exclusive economic zones. I had not appreciated that about Pitcairn island. I am reminded of a guy in my constituency. We were in the north of my constituency one time, and I said to him, "When were you last in Stornoway?" and he said, "I have never been to Stornoway". This was only about 150 miles away, but he told me that he had been to Pitcairn island 13 times, which was bizarre, given the difficulty that people had in finding Pitcairn in the first place. Michael MacNeil had managed to find it 13 times. Anyway, I digress.

Q7 **Sir Mark Hendrick:** On that last point, Catherine, is this not a bit like us lecturing China on emissions, when, in fact, the whole climate change problem has been from 100-plus years of industrialisation in the West, rather than necessarily the Chinese burning more carbon than they should be doing at the moment, even though they are making other efforts to deal with climate change?

Catherine McBride: I agree with you100%. The UK has lowered its carbon emissions by doing three things. It converted from coal to gas-fired electricity, which was a very good idea. It took much better care of its landfill. Landfill is the biggest cause of methane. Forget cattle. It is landfill. Thirdly, we exported our industry to China, India, Vietnam, South Korea and Japan and so on. Instead of measuring CO2 emissions by the producer, if you measured it by the consumer, you would find that the UK and Europe, et cetera, would be way up there. I have used this a lot with, say, Ireland. At present, the EU wants Ireland to cut its beef cattle herd by 25%, but Ireland does not have all those cattle to feed Ireland. It has those cattle to feed the British, yet we are counting it as their emissions.

Q8 **Sir Mark Hendrick:** Are we displacing the problem?

Catherine McBride: Yes, we are displacing the problem, then giving ourselves a gold star for doing really well. We have done well in certain areas. I am completely pro changing coal to gas, if you have gas, which we have, but we are leaving it in, stupidly. A lot of countries do not have gas. They would love to use gas rather than coal. They do not have it, but they do have coal. Coal is quite plentiful around the world and we could make more methane, because the interesting thing with landfill is that it produces methane.

People sometimes confuse methane with some sort of fossil fuel. It is not. We are producing it all the time. We know that cows produce it. Landfill produces it and people are collecting it, by sticking a tube into landfill with holes in it. The methane gathers in that and they pump it out, so that it can be burned. That is technology that the UK developed.

There is, in the pack, the UK's methane emissions according to BEIS, and they have collapsed. The striped line is non-agricultural methane production. The agricultural methane is about where it was. It is slightly better, because we now collect cattle manure better, and we have a better policy around that. We managed to more than halve our methane and did not touch our agriculture, and that is pretty impressive. That is the sort of thing that the UK should be exporting around the world and saying, "This is what we did and this is what you can do". Instead, there is this obsession with cattle, which is crazy, because that is not the problem.

There is another chart on international methane production all around the world. The green is just landfill. Everyone could cut landfill—that is pretty easy—and really lower international methane production without touching rice cultivation, which is pretty bad, or meat, which is pretty bad. Ignore those and just do the easy stuff. Do the landfill.

Cameron Witten: There is a lot that I could come back on, but I do not think that we have enough time today. I will focus on where we agree, which is the point about us exporting our environmental footprint and our carbon emissions overseas. One thing that is important for us to think about is how we are levelling the playing field, so that our domestic industries remain competitive. That is why we are very much in favour of things like carbon border mechanisms, product standards and a serious industrial strategy from Government to help our industries decarbonise in the right way and in the fastest possible way, so that we are not being undercut.

There is a lot of action at the European level. They are moving forward quite swiftly on a CBAM. We have been promised a consultation on a CBAM for about nine months now, but it is yet to materialise. We expect that that will also look at product standards, which are an important part of this. We should not pretend that a CBAM is a silver bullet, but there is a serious need for us to look at how we are constructing a comprehensive policy mechanism to tackle consumption emissions. I agree that consumption emissions are a huge part of the challenge in terms of our environmental footprint and our carbon footprint from trading, but also how we are supporting our domestic industries and, at the same time, designing these mechanisms in a way that is not undermining our trading partners.

We would agree that nobody wants to see our trading partners become impoverished through environmental regulations. They need to be designed in a way that works for everyone and helps to lift all boats. Particularly when we are looking at something like a CBAM, that is going to be a really critical litmus test in the way the Government go about developing and designing that, and the stakeholder engagement process that precedes the implementation and the design of a CBAM. It needs to be done in a way that brings developing countries along and does not overly penalise them or impose an undue regulatory burden on them in terms of compliance in order to give it legitimacy, transparency and stakeholder support from our trading partners, so that it does what we hope it will do.

Part of that should be redirecting some of the revenue that is generated from that mechanism to help those countries move up the ladder of production, so that it is not just raw materials at the front end, but we are able to buy higher-quality, processed and refined climate tech and green tech from countries where the raw materials are readily available. That would help us not only to tackle consumption emissions but to strengthen our supply chains, diversify our supply chains and make ourselves more resilient, so that we are not overly reliant on highly concentrated supply chains for certain goods and services that are going to be critical to the net zero transition.

Q9 **Sir Mark Hendrick:** Catherine, you seemed slightly amused by some of what Cameron said.

Catherine McBride: Yes. I dislike adding additional taxes just for the hell of it. This just allows another level of bureaucrats to get involved, collecting the tax and then redistributing it. It will not go back to where it is needed. The free market is a really good developer of this sort of stuff, and I really dislike the whole idea that we can put a carbon border tax on things when we have encouraged them to make this stuff and we benefit from getting cheaper goods. A lot of our industry relies on parts that are made in other countries. Our biggest exports are cars and plane parts. We do not make the planes, but we make the engines, the wings, the seats and the landing gear—all the important stuff—but a lot of those are assembled in the UK and we are relying on parts that are made in other countries.

You will find that this carbon border tax will be very difficult. It will hit all industries. It will be inflationary. We have enough of a problem with inflation. It will be hard to administer, because it is going to hit the industries that we have. It is crazy.

Right now, we had a massive drop-off in our trade during Covid, because we were missing some key components for our car manufacturing, and that is because the key components are coming from China. I agree 100% with Cameron that we need to diversify our supply chains, but I do not think that you do that by putting carbon border taxes on things.

Q10 **Chair:** How will you diversify if you always go to the cheapest source? It is great to say that we need to diversify, but if China is providing the cheapest option and there is somebody else providing a more expensive option, you know that you should diversify but it is going to cost you more. How is a company going to diversify?

Catherine McBride: What most companies have realised is that zero production means zero revenue, so taking the cheapest source and not having a warehouse full of them is not a very good way to run a company.

Q11 **Chair:** While they are producing and while you can get them, you take them.

Catherine McBride: Yes, but most people have suddenly gone, "Hang on a minute", because we have also seen what happens if there is an international decision to close a market. That happened with Russia's gas, and that could happen with China. If China, say, does decide to take over Taiwan, there will probably be international sanctions and you probably will not be able to get them. Most companies have probably woken up to that recently and gone, "We should find another place".

Q12 **Chair:** What you are saying is that companies are now taking a hit in the here and now for something that is unforeseen and unguessable in the future.

Catherine McBride: It was unforeseen a few years ago, but it is a lot less unforeseen now.

Q13 **Chair:** But you are telling companies to take a hit on the unforeseen. By its very nature, they do not know what it is, but you are saying, "Diversify and go for the more expensive option".

Catherine McBride: Is it more expensive though? With cars, having no computer chips from China sent revenues down dramatically. A computer chip is not a large part of the whole production of a car. Paying twice the price for the computer chip would give you the revenue for the whole car.

Q14 **Chair:** At the moment, there is no problem with tyres. You are telling somebody to go to a more expensive source of tyres in case a problem arises in the future with tyres. At the moment, we cannot see a problem with tyres. Nobody is raising a problem with tyres, but you are saying, "Go and find more expensive tyres, just in case there is a problem with tyres in the future".

Catherine McBride: You are assuming that they are going to be—

Chair: Sorry. I am interrupting you.

Q15 **Sir Mark Hendrick:** Computer chips are a bit different. China has huge amounts of the rare earths. Other countries do not have the choice of producing those chips, even if they wanted to, because of the way in which China gets those very rare materials and turns them into chips. I totally accept your point about Taiwan. I do not think that they will attack

Taiwan, by the way. There seems to be this foregone conclusion that, because Russia has attacked Ukraine, the Chinese are going to do the same. Leaving that aside, multi-sourcing is a way through this. They have found these rare earths now in Scandinavia, which would be an alternative source.

Catherine McBride: It is not just the rare earths. What China does is it refines them. Rare earths are not particularly rare. They are just rare in that you do not get much of them in a square metre of dirt. It takes quite a lot of carbon to extract them from the dirt, so that is what makes them rare. The highest-quality silicon comes from America, but the chips are being made in south-east Asia. You will definitely see diversity and you will find that a lot of other countries can compete with China, if they are given the opportunity. If people start saying to Vietnam, India, Malaysia or Indonesia, "Can you produce this?" they will probably go, "Yes, we can".

Q16 **Sir Mark Hendrick:** They have been doing. They have been doing so for decades. It is just that they do not have the essential bits that you need to make them in the first place. The question that I was going to ask is what the Government's priorities should be when considering environmental red lines. We have already established that we cannot just take the moral high ground and say, "You cannot do this and you cannot do that", even though we have been doing lots of bad stuff over decades. What line should the Government take? Cameron touched on some of it.

Cameron Witten: I am happy to come in on that. Going back to the point that I made earlier about why we, this Committee and practically everybody have been calling on the Government to produce a public trade strategy is because part of that process, if you do it with proper stakeholder consultation and if you do it with proper parliamentary oversight and engagement, is to collectively develop, in a sensible way, what those red lines would be. That is part of the reason why we are calling for a public strategy from the Government. Ideally, going through that process would help us to illuminate what those red lines should be in the first instance.

We are in the middle of a climate crisis. We are in the middle of a biodiversity crisis. We need to bring every tool to bear to tackle these in a joined-up way. As part of that, we would say that the things that we have seen in some of the trade deals that we have signed, like New Zealand and like the TCA, where there is a commitment to the Paris agreement and to delivering on 1.5 degrees, should be no-brainer starting points for trade agreements on the environmental front going forward.

Then there is a lot further that you can go beyond that. There are things that we can do to spell out specifically where we would want to collaborate—on reducing fossil fuel subsidies, for example, like we have in the deal with New Zealand, or on specifics of how we move the ball forward. Those are the sorts of fundamentals that we would want to see underpinning any deal.

We would also say that binding domestic commitments to delivering net zero should be a red line before we go and sit across the table from a partner to try to further bring our trade relationships together. That is why, when I last appeared before the Committee, we were very sceptical of the talks that are being progressed with the GCC, because of their terrible record on the environment and on climate. Those are the sorts of things that should be a starting point for even opening up trade negotiations with other countries.

Sir Mark Hendrick: A wry smile again from Catherine.

Catherine McBride: Yes. I thought we were talking about joining the CPTPP. I might have got that confused. They already have an environmental chapter. We are joining their club. If we join their club, we are playing by their rules. Their rules do not involve carbon, for several reasons. One is that it was developed before this emergency arrived. Unfortunately, I am old enough to remember the first emergency in the ’70s, and that did not happen, so I am very cynical about this present one.

I have given two things to the Committee, and I know that one has been distributed. The other one is a spreadsheet. Each page is a different country in the CPTPP, and you can see what they produce and what they export. Brunei has the lowest CO2 emissions in the group, but its only export is oil and gas. That is all they do. That is all they have, yet you would want to put some sort of thing on that. It is like, “No, that is what they do”. Japan, which is also in the group, imports all of that oil and gas. It needs that oil and gas to produce the things that we are buying. If you are wearing a suit, if you have a phone or if you have shoes, they were made in these countries. We happily buy them, and they are made with machinery that runs on oil and gas, or electricity that is produced with oil and gas or coal. If you go and join a club and say, “By the way, we want you to commit to being a very developed nation that does not need this stuff any more, because we have poor people to do that for us”, you are joining the wrong club.

Q17 **Lloyd Russell-Moyle:** Today we are looking at environment and trade in all trade areas and deals, so not just the CPTPP. Catherine, you are mentioning overall carbon emissions a lot, and comparing big countries with small countries. Brunei has among the top 10 worst carbon emissions per capita in the world. If you take oil-producing countries out of that, it is the developed countries that are the worst in the world per capita—Canada, Luxembourg, Austria and the US, in that order. Per capita is what really matters, is it not? Otherwise, you are comparing completely different countries, so let us talk about realistic statistics rather than made-up or manipulated statistics.

That shows that countries that trade without some element of carbon understanding—carbon border or carbon adjustments, et cetera—produce more carbon. Your statement earlier said that the best thing that we could do for the environment is to have more trade, but I do not understand where that is based in reality.

Catherine McBride: Because it makes countries richer and therefore—

Lloyd Russell-Moyle: They consume more.

Catherine McBride: I am coming from the CPTPP's list of environmental concerns, one of which is protecting endangered species. We have the luxury in the UK of not having to eat endangered species. In fact, we kill badgers here because they are, apparently, upsetting our cattle, but we then get upset about someone in south-east Asia eating a pangolin.

Q18 **Lloyd Russell-Moyle:** You are looking only at the CPTPP metric. That is not what we are talking about today. We are talking about environment in the broader sense—carbon, climate, environment and trade. What you are saying is that, on some very small metrics that the CPTPP might have outlined, it might be slightly better. On a broad-brush stroke, surely you can agree that the biggest carbon emitters and the biggest problem is overconsumption of consumable goods in western countries.

Catherine McBride: Yes, probably, if you are just concentrating on carbon.

Q19 **Lloyd Russell-Moyle:** Or methane and the overconsumption of red meat in western countries.

Catherine McBride: No, there is a thing in there. Your big problem is landfill. It goes by country, so you can see where the landfill problem is. I do not see carbon dioxide as this great poison. Right now, we are in a closed room, and the carbon dioxide level in this room—

Q20 **Lloyd Russell-Moyle:** If that is the case, Catherine, I would like to ask Cameron some questions. I am not going to engage with carbon climate denial. It is ridiculous.

Catherine McBride: You know that it is three times here what it is outside, and we are all alive.

Q21 **Lloyd Russell-Moyle:** Cameron, how effective have trade agreements been in raising environmental standards? Are trade agreements the right forum for environmental standards to be raised?

Cameron Witten: I touched briefly on this earlier. A modern trade agreement should embrace the reality of the modern global economy that we live in. It should not be the sort of thing where it is operating in a silo. We are dealing with a climate crisis. We are dealing with a biodiversity crisis. If we are spelling out in a trade agreement how we are going to knit our economies together with our trading partners more closely over the next decades, then environment absolutely has to be a part of that and climate absolutely has to be a part of that.

FTAs are good at certain things. There are good examples that I have touched on of where they have moved the ball forward. There are other examples, like Australia, which have left a lot of people wanting on the environment side of the conversation.

Q22 **Lloyd Russell-Moyle:** Does "wanting" mean that we have gone backwards or does "wanting" just mean that there is more work to do but we are no worse off than we were?

Cameron Witten: There is a case to be made that the Australia deal is putting a lot of our farming industry in particular at risk. It is undercutting our farmers. They have said this very clearly. The Government's own Ministers have said this very clearly. There are big discrepancies in the way in which our agrifood systems work.

Q23 **Lloyd Russell-Moyle:** On some of these deals, the Government's argument is that meat produced in some New Zealand and Australian farms has less carbon embedded in it. It releases less methane and, even if you factor in the import and the shipping costs, it still is less than British meat. Farmers might suffer and, when we do our agriculture panel, I am sure that farmers will say that that creates problems for British farming, but, from an environmental perspective, is there not then an argument that that is better?

Cameron Witten: It is a fair point to raise and it is certainly true that, if we are just comparing carbon content, then you can clearly point to one and say, "They have a lower carbon footprint", but we and our partners are looking at this more holistically—so environmental impact writ large. There are a lot of knock-on effects such as deforestation, the use of antibiotics and the types of antibiotic resistance that we are starting to see, because of how excessive the use of antibiotics is in certain markets, which are beyond simply embedded carbon when we are looking at the environment in the round.

That is why, again, things like core standards are so important. A CBAM is great if you are looking just at heavy industries, but it cannot do the sorts of things that we would want to do on agriculture and on nature. That is where we think things like core standards are really important to say, "We are all competing on a level playing field. We are going to do this in a way that does not undercut our domestic industries and which requires the same sorts of standards on the environment and animal welfare", of which currently there are none internationally that apply to imports.

Q24 **Lloyd Russell-Moyle:** There are quality standards and safety standards regarding antibiotic overuse in meat that is being imported. Meat is a good example, because it is so complex in terms of inputs, but you could say the same with many other food products. What are you saying needs to be additional to our SPS regulatory checks? In the Australia deal, is it not right that there are some commitments to increasing animal welfare?

Cameron Witten: Food safety standards and animal standards are quite often conflated with environmental standards and animal welfare standards. We have the Codex Alimentarius, which sets minimum international food safety standards for imports.

Our partners at WWF and elsewhere have proposed something called the Codex Planetarius, which would impose, on the other side of the ledger, global minimum environment standards, so that we factor, as you say, all of the complexities in environmental impacts and animal welfare impacts into what we import, in the same way that we are already looking at safety.

Q25 **Lloyd Russell-Moyle:** This would be another way, in your view—and I will come to Catherine in a bit—of levelling the playing field. We have these standards here already at the moment, and those standards have offshored the industries to other places. If we take that argument to full fruition, do you not get to a stage where you just put restrictions on all trade, unless it has met the exact standards that we would do if we produced it here?

Cameron Witten: That is a very important point. We need, with core environmental standards or with a carbon border mechanism, to design it very thoughtfully in collaboration with our partners and in a way does not result in causing restrictions on trade, but makes it easier for goods that are not damaging the planet to flow more freely. Part of that should be combined with multilateral engagement at the WTO level and at the various multilateral forums where we currently have a seat at the table, to bring people along on this journey and not simply act as if we are throwing up barriers.

Q26 **Lloyd Russell-Moyle:** There will be a question in a second about multilateral trade. Very quickly, Catherine, because I do want to be fair on you, even though I cut you off, you have expressed your scepticism on carbon border adjustments. How do we prevent the offshoring of British jobs when we increase our environmental or other standards, or is your view that we should not have these standards in the UK in the first place?

Catherine McBride: We have been offshoring our jobs for a long time.

Q27 **Lloyd Russell-Moyle:** It has caused the mess that we are in at the moment.

Catherine McBride: We have been doing it not just for environment reasons but for wages. The more we increase our working benefits, the more people will move their job somewhere else.

Q28 **Lloyd Russell-Moyle:** Is your view that offshoring is just a natural thing that we should not be worried about?

Catherine McBride: It is happening in a lot of places. It is not a UK thing.

Can I just correct some of the stuff you have just said about farming? The big growth in protein is chicken, and chicken is produced in massive warehouses in the UK. That is the most likely area where antibiotics will be used. Once there is an infection in one chicken, because they are all in one place, it is almost impossible. Even with our own veterinary rules, there is a chance that, if one in one shed of a million chickens has a disease, every one will get antibiotics, first, because of the way they feed them and, secondly, because it is virtually impossible to contain it.

Where animals are outside, which is why you should eat more beef, and in pastures, which they are in Australia and New Zealand et cetera, they are not as close together, so they do not have the need for the antibiotics that you do if you are keeping animals in a shed, as a lot of commercial production does now. Pigs are the same.

Lloyd Russell-Moyle: That is an interesting point, and I suspect that the best way of avoiding antibiotic resistance is to get people to move to alternative protein sources.

Q29 **Andrew Western:** One of the associated points on this would be around ecolabelling, and I am interested in your views of the advantages or disadvantages of that as a means of ensuring that imported goods do not undermine UK environmental policies.

Cameron Witten: I am happy to come in on that point. There is a lot that ecolabelling can do. There is a lot that product standards can do. It is worth acknowledging that the eco-design standards that we have are already demonstrably effective in reducing carbon emissions and in delivering cost savings for consumers. There is a lot that we can do with product standards.

It is important to also point out that there needs to be proper enforcement. There has been research recently that says that the equivalent of 600,000 additional cars are on the road in terms of carbon emissions, even under our current eco-design standards, just because of a lack of proper enforcement. It needs to be part and parcel of a proper enforcement regime.

One of the things that the Committee asked the Government in your recent correspondence was around lifecycle assessments for products. It is fair to say that that is very challenging, and maybe a better place to start is simply looking at carbon content as a starter for 10, then slowly expanding out to whole life-cycle assessments. We would say that that is where we want to end up eventually.

That has proved very difficult where we have tried to implement it so far, but there are good things that are happening. There is the Foundation Earth stop-light trial that is ongoing with some of the big supermarket chains. That is something that the Government could do more to support. There is already a publicly agreed standard under the British Standards Institution for carbon assessment, which could be applied to companies over a certain size for starters, so that it is not overly burdensome, and then move towards smaller companies and greater life-cycle assessments over time.

Q30 **Andrew Western:** Just on the labelling, there is an obvious question about the evidence that purchasers will change their behaviours if you go for stronger ecolabelling. Is there evidence to suggest that people would do that in sufficient numbers to justify the additional cost?

Cameron Witten: Yes. What we have seen already is that the pull that ecolabelling has is delivering cost savings to consumers and also cutting our carbon footprint. Where ecolabelling is most effective is when it is also paired with minimum product standards, so you need a push and a pull. You need to raise the bar for producers to build more efficient products in the first instance, and also signal to consumers, "Hey, these are the good ones. You should maybe take a look at these". That sort of push/pull, carrot and stick mechanism is where it is most effective in shifting consumer behaviour.

Catherine McBride: I know that there are already products available that are meant to be good for the environment, and I am not sure that they sell better. I found it very interesting that, when we introduced a minimum charge of 5p on a plastic bag in a supermarket, within a few months, suddenly everyone was bringing their own bag to a supermarket or buying a bag there. That whole industry disappeared really quickly.

Compare that with a coffee shop right now. In the last 20 years, coffee shops have sprung up like mushrooms all over the country. A lot of them give you a discount if you bring your own cup. I always bring my own cup and I find myself the only one in the queue holding a cup, even though, say, in Starbucks, the discount is considerable. Bring your own cup and you get 25p off a £2 coffee, but people do not do it, so I would suggest that you are better off making them pay the extra, rather than giving them the discount.

With the labelling, you can look at some of the products that are sold now, and consumer preference is not that strong. People will buy things because it is fun or it looks cool. I do not know why, but I am not sure that it will have such a big effect.

I would like to correct a couple of things that were said earlier. I have a list in the pack that you have been given of subsidies around the world. If UK farms are being undercut, I am sorry for them, but they are subsidised more than the OECD average and they are some of the most highly subsidised farms in the world. You will find that that is higher than Vietnam, New Zealand, Brazil, Australia, Chile or Argentina. They get no subsidies and they are more efficient producers. They have more land. All of them are real farmers. If you get no subsidies, you cannot be a pretend farmer. There are a lot of people in farming in the UK who are there for the lifestyle rather than because they have to live on it, and this has been encouraged by subsidising them, basically. If there were no subsidies, they would have to farm productively.

Q31 **Chair:** What about the food security angle?

Catherine McBride: The best way to be secure with food is to have diversified suppliers, and we have seen that right now with tomatoes. Once upon a time, we would import them at this time of year from Kenya or South Africa but, over the last few years, people developed heated greenhouses. That is an interesting green environment because, yes, people are using gas to heat the greenhouse, but the carbon dioxide that is produced is pumped into the greenhouse because it is food for plants. Tomatoes grow more quickly with a higher carbon environment, and that was a great idea when gas was very cheap, but when gas got very expensive it became far too expensive to use gas to produce tomatoes. Because we are reliant on our own supply and the supply from the Netherlands, which produces in the same way, we suddenly have no tomatoes. We were reliant on one producer, whereas, if we had diversified, it would be better.

You have been given some false information in your evidence that Australia cut down its trees and will need to cut down trees to produce beef for the UK. I have given you the official Government figures on tree growth and forested area in Australia. It is at the very back of the pack. This is from the Australian Government. They have increased their tree coverage by more than the total tree coverage in the UK in the last 10 years. It is ridiculous to try to claim that people are clearing land that would have run off into the barrier reef—which, Cameron, was in your evidence to this thing. That is inside the tick zone, which is not in your pack, but I will send a copy. No one clears land that is dense forest to put a cattle station in, when you have unlimited supplies of grassland in Australia for cattle.

Q32 **Chair:** Apologies; we could keep going for longer, but time is against us quite badly. Thank you very much, both, for raising a number of thought-provoking things, not least alluding to Starbucks penalising their customers by putting 12.5% or 25% on their coffee. It might lead to greater behaviour than taking 12.5% off the coffee.

Catherine McBride: Here is a tip from Australia. Every coffee shop there has recyclable plastic tops and cardboard bottoms. It is all recyclable. In the UK, for some reason, it is not. I have not gone into what is different about it, but we could go in that direction.

Chair: I never touch coffee anyway, so it is not something that affects me. Thank you very much, Cam Witten and Catherine McBride, for your time and information this morning.

Examination of witnesses

Witnesses: Gareth Stace and Dr Diana Casey.

Q33 **Chair:** We have two witnesses again, Gareth Stace and Dr Diana Casey. I will ask you to introduce yourselves—name, rank and serial number, as you know—for the record.

Dr Casey: I am Diana Casey. I am director of cement, and of energy and climate change, at the Mineral Products Association, which is the trade association for the aggregates, asphalt, cement, concrete, dimension stone, lime, mortar and silica sand industries. You will be pleased to know that, in this session, it is really just cement and lime that are heavily traded and of relevance, so I do not need to touch on all of those.

Chair: Wow. That is quite an introduction.

Gareth Stace: I am Gareth Stace. I am director general of UK Steel, which is the sector association that represents steel producers and steelmakers in the UK and other rerollers of steel in the UK. I really welcome the opportunity, from a steel point of view, to be able to give evidence to the Committee today, given that steel is the most important material in a developed economy. Why? Because everything in a developed economy is either made of steel or made using steel.

Q34 **Chair:** Make UK has talked about how important steel is. I notice that there have been some developments at the Scunthorpe coke ovens. I know that the company is Chinese-owned and that there is a lot of strategic talk around having all the steelmaking facilities in a particular territory. How significant is the closure of the coke ovens going forward?

Gareth Stace: It is very significant for those 260 jobs that are now at risk in that consultation.

Q35 **Chair:** Will the UK need to import coke after this?

Gareth Stace: Yes, certainly. There is a global market in coke. Coke is made from coking coal. The coke ovens in Scunthorpe would have taken coking coal, which would have been imported, and turned it into coke. They burn it in the absence of oxygen. It is a very dramatic process. British Steel, based in Scunthorpe, will be buying in coke rather than buying in coking coal.

Q36 **Chair:** There are a number of other countries in the same situation of needing to buy in and import. You can see a bottleneck, with the market importing steel, which is a foundation. Who else depends on making their steel through the importation of coke?

Gareth Stace: Let me confirm and clarify. There are six steelmaking companies in the UK. Two of those companies produce steel in an integrated steelworks—i.e. they take iron ore, coke and lime, put it through a blast furnace and make virgin iron and steel.

Q37 **Chair:** That is primary steel. That is the steel that you have to use in construction. It is non-recycled steel.

Gareth Stace: Yes, exactly. It is used in the UK. You make steel into either flat products or long products. British Steel in Scunthorpe makes long products—i.e. sections or girders for construction and rail. In Port

Talbot, Tata Steel UK makes flat products that go into the automotive sector but also into washing machines, et cetera.

What is the difference? Why are most flat products globally made through the integrated steelworks—i.e. virgin steel? It is because you need the surface quality to be perfect. If you made it with scrap steel, there could be impurities in that scrap that would ruin the product. Therefore, around the world, flat products are mostly made via that route. With long products, because of the integrity, if you think of rail, you could have some very minor impurities that would be okay. The product would still meet the very tight standard, so you could make it through the electric arc furnace route or the integrated steelworks.

Q38 **Chair:** You can make long products from recycled steel. Is that right?

Gareth Stace: Yes. You could make flat products through scrap steel, but it would have to be very high-quality scrap steel with no impurities whatsoever in it.

Q39 **Chair:** I have a last question, since we have you, on the subject of British Steel. How important is it to maintain steel? If it is going to be maintained, is it inevitable that a cynic might say that the Government or Governments are going to have to throw money or give money to or subsidise it, or ensure that, in some shape or form, steel production continues? If steel was asked to stand on its own two feet, conceivably it could not, but there is a necessity to have steel.

Gareth Stace: Your question is quite a straightforward one, but there is a lot to unpack. If we stood on our own two feet, we could compete in a global market. You have hinted that we could not. Everything that I talk about comes back to our competitive position versus others. We have a policy landscape in the UK that means that we are not as competitive.

For example, this is what we pay for electricity—the big bar—and what Germany pays for its electricity, as in steel, not just in general. We are uncompetitive, so it costs us more to produce a tonne of steel and we lose out in that market. If we had competitive electricity, it would make us more competitive.

You talked about bail-outs. We are not for protectionism. There is an awful lot of protectionism globally in the steel sector, and we do not want to see it. We want a level playing field. What is a level playing field in, say, the journey to net zero? The journey to net zero for a hugely carbon-intensive sector like steel is, very expensive in terms of capex.

When we look at the UK in terms of capex support, match funding or grants, it is, say, in the millions, whereas, in France, Germany, Canada, Spain and elsewhere, it is in the billions. Therefore, we are not even in the game. I am not talking about this Administration particularly, but Governments always talk about, "We want to be a leader in net zero and a leader in this technology". It is easy to say that, but to do it is another thing. My issue from the steel sector point of view is that it is leadership versus actions. I have a list somewhere, and I hope that we put it in any follow-up evidence, of what those other Governments are doing with the steel sector in their countries to provide those billions of euros or billions of dollars to work with their steel sector to get to net zero.

The final thing that I will say on that is that, last summer, we in the UK produced the first ever roadmap for the steel sector to get to net zero. We did it with trade unions and academics. It sets out that pathway. Every technology that we looked at uses more electricity, not less. If electricity is not competitive in the UK, that journey stops now. We have set out exactly how to get to 2035 and to 2050. We have worked with the Climate Change Committee on that, but we are not competitive. There are six steel-producing companies in the UK and five of them are foreign-owned. The sixth is Government-owned. If you are making investment decisions, why would you make any investment in the steel sector in the UK when you can get better returns elsewhere? You just would not.

It does not make good business sense until you have a Government who understand and are willing and keen—and this Administration more than many others in recent years are—to look at our competitive position versus others. It changes daily. It changes over time.

Q40 **Chair:** I do not want to dwell on this any longer but I am really tempted to say that Ofgem must be a frustration for you. The general electricity market in the UK seems to be a frustration, so surely the regulator itself is a frustration for you.

Gareth Stace: In terms of its TCR proposals or how the wholesale market works, yes. We have presented to Government, over many years and many Governments, the policy areas that make it so we pay this much more for our electricity than others. The Government announced last week—I cannot remember which day; I think it was Thursday—three of the final elements of their policy that would bridge that gap, but there are still issues around the wholesale market.

When the last generating technology comes in, the market is priced at that, even though much of the generation does not cost as much. That needs to be corrected. That will take time—in France, there is a power pool of low-cost renewables that supplies the steel sector, and therefore it is low cost and it is guaranteed. That is the type of thing that we could do in the UK. Again, it takes time, but we would really benefit from an agreement like that.

Q41 **Lloyd Russell-Moyle:** In a lot of these other countries, they are not selling wholesale energy at the international rate. In the UK, we seem to be obsessed with selling UK energy to UK users, businesses or consumers at the international rate effectively. Is that separation of the market a problem? In France and Germany, you have different rates being sold to different people, as you just described in France. Is that because the Government are not regulating that part of the market enough, or is it because the Government have just got the regulation wrong?

Gareth Stace: The Government, historically, have the regulation wrong. To my mind, there is no international rate and the reason why France is cheaper is perhaps, historically, they have 17% of nuclear or whatever the figure is.

Germany is the example I would like to give, in the sense that the German Government, historically, have valued their manufacturing sector to such an extent that they work out whether every policy they have developed that affects the manufacturing sector is positive or negative for the manufacturing sector. If it is negative, they adjust it. If it is positive, they go ahead. That is why you see cheaper electricity prices for their manufacturing sector, or more equal with its residential domestic sector, because they have that focus. They know that a strong economy will deliver better for all of the population. In the UK, historically, that has not happened. That is why I was saying that this Administration is tackling a whole variety of policy instruments that have made our electricity price uncompetitive in the UK. It is 60% more than steelmakers would be paying in Germany. As a sector, the electricity we use is equivalent to that of 850,000 homes and the gas we use is equivalent to that of 450,000 homes. It is really important to us.

Q42 **Chair:** We will move towards the matter at hand and I will turn to Dr Casey, given the environmental mentions there. How important is it to UK businesses that free trade agreements include environmental provisions and which such provisions would you like to see in those agreements?

Dr Casey: I will give a bit of background to the cement and lime sectors that are affected by trade. The cement sector in the UK produces around 9 million tonnes of cement every year, but the market itself is bigger than that. Around 26% or 27% of the market is served by imports.

Lime is a much smaller sector. Cement goes into concrete, which is used in construction. A lot of lime, as Gareth mentioned, is used in steel production. It is also used in things like water treatment and pharmaceuticals, so it has quite a different market. We produce around 1.2 million tonnes, but there are plants in the UK that produce very specialised products. Around 25% of lime is actually exported and it goes as far and wide as China. We have a very good export story on lime.

In terms of trade agreements, I do not think that we have been particularly influenced or affected by them, to be honest. The trade agreements are in place with Australia, for example. I am not aware of any part of our supply chain currently coming from there and, of course, cement does not travel quite that far. It does travel from Europe. It can come from North Africa. Turkey, in particular, has over-capacity and could probably supply the whole of the UK market. For us, the key thing is trying to ensure we keep our domestic production here. We want to make sure that we can produce the low-carbon products here and not be undercut by imports.

The construction sector is still driven more by cost and value for money than by environmental requirements. If that changed and it looked more at the environmental credentials and the carbon side of things, that might change the impact of those requirements in trade agreements for us but, at the moment, I do not think it makes a big difference. I do not think people in cement are really looking at it.

The cement sector is quite aligned globally. We have a Global Cement and Concrete Association. The technology is very similar everywhere. Really, it is almost a race to see who can decarbonise fastest and that is when we might see trade agreements becoming more important.

Q43 **Mick Whitley:** What are likely to be the effects on businesses in your sector if future UK trade agreements liberalised trade with countries that have lower environmental standards for producers in those sectors?

Dr Casey: Again, it comes down to cost. Gareth has mentioned some of the costs on electricity, but the carbon cost we pay in the UK is far higher. I suppose this is moving on to the CBAM argument, but if there was nothing to require any kind of carbon reduction, for example, then those countries could just undercut us in cost and flood the UK market with high-carbon products. That would be one of the main concerns.

Gareth Stace: We suffer from that at the moment and I do not think free trade agreements, for example, help. For us, free trade agreements are over there. We are a quirky sector. I am interested in talking to the Trade Committee, in the sense that it is all about trade but, for us, there is nothing more globally traded than steel.

If you leave China out of it, 43% of all steel made in the world travels across a border. In the UK, we export 40% of what we make and we import 60%, but 40% of what we import, i.e. 2.6 million tonnes, comes from countries that do not have a carbon price at all, and we do. This stuff floods into the UK at much lower cost to us. It is steel. Users buy it. As Diana said, they are not really too worried whether there is carbon paid on it or not paid on it, and that is what we have to compete with. Nothing helps us with that and no free trade agreement, as yet, helps us with that.

Just as an aside, for us, the words "free trade agreement" do not work, because all steel traded between developed economies is traded at zero tariff anyway and has been for decades. That is for trade to happen more freely in the steel sector, so when we see a free trade agreement in the news, it does not affect us, from our point of view.

Q44 **Mick Whitley:** Are trade deals a useful mechanism for the Government to address the tension between economic growth and environmental sustainability?

Gareth Stace: No. In terms of what we would want to see in a free trade agreement or what would be more useful—there is talk of the environmental bits going in it, and they do not so much—Cameron, in the previous session, gave an answer around that, so I will not repeat it, but it is that climate waiver. If our Government are supportive of working with us as a sector in matched capex to get to net zero, it could not then be seen as distorting trade. That would be a problem.

This Government more than any Government are worried about what the WTO might think. They have been in terms of state aid rules when we were in the EU and would be now. We would not want ever to be accused of trade distorting when our Government might actually be doing what other Governments are doing and helping us, working with us, to get to net zero.

Dr Casey: I agree with the "no". From our point of view, we want to keep our foundation industries in the UK. The cement sector has 10 kiln sites, often in areas targeted for levelling up. They are often in quite rural areas that provide very highly skilled, highly paid jobs for those areas where there are not any other employers. We want the ambition and ability to decarbonise. We do not want to offshore our industry. The answer is no.

Q45 **Mick Whitley:** I agree with not offshoring. Not so many years ago there was a hue and cry when Chinese steel imports were dumped into Europe. When you say you do not want an agreement, people were dumping cheap steel and people were buying it.

Gareth Stace: Yes, and that was clearly against WTO rules. It was clearly dumped. At the time, the Chinese steel sector was 70% state-owned and 100% state-controlled, and it still will be. That was 2015, when China was exporting 110 million tonnes of steel globally.

You have to remember that last year we made 6 million tonnes, and China was exporting 110 million tonnes. It was a dreadful time, but I cannot see any trade agreement with China where it would say, "That is fine. We are not going to do that ever again if we have a surplus of steel", given that it makes 900 million tonnes of steel a year and we make 6 million.

Q46 **Lloyd Russell-Moyle:** We have touched a few time on CBAMs and other mechanisms. I suspect free trade agreements now are not free trade agreements. They are agreements on how we are going to trade between people and that is just about setting a common set of rules. It does not always mean setting no rules or no tariffs. That is where we are.

If we are going to have a set of rules around how carbon is properly accounted for, do CBAMs work for you in your industries, or are there other mechanisms that are better in providing the necessary transition and protection during the transition period? The aim is that, once the transition is over, everyone is there and you do not need the protections but, in all transitions, like a child being raised, you need to protect it before it can be released.

Are the CBAMs the right thing? Is the American Inflation Reduction Act style, ploughing resources into the industry and putting restrictions on what Government contracts can buy for a period of time, a better way forward, or do we need a bit of both?

Dr Casey: For me, we need a combination. To date, we have had free allocation and that has done a good job of mitigating carbon leakage but, of course, free allocation is declining, decreasing and is not going to be there for much longer. We need something else, and the CBAM has a dual purpose. It levels the carbon cost playing field between domestic producers and importers, but it also gets other countries to think about their policies. In that climate diplomacy thing that the UK Government quite like, it can do that.

Q47 **Lloyd Russell-Moyle:** You can reduce or eliminate the CBAM if you meet the standard.

Dr Casey: Yes, exactly. It gets others thinking about it but, for me, a CBAM will only work if domestic producers are also decarbonising. As long as there is carbon in our products, we will be paying for it, and, as long as the UK carbon price is higher than everywhere else, we are going to be vulnerable to carbon leakage. I think the CBAM, along with support—whether it is the business models for things like carbon capture or other support—to make sure that, domestically, we are decarbonising, would be a great combination.

Product standards are also talked about and they were mentioned in the previous session this morning. For us, product standards are a really good way to make consumers aware of the carbon in their products and the alternative options, and help drive the demand for those low-carbon products. I think they could work in combination with a carbon border adjustment mechanism but, for our sector, the carbon leakage problem is on cement, but it is concrete that is the consumed substance in construction.

Putting a product standard on concrete, for example, would not necessarily level that carbon cost playing field with importers of cement. Those three things could work together, but Government procurement, which you mentioned, is also really important. Government have huge procurement power for our materials and to change that procurement policy to look at low-carbon products, actively procure low-carbon products and tell the world and all our other customers that they are doing it, builds awareness that these products are there and helps drive demand. It gives confidence to the UK producers that that market is there. If they are going to decarbonise, those products will sell. It is a combination.

Q48 **Lloyd Russell-Moyle:** It would be better than the Inflation Reduction Act, which seems a bit focused on patriotic alternatives rather than any environmental alternative, which is what I think we would probably want to be seeing more.

Gareth Stace: Yes. The IRA initiative is a classic US thing in terms of what they do. If you said to me, "Do we want it?" my first reaction would be "yes", but no, it is not the right way to do it, so actually we do not.

Q49 **Lloyd Russell-Moyle:** Can we take some of those ideas and implement them better?

Gareth Stace: The US will get a lot of criticism, like they did with section 232, but the US will turn around and say, "It is what we do". They have just introduced section 232, which is way against the WTO, but they just did it and they can.

My answer would be to agree with everything Diana has said, without repeating it. Perhaps I have misunderstood Diana, but I would be a bit more vocal about the last 23 years of climate change policy, which has damaged us and has caused carbon leakage. I know I look younger, but I have been doing this since 2000, as the climate change levy came in, and I have been working with various industries on those policies since then—

Chair: You started doing this when you were in school.

Gareth Stace: Yes, exactly—thank you. What is alarming to me is that your steel sector does not just fall over one day. It is a steady, slow erosion of investment in our sector and we become less and less competitive. This is a chart that shows steel production in the UK. The big one is in the 1960s but now we produce, as I said, 6 million tonnes of steel. That is the lowest rate of steel production since 1932, when Battersea Power Station was just being built down the river. That is a really sorry state of affairs.

Globally, this is the amount of steel being produced. This side of the red line is what we anticipate to be produced, and look at it; it just goes up and up and up and up. If you think of India, India is going to double its steelmaking capacity in the next 10 to 15 years. The majority of that will be not in an electric arc furnace route, which could be considered lower carbon, but more in the basic oxygen steel route, the integrated steel route.

To me, CBAM is 23 years too late and will not come in until 2026, but it is really good news. It is fantastic that Government are finally engaged. You will have some criticism of Government that they are behind Europe. I think it is fantastic they are behind Europe, because as long as we, as the UK on its own and not in the EU 27, accelerate this, we will still put it in place by 2026 when the EU will, but we will learn the lessons of what the EU are getting wrong. I hope, in terms of taking back control, the UK Government will say, "How does this work best for us as the UK and for industry, and how can we do it so it really helps the industry level that playing field, so we can get on and be more competitive in the UK?"

We met Treasury and HMRC on Monday. They were saying that the consultation document will be out very, very soon. It will contain CBAM proposals and product standard proposals. I agree with Diana on product standards, so I will not mention that. We need to get it in at exactly the same time as Europe, because if we do not, and Europe has a CBAM and we do not, we will see trade diversion coming into the UK on steel. That would be very damaging.

On procurement, I want to agree with Diana and put it into context. The UK Government are the biggest single purchaser of steel in the UK. As I said, we make 6 million tonnes. The UK Government purchase 1 million tonnes of steel and, to me, it is a no-brainer that the Government in the UK should be purchasing steel from the UK where reasonably possible. If it is really expensive here, do not buy it from the UK. If it is really poor quality, do not buy it from the UK, but if it is reasonably priced, the quality you need, et cetera, it should just be a no-brainer that the Government buy it from the UK.

Q50 **Lloyd Russell-Moyle:** If we set the principle of CBAMs on carbon, are there other areas that this could or should be expanded to, beyond just carbon? That could be other environmental or even other social factors.

Chair: That gets very tricky.

Lloyd Russell-Moyle: I know. That is why I am asking. We are establishing the principle of carbon. What are your thoughts about extending that principle? Is that too tricky, as the Chair says, or are there some areas that you say, "It is not just carbon that is our problem. There is this other problem here that we need to adjust for"?

Dr Casey: From our side, it is not something we have thought about because most of the costs that we are facing come from the carbon itself. That is what needs levelling. I am happy to give it a bit more thought, though.

Gareth Stace: From my point of view, yes, but probably not in CBAMs. We talked about using scrap steel in electric arc furnace steel, but also you can put up to 25% scrap steel in a blast furnace as well. We produce 12 million or 13 million tonnes of scrap steel and we only use about 3 million tonnes of that scrap steel. We are the largest exporter in the world of scrap steel. At the moment, it is just scrap steel and nobody wants it but, very soon, that will be golden nuggets because the majority of steel in the UK will in the future be made via the scrap steel route, the electric arc furnace route.

We need to look at why the market has developed so that we export so much of our scrap steel and we do not use it here in the UK, and it is unsorted. The reason is we chuck it in a very big boat that goes a very long way to countries I will not name with poor humanitarian records, and it comes off that big boat and they sort it by hand. We would not do that here.

In the future, we should be looking at whether that is what we want to do in the UK: exporting all that steel, when we should be using it here, to countries that have that poor humanitarian record in terms of workers' right. To me the answer is "no", and therefore we should be looking at it as a much more valuable commodity.

Q51 **Lloyd Russell-Moyle:** You could see some areas where, on labour rights and standards, you could have similar adjustments. They might not be border adjustments, but similar adjustment mechanisms.

Gareth Stace: Steel comes from all over the world and therefore you could be looking at those carbon costs or just those environmental impacts as well. That might be more within the CBAM envelope.

Q52 **Chair:** A number of things have been raised there. One of things that I did not quite fully appreciate was I think you said that a sixth of UK steel is bought by the UK Government. It reminds me that our Government often talk about market forces, but the biggest force in the market, from that stat, is the Government. They are hugely influential in what they do and the decisions they make. On that, do you feel that Government are aware that they are the biggest force in the market and are they aware positively or negatively, from your point of view?

Gareth Stace: Yes. Every time we speak to Ministers, Ministers always see the opportunity of purchasing more steel from the UK. The problem that we have is that Government officials usually like to come up with the reasons why the UK Government should not be favouring, even very slightly, purchasing steel from the UK.

Q53 **Chair:** What is the incentive? I was talking about this yesterday in another context, but what do you think is the incentive for Government officials to see that in a very siloed way—the pounds, shillings and pence of the immediate product in front of them—rather than the wider social benefits of purchasing something produced in the UK? Do you have any understanding or any enlightenment on that?

Gareth Stace: It is because they usually see, in their minds, that it goes against the WTO. It is, "It is not what we do in the UK", like they do in the US. It is those sorts of barriers where they think they are going to get challenged. It happens everywhere.

Q54 **Chair:** You think they are choosing the path of least resistance.

Gareth Stace: I think so, but we are making progress. We have been working with Government officials for the last year or so and, if you look at the procurement policy note, on the test certificate for all of the projects you have to say where that steel was melted and poured. You have to know where it is. You could actually have a Government-funded project that has steel that was made in Russia. At the moment, the Government would not want that to happen.

We have seen that change. We have also seen, in recent years, a change, in that there was no requirement to say what proportion of the steel the Government purchased came from where and now there is. That proportion is creeping up and Government will be publishing that every year, but we will publicise that. The next one will come out in June or July.

Q55 **Mick Whitley:** The Government have recently given a defence order to a company called Navantia, which is Spanish, to build the FSS boats, the fleet supply ships. Are they going to be using British steel?

Gareth Stace: I do not know, but this is a slight misconception. I always read in PQs, or in answers to PQs, that steel in frigates, this military-grade plate, is not from the UK; it is from Sweden or whatever. We might not make, in those circumstances, that type of steel. Why? Because that supply chain has gone. Do we want it back? We might do, but the problem is that we do not get sight of what the Government will purchase in their fleet in the next 10 years.

Can Government tell the steel industry in the UK, "Yes, it is going to be this much"? The industry can then make that decision, either to invest in producing that type of steel or to not produce it, leave it to the Swedish and say, "But what we do produce, Government, is this, and you are still not buying enough of that". That is the issue we have. When we talk about national security of steel being made in the UK, I think of it more as if we were in a war situation or just a difficult economic situation.

I talked about China exporting 110 million tonnes of steel a year in 2015, but by 2020 it was actually a net importer, because its own economy was just taking all of that steel. If, in 2015, we had thought, "It is fine. We will just rely on that cheap steel from China", and a few years later they were not exporting it, we would have been saying to them, "Can we have it?" "No. We are not exporting it and, if we do sell it to you, it will be this price now, thank you very much, and it will be delivered in 10 months' time, and the only grade we can give you is this". I am sure we would never want to be in that situation. That is a big reason why we need a domestic steel sector in the UK.

Q56 **Chair:** It is a good question regarding the horizon that Government give industry. I want to touch on something else. You mentioned the IRA, the Inflation Reduction Act, in America. Yesterday I was speaking at Chatham House on a panel and this question came up, and I am interested in the views of both of you on this.

We are in an environment in which the Americans have done the Inflation Reduction Act and Europe is doing something. Boardrooms, as was put to the panel, have pinpoints in each area of Europe and America for where to invest, and the UK is greyed out—Ireland is lit up as a potential—because it looks like it will not be doing anything or will not respond. You might not like IRA but, in that sort of environment, do you think something is needed to help you compete, given the help competitors are given elsewhere?

Dr Casey: Yes, definitely. We are actually similar. I did not mention it, but we have six cement producers, and four of them are owned by multinational companies that are headquartered outside of the UK. They have plants all over the world and they are looking at where to get the best value for money from their investment. Things like this are not making the UK an attractive place.

Chair: First, we have Brexit and then a lack of response.

Dr Casey: Yes, exactly. For us, our nearest competitors are Europe. Their innovation fund is so good in terms of encouraging project development and they get the funding even if the project does not go ahead, for whatever reason, whereas, in the UK, we have a cement plant in the HyNet cluster that is looking to do a carbon capture project, to be up and running by 2027. They have had to put tens of millions of pounds into the development of the project, with no guarantee from Government that they will get the CCUS business model funding for the project to go ahead.

That company is Hanson. It is part of Heidelberg Materials. It has other carbon capture projects in Europe where it is getting the funding to do that development work. It is not going to encourage other companies to look at the UK, when it at least knows it can make a start on a project and hopefully it will always go ahead but, if it does not, it does not lose those tens of millions of pounds.

Q57 **Chair:** Your answer to the question would be to do something rather than doing nothing.

Dr Casey: Absolutely, yes.

Gareth Stace: I was talking about a table that we had put together and I have found it now. In answer to your question, Chair, France gave a €1.7 billion investment to one company to replace its blast furnaces. That will not be just giving good money after bad. That will be a joint investment decision. France also gave €5.6 billion for decarbonisation of its industrial base. We have all these different countries and I could go on but, like I said, they are in billions.

The UK likes to say it is a leader. If you think of offshore wind, it likes to say it is a leader. The low-carbon technologies are along the top and the materials are down here, like copper and zinc and magnesium. Steel is at the top and steel is contained in every single one of those low-carbon technologies. Therefore, when Government say, "We want to be the leader and invest in the shiny stuff", the shiny stuff comes from the steel going into the shiny stuff. We need to make those investments here because otherwise the steel going into these new, exciting technologies will not be coming from the UK.

I was watching "Question Time" on the BBC at the end of January, and Jake Berry was answering a question about the industrial heartland in the north of England and he said, "We have the best offshore wind sector in the world and all of that steel came from Scunthorpe". I was shouting at the television, saying, "None of that steel came from Scunthorpe". We do not supply the offshore wind industry. It comes from somewhere else. Why? Because the companies that were doing the offshore wind are not based in the UK and therefore they were sourcing their steel in their other supply chains, and the gear in boxes came from China. They were bringing it to the UK, assembling it and putting it up.

I do not think he was lying at all. I think he firmly believes that it came from Scunthorpe. That is a difficult one. He is not in government, but that is a difficult one in terms of the Government thinking it all comes from the UK and it just does not. Therefore, let us press pause and, as we develop these technologies, really think about where that steel is coming from.

Q58 **Chair:** Yet another viewer correcting the BBC's "Question Time". You are not the first. Given the sectors you are in, is the IRA in America having a material effect in your sectors? Are people suddenly thinking, "This is actually changing the decisions we are making in the boardroom"?

Dr Casey: In our sector, it is a little bit too early to have evidence of that. So far, I have seen evidence more from the innovation fund on the European side. All of this support helps with investment decisions.

Chair: A common response from consumers that we see for buying higher standard goods is better labelling. There are various arguments to be made. I think you made a point earlier that people just take the steel from wherever but, when people have information about the formation of goods, do you think that changes behaviour? Mr Russell-Moyle touched on carbon adjustment mechanisms and people do buy into the idea of good but, when people are actually buying, do you see evidence of behavioural change or questions even being asked?

Dr Casey: In the cement and concrete sector, it is not specifically related to labelling. We have a low-carbon concrete route map, which has recently been published—

Q59 **Chair:** Labelling is a form of information, so it is information. Given the information, are people interested in that?

Dr Casey: They are interested. We are seeing quite a growth in initiatives by specifiers, designers, people who are procuring concrete, wanting to know how they save carbon. We do not have labelling as such, but we do have this route map. For different strengths of concrete, it has that A, B, C, D, like your fridge thing, so you can say, "My concrete is at C. How do I get it to A?"

It is more a tool to prompt those discussions by the people who are specifying and procuring concrete with the producers to find out what they can do to move from C to an A, or B to an A. The issue we have is a lot of people do not realise that concrete is not just one material. There are so many different types and strengths of concrete. It is used in different applications. To just have a single label to cover all of it is very complicated. It is not easy, but to do it on the strength or the application type is a really good way to start the discussion.

As I say, there are things like ConcreteZero and, just going back to the procurement, there is the industrial decarbonisation initiative, which is a UK Government initiative to look at procuring low-carbon cement and steel. It is a global initiative that the UK and India are leading. This interest is being generated not just from the private consumers of concrete but from Governments as well. That route map shows what could be possible and the idea is that, over time—a bit like the fridge ratings, as I am calling it—it will change. It will gradually push to ever-lower carbon products for those different strands.

Chair: You are preaching to the converted, by the way. I did my degree dissertation on concrete once upon a time.

Q60 **Mick Whitley:** What are the costs involved in achieving and policing global environment standards?

Gareth Stace: It was touched on earlier, was it not? As much as I really welcome CBAMs, it just always makes me think there must be consultants and verifiers out there thinking, "Brilliant. This is a great way". All we want to do is make steel. We want to make steel really competitively and sell steel globally, and therefore we have another layer of cost now that adds to it.

It is interesting that people talk about CBAMs as a new thing. I have been working on them for over a decade, in terms of the iterations that came through, and I am glad that it has now landed and it has not come off the table again. I think those costs will add to the tonne of steel and will make us less competitive, but the beauty of it is that, when it is fully in place, we can actually stop at the border the stuff that does not have any cost of carbon within it or any verification.

If they do not verify it, however low-carbon their steel is, we will just say, "No. It is the global average, and therefore it is this much carbon and you will pay". The issue, I would say, which is slightly connected with it, is that at the moment the Treasury get £6 billion to £7 billion a year from the UK ETS purchase of allowances, and what do they do with that? They just put it in a consolidated fund and it is not hypothecated at all. They are going to get more revenue from CBAM.

I am not asking for hypothecation but there is an awful lot of money there that can then help the steel sector in the UK get that competitive advantage through going quicker and deeper in terms of the net zero transition.

Chair: Thank you. I think that wraps up our morning. It is impossible to try to keep Committees going when Prime Minister's Questions is about to start, so you will understand. Thank you very much for an interesting session on the steel and particularly the concrete areas. We are much indebted to you for your time and coming to share your knowledge with us. Thank you, all.