HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Liberty Steel and the Future of the UK Steel Industry, HC 118

Tuesday 22 June 2021

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Watch the meeting

Members present: Darren Jones (Chair); Alan Brown; Judith Cummins; Richard Fuller; Ms Nusrat Ghani; Paul Howell; Mark Jenkinson; Charlotte Nichols; Mark Pawsey; Alexander Stafford.

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Witnesses

I: Dr Henrik Adam, CEO, Tata Steel Europe.

II: Jon Bolton, GFG Advisory Board; Anton Krull, Primary Chief Financial Officer, Liberty Steel UK.

Examination of witness

Witness: Dr Henrik Adam.

Q61 **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Committee for our second hearing in our inquiry into the future of steel in the UK. For our first panel this morning, I am delighted to welcome Dr Henrik Adam, who is the CEO of Tata Steel Europe. Good morning to you, Dr Adam.

Dr Adam: Good morning, Chair.

Chair: My first question for you is looking back to 2007, when Tata Steel bought some assets from Corus Group. Presumably Tata bought those assets from Corus Group because you thought you could turn them into successful, profitable businesses, but that did not quite turn out to be the case. I wonder if you could tell the Committee what assumptions or expectations Tata had when it bought those Corus Group assets in 2007 that turned out to be incorrect.

Dr Adam: At that time I was not a member of the Tata Group. I joined the company later. Usually, Tata tries to find a sustainable business environment and businesses that it runs for decades. The company is more than 100 years old. It has a long history. Buying assets in Europe at this time was seen as an expansion of the footprint into Europe. For me, it is important—it is also why I joined Tata—that there is a mindset of creating wealth and sustainability across all businesses. For me, it is important that we are committed to finding a sustainable future for our businesses, the environment and the neighbourhoods we are serving and acting in.

Q62 **Chair:** I appreciate you were not there at the time, in 2007, but presumably, as CEO of Tata Steel, you have a view as to why those assets were not profitable in the UK. Was it particular market dynamics? Was it the sites? Was it the products they were making? Do you have any view on that?

Dr Adam: In the past decade, most of our European businesses, and those of our competitors, have been in difficult times. Usually in the steel industry there are some years that are good, but a large number of years where business is difficult, especially after the economic crisis in 2008 and 2009, when the market demand dropped. We had some recovery of demand in Europe. Also, in the past year, with the pandemic, the business climate was difficult for us. We have a globally traded market. One of the items that makes UK business difficult from time to time is the higher costs of doing business in the UK.

Q63 **Richard Fuller:** Welcome, Dr Adam. Is it fair to characterise your business as, essentially, a profitable mainland European business and a loss-making UK business?

Dr Adam: As Tata Steel Europe, we have worked in the past year to create a sustainable position for the business in Europe, which includes for me the UK geographically, because we serve customers across Europe jointly with the two assets. We have not published, and we do not intend to, numbers about the individual business positions. I can say that we, as Tata Steel Europe, suffer from the market demand. We are suffering from this low productivity of the steel industry in Europe. It is worth saying that we usually need to earn money for a long time to repay the investment.

It is important for me to say that, looking to the future, decarbonisation allows us to set up a new business opportunity in the UK, because decarbonisation is the option to neutralise uncompetitiveness of assets across Europe, specifically in the UK. It is important to look into the future and to ensure that we have a good future for the workers, the kids of the workers and the communities we are acting in.

Q64 **Richard Fuller:** You painted a picture of the UK and the European assets being combined for you. Is it not the case that, up until recently, you were trying to sell the European assets to SSAB?

Dr Adam: That was an interest that was brought forward by SSAB. It was seen as an option to consolidate the businesses in Europe. This option did not materialise. Tata has now decided to find a sustainable option for the businesses in Europe under one Tata roof.

Q65 **Richard Fuller:** That is as of January of this year. Up until then, you had a different strategy, which was separation of the UK assets from the European assets. I ask that because I am wondering if there is a difference, a particular set of problems that affect the UK-based assets, compared to the mainland European assets within Tata. Would you say they face different problems? Could you outline to the Committee what those different problems might be?

Dr Adam: We are continuing with the separation of both businesses because we think, also with the decarbonisation ahead of us, it is useful to follow different tracks of the business to allow the business to develop differently. We have certain global customers. We also buy globally. However, steel markets are, to a large extent, local. More than two-thirds of our products produced in the UK remain in the UK. That is why the way forward is being under one roof but on separate tracks, to allow us to follow separate strategic options, for example on decarbonisation and sustainability.

Q66 **Richard Fuller:** In this change in strategy of Tata, the potential of Government support to assist with that transition was mentioned. Was that any part of your consideration of keeping it under one roof?

Dr Adam: I had difficulty in listening because your voice was muted.

Q67 **Richard Fuller:** In this decision to change strategy, when you talked about the transition to a more energy-compliant, climate-compliant future, were there any conversations with Governments about Government investments that have affected that decision of Tata?

Dr Adam: No. We were in discussion with Governments, yes, because we tried to have a positive discussion with the Governments, but there was no—*[Inaudible.]*

Q68 **Ms Ghani:** I want to ask a question about the impact of Covid, but I want to reflect on the losses that Tata has been making over a number of years. Tata Steel suffered losses of £615 million in 2014. In 2016, Tata Steel confirmed it was going to cut down jobs on its site. I believe that, over a number of years, there has been a loss of £517 million. Is that UK or Europe? Perhaps the witness can explain. I wondered if Covid-19 has actually had an impact on Tata's trading positions at all, considering the state of its finances up to date.

Dr Adam: Certainly Covid had an effect on our business, because demand broke down overnight. As for many of our customers, also demand dropped overnight. We have suffered from that certainly. That is something where we now see demand coming back. We are in a better business climate. We have been reacting to a short-term crisis, a pandemic, so far, and it is important to find a long-term solution for our businesses and the people working for us.

Q69 **Ms Ghani:** If there was a shock overnight, was that shock different to the UK business or the European business? Is there a contrast at all?

Dr Adam: There is a contrast in detail. For example, the automotive business was more impacted than construction and hence there was a local microclimate difference in terms of a shockwave. The overall picture was similar across Europe more widely, in the geographic context.

Q70 **Ms Ghani:** In reference to the losses that have been made over the years, was there a significant loss, or have the systematic losses just continued? Did Covid make a contrast loss to the business?

Dr Adam: The impact of Covid was a shortfall of demand, price erosion and margin erosion, which was an amplification of the needs. However, as I referred to earlier, it is most important to find a long-term solution that provides a healthy outcome and allows us a good survival in difficult times.

Q71 **Ms Ghani:** I am going to move on to another question. It was reported in October last year that Jingye Group had been exploring a takeover of Tata Steel UK assets. Is Tata still open to the sale of these assets?

Dr Adam: I am not aware of an approach being made to us.

Q72 **Ms Ghani:** How was it reported?

Dr Adam: I cannot comment on that. That is speculation that I cannot report on.

Q73 **Ms Ghani:** You are not aware. You are basically stating to the Committee that no approach has been made.

Dr Adam: No, I only said that I can report that I am not aware of that.

Q74 **Ms Ghani:** Is it that you are not aware or that no approach has been made?

Dr Adam: I said that I am not aware.

Q75 **Chair:** We talked a little bit about Project Birch and Covid previously. Tata was in discussions with the British Government, as part of Project Birch, to receive some additional funding from the state during the Covid pandemic. We understand that those discussions broke down in August last year because the Government were attaching conditions to the loans that Tata could not accept. Is that correct?

Dr Adam: We appreciate it and appreciate the support given through the difficult period of time. The UK Government provided short-term help, like furloughing and VAT deferrals. We had started discussions with the UK Government prior to the pandemic. As I said earlier, my sense is that Government and Tata recognise that we need a longer-term solution to support a sustainable and decarbonised future for our business.

Q76 **Chair:** We understand that part of the offer from Tata in return for funding from Project Birch was to convert your blast furnaces in Port Talbot to electric arc furnaces by 2025. Is that now not happening because you did not get funding from Project Birch?

Dr Adam: The decarbonisation of our industry is a serious and complex matter. At this point in time, we are assessing a large number of different options to decarbonise the industry. Arc furnaces, EAFs, are certainly part of these potential solutions, but it is too early to comment on the specific way that we are proposing to decarbonise our business.

Q77 **Chair:** The British Government have produced their industrial decarbonisation strategy. When will Tata be in a position to tell the market, and this Committee, for example, how it sees hydrogen, carbon capture and storage or electric arc furnaces playing out in UK assets?

Dr Adam: You mentioned a number of techniques and technologies. We are assessing all of these in a great deal of detail. We are assessing the benefits, costs and timelines of that. It is clear for me—and I would like to emphasise this—that we are committed to decarbonising our business in the UK. We see significant investments to secure steelmaking for generations to come. It is also worth saying that the returns we earn to spend on investments will not come over years. They will come over decades.

It is responsible to do a detailed assessment of all options before we decide on our route to decarbonise the industry. It is also important to note that large-scale public funding of enabling infrastructure is key, for example in hydrogen. Without that and knowing more details of that, it is very hard for us to come up with a final plan for our way into the future.

If and when we have progress to report, we are happy to inform our employees first and then certainly also share it with wider groups, like this Committee.

Q78 **Chair:** Returning a little to the Covid period, we understand that there was some lobbying of Government to increase the cap under the coronavirus business interruption loan scheme of £50 million, which was ultimately unsuccessful. Another steel company, Liberty Steel, was able to claim, it is alleged, eight CBILs by restructuring part of its business. Why did you not do that at Tata?

Dr Adam: I cannot comment on what our competitors have done so far. It is not in my range to comment. We felt that, at this point in time, we did not fit into the provided scheme.

Q79 **Chair:** You mentioned Liberty there as a competitor, but of course it has been a customer of yours, because you sold a number of assets to GFG Alliance and Liberty Group in the past. What due diligence did Tata undertake of GFG Alliance and Liberty Group before selling assets to that company?

Dr Adam: We ran, with a number of potential buyers, an intensive due diligence. As a responsible seller, at that point in time we had the understanding that we left the business in good hands.

Q80 **Chair:** At the time, it was widely reported that people in the City did not know where Mr Gupta of GFG Alliance was getting his capital from to buy the very significant assets that Tata sold to him. Did you ask him where he was getting his money from?

Dr Adam: I was not involved in the selling process, so I cannot comment on that.

Q81 **Chair:** Presumably, it is standard practice in due diligence in an M&A deal to check where the capital is coming from, is it not?

Dr Adam: As a witness, I cannot comment on that. I can come back to the Committee in written form and respond to that.

Q82 **Chair:** I would be grateful for that. Looking at the chronology of customers that you considered selling these assets to, GFG Alliance, Liberty Group, was the last buyer standing. Did that cause you any concerns, when everybody else decided not to buy it from you in the first place?

Dr Adam: As I said, at this point in time, as a responsible seller we had assessed the different options. Our impression at this time was that it was taking over this business and developing it going forward. I cannot comment, and I appreciate your understanding, on what happened thereafter.

Q83 **Chair:** In 2015, Klesch Group, which was one of the groups looking at buying your assets, said that it could not buy assets from you in the UK because of no action from the British Government on high energy prices and business rate prices, and because of the trading practices of China. What did Liberty Group say to Tata in respect of being able to deal with those challenges and turn your assets into profitable businesses that would protect your previous employees?

Dr Adam: I appreciate your understanding that I cannot comment on Liberty actions. Our intention was to ensure that there is a future for the business. From our understanding, there were good plans to develop the business in a positive way.

Q84 **Richard Fuller:** You said just now that, as a responsible owner at the time of the sale, it was important that you left the business in good hands. You then said "at the time" again. Had your opinion changed?

Dr Adam: I see these businesses as competitive businesses. For compliance reasons, especially as I was the commercial officer in the past years, it is not my intention and not my task to be too close to competitors.

Q85 **Richard Fuller:** I am sorry, but you cannot on the one hand assert that Tata Steel is a responsible owner of assets that cares to whom it gives those assets in a sale, and then say, "After the event, I do not really follow it; I do not really know," because that shows that you were not a responsible owner. Can I ask you again? Has your opinion changed, as someone who was the responsible owner of a business for which many employees still work, that you transferred it to someone to whom you could commit it, to use your words, because it was in good hands?

Dr Adam: I appreciate that you accept, as a commercial officer at this point in time, that I have certain rules to follow about compliance. I cannot comment and I have no insight into what Liberty or other competitors are doing with the business.

Chair: Thank you for agreeing to follow up in correspondence. We will come to you with those questions after this session.

Q86 **Paul Howell:** I would like to explore some of the actions the Government were taking after the 2015 and 2016 crisis. The Government have published procurement guidance for Government Departments to allow considerations like social impacts, job impacts and staff safety to be taken into account. Has this translated into better opportunities for Tata to secure public contracts?

Dr Adam: We appreciate all sorts of Government support where it helps the business, However, in the sourcing, we would appreciate if there was more specific support. All efforts made were helpful, but not really game changers.

Q87 **Paul Howell:** That was what I was trying to get at, as to whether they were significant or just a step in the right direction. You have answered that quite nicely. They also published a pipeline of future steel requirements for the national infrastructures. Was that any more significant? Was that better?

Dr Adam: It is better. We see the pipelines, but we also see areas for improvement. For example, so far we only see one published in 2020. We would propose that specific contacts can be followed up. It is moving in the right direction and we appreciate also further support and development of appropriate systems. For example, the task force led by Lord Grimstone is seen positively and we welcome Government's ambition to support that route.

Q88 **Paul Howell:** One of the other things that sit around Government is the business tax liabilities. We hear the fact that you have to pay more tax because purchase of plant and machinery increased the liability. Is this a significant thing or a minor thing, in terms of how it impacts your business and the decision to invest in efficiency improvements?

Dr Adam: It is important but, as I said, it is minor.

Q89 **Mark Jenkinson:** Prior to Tata's announcement of job losses at its plant in July 2015, it was claimed that the specialist steels unit was paying £75 million a year on energy costs alone. How do those costs compare with energy costs today?

Dr Adam: There are two angles. If I look at the competitive landscape for doing business today, at this point in time, we pay almost double the price for energy compared to my competitors in Germany. It is significantly higher than my competitors in France. That is in going with blast furnaces and after an important support in reducing the energy costs for us, as an energy-intensive industry. We appreciate the support from Government. It is also retroactive action. On energy prices, we do not have a level playing field at this point in time in Europe.

More importantly, energy or electricity will be a key item for further decarbonisation. That is where, together, we must, but we also have a chance to, restart the setting of the UK steel industry to make it competitive in Europe.

Q90 **Mark Jenkinson:** What action would you like to see taken to reduce costs? Are your future costs in capital investment to reduce that energy requirement or in reducing the cost? Would it be better to reduce the costs of that energy?

Dr Adam: Energy, or electricity, is a key item for going forward. As I said earlier, we do not know yet exactly the way forward in technology of future steelmaking. It is clear for me that energy or electricity is a key part of that. There is one point of reducing the cost for energy production. There is also the model of how we charge energy to industry and to society. If you look across the European steel producers, there are countries that clearly favour and support industry and manufacturers that have a high demand on energy much more than we do in the UK today.

Q91 **Mark Jenkinson:** That is reducing the cost for industry but pushing the costs on to consumers, for example.

Dr Adam: Correct.

Q92 **Charlotte Nichols:** On 11 June, the Trade Remedies Authority announced its final recommendation on steel safeguard measures. The body has recommended revoking the measure across nine product categories. If this recommendation is implemented, can you please tell the Committee what the impact would be on Tata Steel's UK business?

Dr Adam: Certainly, I can. It is important to say that we will be impacted. Some of our products are excluded from the prolongation of the safeguards. It is also a step in creating a disbalance between the European Union and the UK, since the European Union is extending all safeguards for all products. In the UK, as you said, it is only for nine.

We have provided clear data and arguments to the TRA that, unfortunately, were not accepted, which we need to recognise, sadly. Also, it is valuable to mention that the TRA has apparently disregarded the interconnectedness of steel. It is exposing a set of products and jeopardising the economic viability of steelmakers as a whole.

Q93 **Mark Jenkinson:** I want to return to some of that discussion on decarbonisation. The Government have announced the £250 million clean steel fund to support the steel sector into lower-carbon iron and steel production. Does Tata expect to receive any of that financial support? I recognise that you said that you are not sure what that decarbonisation looks like for Tata, but do you expect to receive any of that support?

Dr Adam: The decarbonisation of the steel industry is one of the biggest tasks for us in the next decade. We need to take a sound, robust decision, because the decision we are taking at a certain time will define the industry, or our business, for the next decades. We think in decades. In this context, we really have to have a detailed assessment of all options. In this context, we are also a frontrunner, I believe, because we are part of the south Wales cluster to come up with solutions.

If the technology we are choosing to secure our sustainability is matching the requirements needed for the investment being discussed, we will certainly apply for that. However, it is fair to say that we first need to take our own decision on which way to go. We are serving some specific sectors: the automotive industry, the tech industry and construction. We want to also serve our customers in the UK in future.

In the whole discussion about decarbonisation, it is important that we see manufacturing in the UK as a whole. I believe, and am convinced, that we need to ensure that we have sustainable value chains or supply chains in the UK, especially post-Covid.

Q94 **Mark Jenkinson:** Returning to the fact that I think you said you were not sure what decarbonisation looks like for Tata, you might not have a figure for what it might cost to fully decarbonise primary steelmaking. In your view, does the clean steel fund meet the scale of the challenge ahead of UK steelmakers? Also, it is Government's view that it would be helpful for the fund to be released only after 2023. You have said that the biggest task in the next decade is decarbonisation. Do you see any benefit in bringing this date forward?

Dr Adam: The £250 million under discussion is certainly an important first step. Compared to the need of decarbonisation in the UK, it is only a first step. It is too early to comment about the size for decarbonising. It is also worth considering that we are talking about a steelmaking replacement, potentially, but also the infrastructure and other partners in the value chain that need to be reconfigured. It is not only a development or an evolution. It is more a step change in technology and supply chain. Hence, it needs a scrutinised assessment in terms of impact financially but also on products, value chains and supply chains.

Q95 **Mark Jenkinson:** Do you have any view on potentially bringing that 2023 date forward?

Dr Adam: We are now in June 2021. If we order equipment substantially, it will not be on the ground prior to 2023 anyway. It is more about the volume of support and not necessarily about significantly accelerating the timing.

Q96 **Charlotte Nichols:** I wanted to ask you a little bit about your views on hydrogen, particularly in terms of the options available at Port Talbot. Concerns have been raised about plans to convert the blast furnaces at Port Talbot to electric arc furnaces and the impact that this might have on Tata's highly skilled workforce. How does Tata plan to ensure a fair and just transition to net zero for its workforce? Which alternative approaches have you explored?

Dr Adam: For me, hydrogen is a no-regret investment. I see that it can play and will play a role in decarbonising our industry. There are different options, such as combining hydrogen with so-called DRI, which is direct reduced iron. Investment into hydrogen is, as I said, no-regret.

However, at this point in time technologies like hydrogen are in test stages. Across the globe, no company has fully hydrogen-based production yet. The volumes available need to develop significantly over the next years and maybe even decades to serve the industry, including the steel industry. My view is that, given the potential timeline for availability of hydrogen on a large scale, which will be in the late 2030s, so in 15-plus years, we need to find other options as a transition. These could include EAFs, so electric arc furnaces, which could be based on natural gas. There are different options available in principle, with different impacts on products being produced and investment.

You referred to headcount, people and our skilled workforce, which is an asset for us, by the way. There, I can only advise not only considering steelmaking qua steelmaking. We need to think in systems. If we replace a blast furnace system, we replace a blast furnace and supporting works. If we increase and install new assets, you we increase a system of new assets, which, depending on the technology we serve, might be, for example, an infrastructure for hydrogen, electrolysis or storing. We also need to think more of the whole workforce as a system and not just in a blast furnace. There, I am convinced that the new technologies will also develop other options, which are not yet seen.

Chair: That brings us to the end of our first panel, so thank you to Dr Henrik Adam from Tata Steel Europe for your answers and time this morning. We appreciate it.

Examination of witnesses

Witnesses: Jon Bolton and Anton Krull.

Q97 **Chair:** We are now moving on to our second panel, with Liberty Steel. We are pleased to welcome Jon Bolton and Anton Krull. Welcome to both of you. Before we get into questions, I want to make sure I understand your roles properly. Forgive me if this is just me being a bit daft. Jon Bolton, you are the former CEO of Liberty Steel. Liberty Steel has quite a complex corporate structure. Would it be right to say that, as CEO of Liberty Steel, you had the ultimate authority and control of all group companies that would be referred to as Liberty Steel, or are there any aspects that you did not have authority over

Jon Bolton: In my time with Liberty from 2015, I had various roles that had CEO in the title but my role was very much an operational one. A bit like it was when I was with Tata, you ran the operations of the business. As Liberty was growing, you will appreciate that the scale of the operation changed. Initially, we had rolling operations in south Wales and Dalzell, so I was CEO for the plates division.

As we acquired speciality steels, I was CEO of the speciality steels. Then we combined that into a UK business. Actually, in the latter years, I was CEO for the continental Europe businesses that we bought from ArcelorMittal. I left Liberty's full-time employment at the end of 2019. To answer your question, it was very much more of an operational responsibility.

Q98 **Chair:** Is that not unusual? If you are a person with operational responsibility, do we not normally call them chief operating officers instead of chief executive officers?

Jon Bolton: Yes, I understand your point. For the businesses that I was responsible for, there was some limited responsibility for how the day-to-day business was run, which involved understanding budgeting and annual planning processes, which is what I describe as operational. It was pretty much the same when I was working in previous jobs with previous companies. Then, we would have titles of managing directors, for example, that also had that responsibility.

Q99 **Chair:** If you were not really the CEO, who was making the strategic decisions that a CEO would normally take?

Jon Bolton: As the business grew, a lot of the decisions strategically were held centrally, as they were in previous employers. The big strategic decisions around the future of the steel industry were made by the central group. That would be the executives within Liberty.

Q100 **Chair:** Explain to me what the central group is.

Jon Bolton: That would consist of, predominantly, Sanjeev Gupta. He was the prime mover for the strategy of the group. A group of us would advise that but, essentially, decisions were made centrally by Sanjeev.

Q101 **Chair:** So they were all made by Mr Gupta. I want to come now to your current role. You are now on the GFG advisory board. I have a note here that says that GFG is an alliance between PK Gupta and Sanjeev Gupta's business interests to forge a new agile, sustainable, non-cyclical, integrated global business model. What does that mean?

Jon Bolton: The advisory board is a relatively recent addition and part of the efforts to improve the governance across the business as it grew and increased scale, but it has hardly got going, given the current circumstances. It is a non-executive position. It is purely advisory. As you will be aware, it consists of past influencers, politicians and industry leaders.

In terms of what you were reading from there and how GFG developed, GFG is, if you like, an alliance. It not an official financially incorporated business. It is an alliance of different businesses. It is something that has grown as Sanjeev, and his father before him, grew up over 25 years.

Q102 **Chair:** When you refer to the core group that Mr Gupta makes the decisions from, I think you are referring to the Liberty Steel Group management board. Is that right?

Jon Bolton: I am not sure what you are looking at at the moment, but the decision-making is centralised around Sanjeev. As I say, I have not been in the business for the last two years, so I am not aware of how the management board is currently structured and run.

Q103 **Chair:** Maybe it was not me being daft and actually this is quite difficult to understand. Mr Krull, can I come to you next? You are currently with the business as the CFO of Liberty Steel UK. Who makes the decisions for Liberty Steel UK? Is it the Liberty Steel Group management board?

Anton Krull: There is a management team that is responsible for the UK business as a whole. There is obviously management responsible for different units that make up Liberty Steel UK. That does not extend to aspects like funding and financing. Obviously, the UK management team would operate within the bounds of what financing is available within the particular group.

Q104 **Chair:** As the CFO for Liberty Steel UK, you have no input into funding or financing questions for Liberty Steel.

Anton Krull: That is correct. I would point out that I have only been with Liberty Steel UK for two months now and obviously came into a specific set of circumstances.

Q105 **Chair:** Does that mean that you report in some way to the Liberty Steel Group management board?

Anton Krull: I have a solid line to the CEO of Liberty Steel UK and a dotted line into the newly appointed CFO of GFG Alliance.

Q106 **Chair:** I am still struggling to understand this. My note here says that the Liberty Steel Group management board consists of Sanjeev Gupta, Arnaud de Weert, Roland Junck, Daksesh Patel, Paul Struijk, Ray Horsburgh, Denise Timns and Monica Middleton. Is that the team of people that you feed into, or do you have nothing to do with them?

Anton Krull: I have nothing to do with them.

Chair: You have nothing to do with them, okay.

Q107 **Richard Fuller:** I have a further question, Mr Krull. I think you said that you had a solid line to the chief executive but only a dotted line to the chief financial officer of Liberty Steel Group. In your experience, is it usual to have those sorts of finance relationships? Normally, would you not expect the CFO of a division to report to the group?

Anton Krull: Yes, that is correct. It varies across groups, but it is fairly typical that you would have a solid line to the CEO of a particular business unit and a functional line, which in this case would be a finance functional line.

Q108 **Chair:** It seems very odd to me that we have something called the Liberty Steel Group management board that you have nothing to do with. How do you communicate? If they make decisions that relate to the business that you are the CFO of, how do you know?

Anton Krull: I have been in the business for two months and it is a particular circumstance.

Q109 **Chair:** Have you not spoken to them in the last two months?

Anton Krull: There is a restructuring and transformation committee that has a particular role to play at this time. For instance, the group CFO would be on that particular committee. That is the particular line that I have into the group function. That is via the group CFO.

Q110 **Chair:** So you do have something to do with it, because you report into Deepak Sogani, who is the CFO on the restructuring and transformation committee of the Liberty Steel Group management board. Do I have that right?

Anton Krull: That is correct.

Q111 **Chair:** Okay, so, when you said that you do not have anything to do with the Liberty Steel Group management board, you misspoke.

Anton Krull: There is a subcommittee—let us call it that—of that committee. It is a restructuring and transformation committee that has been specifically appointed to operate during this particular time. I do not report to that committee, but I report to the group CFO.

Q112 **Chair:** Lovely, and what attracted you to join Liberty Steel in April this year?

Anton Krull: My experience has been largely in the metals industry, not in the steel industry. I enjoy the challenge that the metals industry faces. Of course, it is a challenge in many jurisdictions. My role is to assist in finding a way forward for these particular businesses, particularly focused on strategic business plans and working with the teams in formulating a way forward.

Q113 **Chair:** Presumably, you are not suffering from any form of regret, having been at the business for two months.

Anton Krull: Personally, I am focused on dealing with the real issues around the steel businesses. That is where I am focusing my energies.

Q114 **Chair:** Lastly from me, Mr Bolton, why did you leave Liberty Steel in 2019, as I think you said?

Jon Bolton: Yes, it was the end of 2019. Quite frankly, I decided to leave executive positions in steelmaking when I left Tata in 2015. It is probably pertinent to understand why I actually joined Liberty in the first place. At the time, Liberty was breathing new life into the sector. It gave a second chance to businesses that were being closed or were on the verge of being closed.

In the five years that I worked with Liberty, we restarted businesses and have given them an additional five years of life, employment and contribution to the economy, plants in Dalzell and Hartlepool, and particularly in Newport and Tredegar. These plants would have been closed otherwise. Having spent a career restructuring, for want of a better word, some investment, a very positive career, I think, supporting the steel sector, this was an opportunity to go in and work with a UK focus to restart businesses that had been closed and to invest in those businesses, which we did.

Essentially my job changed during that time. We looked at the UK businesses, but then we were looking at acquiring businesses from ArcelorMittal in mainland Europe and work-life balance became quite challenging for me, so I reverted to the decision I had originally made back in 2015. For the sake of my family and my own personal wellbeing, I decided that I had to step back from an executive position.

Q115 **Chair:** As a member of the GFG advisory board, do you have anything further to add about the discussion I have just had with your colleague about the corporate structure of GFG Alliance, the Liberty Steel Group management board and Liberty Steel UK? Do you have any comments on that?

Jon Bolton: Yes, I understand the confusion. As you will appreciate and know, the business evolved very rapidly over a short period of time. I had great confidence, because, operationally, we acquired very good people in the businesses we acquired. It then took some time to put in place the right structures to oversee the scale of the business that it became.. The recent changes, a lot of which have taken place since I left the business, are an attempt to become more visible and transparent, to address some of the concerns that people have had with Liberty over the years.

Q116 **Alexander Stafford:** I want to declare an interest. Although I do not have any Liberty Steel in my constituency, quite a number of my constituents work at various plants of Liberty Steel. Turning to the witnesses, I just want to ask about Liberty Steel's financial situation. What is the current financial situation in your view? Why is Liberty in such difficulty at the moment?

Anton Krull: The Liberty Steel UK group is comprised of a number of entities. Each of those entities has particular circumstances. For example, some of the businesses that are playing more into a commodities market are operating fairly profitably and benefiting from current prices. Of course, the rising steel price puts pressure on working capital. Given the current circumstances, that makes things somewhat difficult for those businesses. They are navigating through that particular period.

A business like the speciality business has been particularly impacted over the last year. The impact of Covid on the sectors it is particularly reliant on, for example the aerospace sector, has impacted that business quite markedly. It is a bit of a mix and some are more challenged than others.

Q117 **Alexander Stafford:** I am trying to look at this overall. Obviously, there are different parts of every business. Overall, what would you say the profitability of the business is? Is it good, struggling or just ticking along?

Anton Krull: Probably the larger businesses are challenged and some of the smaller businesses are operating reasonably profitably.

Q118 **Alexander Stafford:** You mentioned one of the challenges is Covid. We have heard from previous witnesses that Covid is clearly a big impact. You have not mentioned anything to do with GFG Alliance and Greensill, or frankly even Liberty's own management of the business. Is it just to do with Covid that the parts of the business are struggling, or would you say that financial difficulties are caused by GFG Alliance, Greensill and part of the management company?

Anton Krull: Looking at the nature of the businesses and the circumstances around them, clearly funding is one issue. In a market of rising prices, one requires working capital support to continue to support the businesses and enable them to operate at full capacity. That is certainly impinging on performance as we see it right now. In terms of where the businesses have come from and the lead-up into this period now, coming through a particularly difficult period into now this funding and financing issue has made it very difficult for those businesses.

Jon Bolton: If I may add some thoughts to that, I know that the funding side is predominantly what you are trying to get to here. These businesses have been subjected to the same pressures that I think Dr Adam was referring to in his witness statement. If you look at the different businesses, they are operating in different sectors. Covid has had an impact. The same competitive issues exist for our Liberty businesses in the UK around energy costs and procurement, which are well publicised. You covered those in your previous witness sessions.

In the more recent past, if you look at Rotherham, which I think, Mr Stafford, is the business you are concerned about, the automotive downturn obviously affected the Thrybergh business. Having had that, the business has offset that by re-entering into the construction business with the addition of rebar to its product range, so the measures have been taken.

If you look at the performance since Liberty acquired the Rotherham business, it was operating at a very low output of around about 200,000 tonnes. It now operates at 800,000 tonnes. Obviously there are working capital issues at the moment that have to be addressed. An additional 300 people were employed by the business and we restarted an electric arc furnace. We restarted a bloom caster. We restarted a line at Thrybergh. I am coming to your point about the management of the business, but, operationally, the management of the business has dealt pretty well with the market conditions it has been faced with.

Q119 **Alexander Stafford:** From this I am hearing that the management has done a great job and turned the business round, and then Covid came along, along with all the other external factors. If that is the case, why are we in this situation? How long can the business survive in the UK without additional funding or investments from the UK Government or even the private sector? I am not just talking about locally, in Rotherham, for me, but in the UK as a whole. How long can you keep going?

Jon Bolton: The issues that are facing Liberty are facing all the steel businesses in the UK. These are well-rehearsed arguments around energy costs, which are significant, procurement policy and, more topically, trade. These negatively affect the business in the UK compared to its competitors. We are asking for a fair competitive environment in the UK.

These steel businesses require a lot of capital. They require a lot of working capital to run day to day. They require capital for investment. Yes, they require support, but we are not asking for additional capital. We are not standing here, as an industry, with our hands out, looking for cash. We are looking for a competitive environment in which we can succeed. The fundamentals are there for the steel industry in the UK to be successful.

Q120 **Alexander Stafford:** To clarify, you are not looking for additional funding. If there was no additional funding coming your way but the competitive environment changed, such as the energy price stuff, your business would be able to keep going with the same number of jobs and same number of operations, and would continue to thrive.

Jon Bolton: You appreciate that I am answering from a UK perspective. A lot of the big steel companies in the world, let alone the UK and Europe, are owned by big multinationals that have significant funds available to them. The reason that companies like ArcelorMittal back in the mid-1990s grew very quickly in a similar way to which Liberty is trying to grow is because you need that scale. You need that presence in different geographies and product ranges to ensure you can provide funds when the cycle in one geography goes down or the business cycle is negative in a certain product range or geography. You attain that scale.

However, from time to time, particularly if you are a smaller player and coming into the industry for the first time, there needs to be support. Support does not have to be hard cash, as it were, but it can be support to enable investment to be made more easily. More traditional forms of investment are not available to new entrants into this sector.

Q121 **Alexander Stafford:** If you could change a few things to get that additional investment in from outside, what is the most important thing for you guys?

Jon Bolton: I am conscious that I am giving this as a UK answer. BEIS has already carried out studies in 2017 that demonstrate that there is demand in the UK for the products that are produced in the UK. If we can become more competitive and there is a more competitive environment, the UK industry can be successful. It has the products, skills, capability and desire to succeed, but it needs some fundamental changes. You have heard this over and over again from the industry.

More importantly now, as Dr Adam said, decarbonisation represents an opportunity. The justification for spend, the payback and return, financially and non-financially, from decarbonised industry is significant at the moment. A supportive investment environment, competitive energy costs and a comparable trade environment would support investment in the industry.

Q122 **Alexander Stafford:** I am getting very positive soundings from what you are saying. There are clearly aspects of your business currently in the

UK that are more profitable and some that are, frankly, financially unsustainable. Could you draw out which are the more profitable bits of it, and which are the ones that currently are financially unstable or struggling and, therefore, more likely to go to the wall?

Anton Krull: All of the businesses have a good future. It requires an enabling environment, which my colleague has expressed.

Q123 **Alexander Stafford:** I am sorry; I will interrupt you there. You say that all have a good future, yet you are planning to sell parts off. Clearly, all of the parts do not have a good future.

Anton Krull: I would differentiate between disposing of businesses and whether they have a good future. The disposal should not be viewed as a fire sale. It should be viewed more in the context of how the business is thinking about focusing going forwards.

You have two distinct parts of the group in the UK. One is very much more a specialised steel business and the others really focus on long steel and flat steel products. The focus is on the latter going forwards, but certainly we believe that there is a lot of value in the speciality business. Yes, it has been avenued for disposal. That talks to where the group is looking to focus on, going forwards.

Q124 **Alexander Stafford:** It is good to hear that there is a good focus on specialities and the like going forward. In terms of jobs in the UK, what does that mean? If you are more focused on the specialities side and see that as profitable, is that going to mean a net increase in jobs at Liberty? Is there going to be a decrease in jobs? How does that work when it comes to the jobs side?

Anton Krull: The way I look at it is that, of course, businesses have to be financially sustainable and profitable. That provides a solid base on which to grow. Certainly, our view is that there are real opportunities to grow. There is a robust base and a good set of assets that provide the basis for further integration. Therein, we see the ability for the group to gain competitive advantage, particularly in a world where climate change is important and decarbonisation is viewed as particularly important. That is the way we see it.

In terms of jobs, we see the opportunity to grow the group. At the same time, there is a recognition that businesses need to remain competitive and efficient, and they need to continue to modernise and take advantage of technology in order to remain competitive. The other point that my colleague has spoken about is how the enabling environment that the businesses operate in also dictates the way the business has to respond and react.

Q125 **Alan Brown:** In March 2021, when GFG Alliance was looking at doing restructuring, advisers to Sanjeev Gupta estimated in their Project Battery restructuring plan that GFG's British steel facilities had a negative equity value of more than $800 million. Is that level of negative equity sustainable for Liberty Steel? We have heard about the need for working capital; you talk about an enabling environment. How does that all come together with such a huge amount of negative equity?

Anton Krull: Those matters are being dealt with right now in terms of the refinancing and financial restructuring process. Clearly, the capital structure of the business going forward will look different from what it looks like today. I, myself, am not part of those discussions, but my understanding is that they are progressing well and that a new capital structure will be an outcome of those particular discussions.

Q126 **Alan Brown:** Are you saying that this negative equity position is just going to disappear with the restructuring?

Anton Krull: Certainly, the capital structure will change going forward.

Q127 **Alan Brown:** With the actual negative equity position that was estimated, what is that going to look like after the restructuring? What impact is that going to have on the business going forward?

Anton Krull: Again, if I was a new financier or an existing financier of the business, and I was looking to be part of a restructured and recapitalised business, that is clearly something that I would be concerned about. I am sure those matters will be dealt with. In terms of negative equity and the extent of it, I really cannot make any comments about that. For sure, any parties coming into the business and being part of a new capitalisation will be looking at these kinds of things.

Q128 **Alan Brown:** Okay, so I assume you are saying that it is still a potential issue. Now, I know you just said that you cannot comment on it, but can you even explain what the causes of this negative equity were? We need to understand that, in order to understand what that means for Liberty Steel going forward as well.

Anton Krull: It should be recognised that the businesses in the UK all operate through different legal entities. They all have their own positions. In general, any negative equity is fundamentally a result of accumulated losses, asset impairments and things like that. That is what caused such a position. I cannot comment on whether there is such a position or not, but those positions are clearly evident in the accounts that are published.

Q129 **Alan Brown:** There is one more aspect, which is maybe not quite as important, but does this negative equity position predate the Greensill Capital collapse?

Anton Krull: Again, I have not been particularly focused on that aspect of it, but it may well do. As I say, all the businesses are different and are in different positions.

Q130 **Alan Brown:** You are saying that, yes, it is a potential issue, but you have not been too focused on it. If this is a potential issue and it is there in the accounts as an issue, surely that is something that you need to have a focus on.

Anton Krull: Yes. The focus now is really on working with creditors—again, that is not my role—to restructure the funding for the group going forward. Out of that will come a new capital structure to support the business. My focus has really been on working with the management teams to develop strategic business plans that provide the basis on which the businesses can be refinanced and restructured.

Q131 **Alan Brown:** So who brings that together? You bring about this capital restructuring plan, but how does this come together if the negative equity is still going to be an issue? It seems to me that these two things are almost in silo. Maybe I am not understanding, but that is what it sounds like.

Anton Krull: Essentially, what occurs typically in circumstances like this is that the capital structure of the business changes and is made appropriate for the forecast plans and cash flows of the business. It is essentially restructured to enable it to deliver on the plans. That is what typically happens in these kinds of circumstances. It is really not uncommon.

Alan Brown: That is me, Chair. I am still not sure I have it correct in my head, but I will hand back.

Q132 **Richard Fuller:** Mr Krull, could you assure the Committee that you have done an assessment that at no time have the directors been trading while insolvent? If you have assessed an $800 million negative equity, there may be a risk that that is the case. Can you just tell the Committee what is being done to make sure that is not occurring—trading while insolvent?

Anton Krull: Just to be clear, I am not validating the figure of $800 million in negative equity.

Q133 **Richard Fuller:** What is the figure?

Anton Krull: As I said, all the businesses are operating as separate legal entities and all their positions are different.

Q134 **Richard Fuller:** That is a non-answer. You have come as the financial representative. I know your boss was supposed to come and he has not, but, if you have an equity value of $123 million, as the *Financial Times* is reporting, and debts of $3.5 billion, and your own assessment is reported to have assessed a negative equity of $800 million, there surely must be a concern in your mind about whether the directors are trading while insolvent. Can you tell the Committee what assessment you have done about whether that is the case?

Anton Krull: As I explained earlier, my role is really to assist the businesses to produce strategic business plans and forecasts. My role up until now has not been about trying to unpack the past funding and financing. That is being dealt with at another level.

Q135 **Richard Fuller:** This is March 2021. This is not the past. This is March of this year.

Anton Krull: I understand. The directors have taken advice around trading, and have provided operational instructions and parameters in terms of which we operate. At our level, we operate a robust process of cash management and reporting. We provide clear visibility to the directors to enable them to make appropriate decisions around trading.

Q136 **Richard Fuller:** That is very clear. I do understand your role in this. Mr Bolton, you are an advisory director. What assurances have you sought over this particular matter?

Jon Bolton: As I say, we have met very few times since the advisory board was put together. We have had assurances—all the assurances we have had are similar to the ones that have appeared in the public domain—about how refinancing is being sought and how actions are being taken by the operating units to manage cash and manage their ongoing operation. Those are the assurances we have looked for and the assurances we have received.

Q137 **Chair:** Who gave you that reassurance?

Jon Bolton: That was Sanjeev.

Q138 **Chair:** How many times has the advisory board met?

Jon Bolton: It is three or four times.

Q139 **Chair:** How long on average are those meetings?

Jon Bolton: In recent weeks and months, they have been very short. They have been half-hour meetings just to hear a statement from Sanjeev to update the advisory board on what is happening in the company.

Q140 **Chair:** It is a 30-minute monologue. Thank you for that. Mr Krull, I am a bit concerned on this question about who the responsible officer is for validating each of the businesses in Liberty Steel Group as being viable going concerns. If it is not you, who is it?

Anton Krull: All the businesses, as I say, operate as separate legal entities.

Q141 **Chair:** Yes, but who is in charge of them? That is my question. Who is checking that they are viable going concerns as separate individual entities?

Anton Krull: The boards of those respective entities understand and review their performance and position.

Q142 **Chair:** So there is a CFO on the board of each of those entities who presumably has a dotted line into you.

Anton Krull: The group CFO sits on the board of each of those entities.

Q143 **Chair:** That is Mr Sogani, is it?

Anton Krull: That is correct. Our role is really to present the facts as we see them both now and looking forwards, and to make sure that the board is well informed around that.

Q144 **Chair:** Right, so let me just take an example. We noticed that some of the net profits are very low in comparison to the amount of turnover, presumably because of your debt liabilities. Let us take, for example, the Liberty Steel Newport site. Why are the accounts not filed on time? They are overdue at the moment, are they not?

Anton Krull: That is correct. The audits of these entities have been co-ordinated centrally up until this point.

Q145 **Chair:** Can I just pause on that? About 30 seconds ago, you told me that each company was independent, with its own board and its own CFO, who happens to be the group CFO, and that you had nothing to do with it. Now you are telling me that it has been co-ordinated separately. Have I misunderstood?

Anton Krull: No. It is not uncommon for the statutory accounts of legal entities within large groups to be co-ordinated by a central function that specialises in financial accounting and works with the auditors. That is the situation within Liberty as well.

Q146 **Chair:** Is it unusual in a group structure, as you have just explained, for each individual entity to have very different year ends? Does it not make your life very difficult for submitting your accounts each year if each company has a different year end?

Anton Krull: Certainly, but it is—

Q147 **Chair:** Why do you have that?

Anton Krull: I cannot comment. I am really not sure of the answer.

Q148 **Chair:** You do not know, okay. I am feeling uncomfortable for you, Mr Krull, because you do not seem to know the answers to many of these questions, but your job is CFO. Do you have any concerns about the access to information and decision-making that you are, by your title, purportedly responsible for?

Anton Krull: That is correct. I did express—

Q149 **Chair:** It is correct. You do have concerns.

Anton Krull: It is correct that I am feeling uncomfortable.

Q150 **Chair:** I do not mean because of my questions. I am sure that is the case. I mean in terms of your role within the business.

Anton Krull: Perhaps the title is—

Q151 **Chair:** So you are not the CFO.

Anton Krull: I am the CFO, but, as I say, that does not extend to the balance sheet in terms of the capital structure.

Q152 **Chair:** One other concern in respect of the Liberty Steel Newport site is the Metro Bank loan over Corporation Road, which is a building that I understand you use for the day-to-day operations in Newport. If Metro Bank calls in that loan, which I do not think you are currently paying off, it could seize that site and cause some difficulties for your Newport facilities. Have I understood that correctly?

Anton Krull: I would have to investigate that further and come back to you on that.

Q153 **Chair:** A really key asset of the Liberty Steel group in Newport could potentially not produce steel because a lender could activate a security over part of the property, and you as CFO do not know whether that is the case. Is that right?

Anton Krull: The key part of the financial restructure is to reach agreement with Greensill and Credit Suisse, together with all the other creditors of the businesses. That process, as I say, is being co-ordinated by the restructuring and transformation committee.

Q154 **Chair:** Is either of you able to talk about how that restructuring and transformation committee is getting on?

Anton Krull: No, I do not have a lot of visibility on what is happening at that level. As I say, my role at this stage is to provide support to those processes by developing—

Q155 **Chair:** What does "support to those processes" mean? Surely you need to know what is going on, if you are going to advise those processes on what they ought to do. What support are you offering?

Anton Krull: The key thing that will underpin any form of restructuring and refinancing would be business plans and forecasts. It is about how the businesses will look in the future. That has really been my focus up until this particular point.

Q156 **Chair:** Let me just take the Newport example. I am not going to keep going on about this, but you have just said that you need a business plan to understand how you restructure. The business plan will identify risks to the business, one risk being that half of the site is secured by a lender that could come after it at any moment because you are not paying it back. That will be in the business plan, will it not?

Anton Krull: That relates to the capital structure and how we recapitalise the businesses. That is a separate restructuring plan. The business plans, of course, inform how a restructuring can take place.

Q157 **Chair:** Mr Bolton, have you heard anything in your 30-minute meetings with Mr Gupta that allows you to say anything about the restructuring and transformation committee's work?

Jon Bolton: No, the information we have had is, again, similar to what you have had. We know the plan is in place and professionals have been recruited to run it, but I cannot comment on the process and how it is performing at the moment.

Q158 **Paul Howell:** Moving the discussion to a slightly different place, Mr Krull, from your answers so far, it appears that you are not too involved in the financing structures of the business. Can we perhaps talk a little bit about the actual operational side? How has Liberty Steel coped with the national and international industry pressures such as low demand for UK-produced steel? How is that affecting the site? Is that where you are looking in terms of how the business would actually work in the future?

Anton Krull: As I said, we have a clear vision to focus on a core group of entities that we believe can gain competitive advantage by becoming far more integrated and by investing further in the electric arc furnace base of the business. That allows the business to be very competitive, I believe, particularly in the flat steel products market within the UK and Europe. The long steel business will also be competitive going forward.

We have identified a number of operational and commercial areas where we believe the businesses can succeed. More important strategically is for the business to leverage its existing investments in downstream businesses and upstream steelmaking, and connect them up. That enables the businesses to gain a competitive advantage. Perhaps my colleague can elaborate further on that.

Jon Bolton: Yes, I would refer to my earlier answers on this. This brings in the wider environment around all steel companies and steel supply in the UK. There are market pressures that all the steel companies face, and they are all taking steps accordingly. In the case of Liberty, those businesses that were acquired over the last five or six years have been given the opportunity to perform where previously they would not have done. They would have been closed or operating at lower activity levels.

Because they have been more agile, they have been able to move down to lower cost, be more aggressive on cost, particularly on overhead costs, and be more competitive. The bit that is missing—it is missing for all the UK businesses—is creating a fairer and more competitive environment in the UK.

Q159 **Paul Howell:** There have been some of what can only be described as major shocks to the whole industry, like there have been to many industries in the last year or two, whether it be Brexit or the whole COVID thing. We have seen that the balance of trade has dropped dramatically in 2020 compared to where it was in 2019. Is that going to put any restructuring into the UK steelmaking picture? Is it going to revert back as demand grows back?

Jon Bolton: Demand is picking up. If you look at the moment, the steel market is very, very positive. As Dr Adams said in his evidence, for the flat products business, automotive demand has come back and economies are investing more in infrastructure as they recover from COVID. You are seeing huge demand for steel at the moment. Some steel prices are at 13 or 14-year highs. The companies are well positioned to take advantage of that as the market has rebounded, but, clearly, as I say, these businesses rely on very solid cash flows. They require cash to be available for them to be successful.

This can have an impact from time to time in the steel cycle. Whether it is in 2008 or 2015, or whether it is on a more localised basis when there are problems at steel plants where smaller companies see a negative impact on cash flow, that can impact the amount of capital available to those businesses and that will impact their operational performance. Generally speaking, at the moment the market is pretty good.

Q160 **Paul Howell:** As the steel business in the UK recovers, do you see that being something that the UK steel industry will be able to take advantage of or are we just going to see another flood of imports?

Jon Bolton: You are starting to move into areas that are currently topical, of course. Because of the situation, looking at trade and the debate that took place last night in the House of Commons, there are measures that we could take to ensure that the UK was in a fairer position around trade. We will see a flood of imports if we do not manage trade measures positively and in a fair way in comparison to the EU, because we become an easy hit. Products will land in the UK and penalise the UK steel industry.

Q161 **Paul Howell:** Moving the discussion on to the Liberty business, let us talk about GREENSTEEL and its importance going forward. Is this going to be significant enough to make Liberty Steel an attractive investment either for financiers or for buyers?

Jon Bolton: If you look at Liberty compared to a Tata Steel, a Jingye or a British Steel, we are in a pretty good position from a green steel perspective, because the technologies that are employed within Liberty are electric arc furnace-based steelmaking here at Rotherham. There has already been a big step taken. We produce significantly less CO2 than a blast furnace-based site. The opportunity is to invest in those facilities and scale up that production.

Again, as Dr Adams mentioned, the ability to decarbonise the industry and the investment in decarbonisation offers a real opportunity. It should provide a better return on investment both financially and environmentally, but the introduction of these new technologies also offers the opportunity to reduce production costs in the UK and therefore displace imports. We are importing 6 million or 7 million tonnes of steel a year into the UK, as was demonstrated by the BEIS study that took place that was published in 2017. That can be displaced if we can use this position and this timing to invest widely in the UK, in order to address environmental issues but also productivity and cost issues.

Q162 **Paul Howell:** To what extent does Liberty's long-term financial viability depend on GREENSTEEL?

Jon Bolton: In the UK, as I said, when Tata or British Steel talk about green steel in the UK, they are talking about significant investment to change the technologies they are employing at the moment to become greener and more environmentally friendly, whether that is to improve the processes on blast furnaces and steel plants, to displace blast furnaces with electric arc furnaces, or a combination of both.

For Liberty, that investment is made. That kit exists. There is already a green steel story in the UK as far as Liberty is concerned. The success of Liberty in the UK clearly requires the current financial situation to be addressed so that cash is again available to the business, but then for investment to take place, to scale up and to address some opportunities that still exist within the UK. They are not necessarily green steel opportunities, but they are opportunities to scale up what is already existing in the UK.

Q163 **Alan Brown:** Turning to the financial position and overall Government financial support, are you aware of any funding that was received by Liberty Steel UK that came via either GFG Alliance or Greensill Capital that is actually ultimately derived from taxpayer-funded schemes such as the coronavirus large business interruption loan scheme?

Anton Krull: It is not an area that I am well sighted on. There is a group treasury that manages these things. Unfortunately, it is not an area that I have much insight into.

Q164 **Alan Brown:** Again, as chief financial officer, a Government-funded loan could come in via GFG Alliance or Greensill Capital, and you would not know if that has come into Liberty Steel UK.

Anton Krull: That is correct. Again, I go back to my opening remarks and what I clearly indicated to the staff of this Committee when I was requested to attend.

Q165 **Alan Brown:** I do not know if you are aware of this, but the *Sunday Times* ran a story suggesting that companies that were listed as friends of Sanjeev were able to access £400 million in CBILs and, effectively, some of the lending rules were getting bent via Greensill Capital. Are you aware of that story and these allegations? Did that cause any concern? Did you maybe think, "I need to find out more about this"?

Anton Krull: Again, my focus is on a particular task. That has not been my focus.

Q166 **Alan Brown:** Now that I have asked this, do you not think that maybe you want to find that out and report back to the Committee?

Anton Krull: I am happy to do that.

Q167 **Alan Brown:** If we could move on slightly, then, could you outline what financial support Liberty Steel has received from the various Governments, the UK Government, the Welsh Government and the Scottish Government, since March 2020? To what extent are discussions ongoing with various Governments?

Anton Krull: Again, I would appreciate it if I could come back to you in writing on that particular matter.

Q168 **Alan Brown:** That is quite alarming. As you could imagine, as MPs we get support on this Committee from House of Commons Clerks, and they are able to give us briefing notes that suggest the amount of financial support that has been provided, but yet you as chief financial officer are saying you need to go and look into that. Surely you are involved in ongoing discussions with the various Governments.

Anton Krull: Yes, I have personally been involved in discussions with Scottish Enterprise. That is the limit of my involvement to date.

Q169 **Alan Brown:** Can you say how they are going? What position is your discussion with Scottish Enterprise in?

Anton Krull: We are keeping them up to date in terms of developments around the Liberty Steel Dalzell operation and those discussions continue.

Q170 **Alan Brown:** As part of these discussions, do you have any asks of Scottish Enterprise?

Anton Krull: No, the way I would think about it at the moment is that a compromise with Greensill and Credit Suisse and a restructuring of that position are required before a full restructure and compromise with creditors, and a new capital structure going forward, can be developed. That is the way I think about it.

Q171 **Alan Brown:** If you are not aware of what financial support Liberty Steel UK has already had from the various Governments, how can you pull together this capital restructuring plan and credibly present that to say, "Liberty Steel UK does have a future", when you do not seem to know so much of the background? The negative equity position has been left aside; you do not know whether CBILs have come into Liberty Steel UK; and you do not know what other support the company has had. Clearly, that must be critical. I outlined what some of the issues were before. If you do not know what support you have had, how do you know what the problems were and how to resolve them going forward?

Anton Krull: As I have expressed, my remit is really around the businesses and the operations, and their future in that respect. In terms of the capital structure and the funding, that has always been dealt with centrally through a treasury function. That recapitalisation is happening at that particular level. What happened in the past and what is happening in terms of the future is happening at that particular level.

Q172 **Alan Brown:** Does that mean that you look at the cost of operations going forward and you say, "Here is what the cost of operations is going to be; here is what I need", but you do not know the bigger picture of what other issues exist?

Anton Krull: That is correct: "This is how the business is going to succeed. This is the level of cash generation. This is the investment requirement to deliver the plans". In terms of how the funding comes through and how the businesses are capitalised, that is dealt with in another structure in the group.

Q173 **Alan Brown:** I have one final question on finances. The Secretary of State told the Committee that there are a range of options available for the financing of Liberty Steel. From your perspective, if you are able to answer, to what extent is financial support from Government your preferred outcome?

Anton Krull: My personal view is that that is not a preferred outcome. My own view is that the businesses need to be capitalised appropriately for the plans. We see the role for Government as creating an enabling environment. We have discussed some of the key topics; they have been discussed extensively. That is my own personal view of how it should operate.

Q174 **Chair:** Mr Krull, I am starting to think that you may have just been put in a very difficult position today as opposed to being evasive. I do not think you are being evasive; I think you just do not have access to the information in order to answer our questions. I have two extra questions that I am going to ask, but, if you cannot answer them, just say that you are not in a position to answer them, and we can move on.

The first is on CBILs and access to CBILs. It has been reported that Liberty Steel restructured its business to increase the number of corporate entities that could bid for CBILs from Greensill so that you could draw down money that was higher cumulatively than the £50 million cap that applied to an individual business. Do you have any insight into that?

Anton Krull: No, I do not.

Q175 **Chair:** At the moment, presumably you still need money to run your businesses. Is that money just coming from a pot at GFG Alliance, so that you do not know where the money is coming from within that pot?

Anton Krull: Since I have been in the business, there has been no funding coming from group. The businesses are living within their means. Hence there is a real focus on cash management. There are good structures in the business. We have of course had good support from our customers and our suppliers, and we are operating under that particular construct.

Q176 **Mark Jenkinson:** Just to move on a bit from that, which Liberty Steel UK assets have attracted potential buyers since the collapse of Greensill Capital?

Anton Krull: We have identified the speciality businesses as being non-core to the group going forward. It is those particular businesses that we announced a few weeks back would be up for sale, and that sale process is underway. Of course, there has been interest. That process continues.

Q177 **Mark Jenkinson:** I will quickly declare an interest now: I have a Jingye asset in my constituency. The *Financial Times* reports that the Jingye Group is interested in buying a number of Liberty Steel UK assets. What is the status of those discussions? Is a deal expected to be agreed imminently?

Anton Krull: I cannot comment on that, unfortunately. I am not sighted particularly well on that.

Q178 **Mark Jenkinson:** What assessment might you have been involved in or will you undertake assessment on the potential impact of Chinese ownership on Liberty's nationally sensitive contracts, given that it is the speciality business that is identified for sale?

Anton Krull: That is a question that the restructuring and transformation committee would be better able to comment on.

Jon Bolton: If you look at the products that come out of speciality steels, there would be a debate as to which ones are strategically sensitive from a UK perspective. The customers tend to be more civil aviation, for example, in aerospace businesses. It would be for BEIS or maybe the MoD to take a view as to what the impact of any overseas ownership would be, rather than the business.

Q179 **Mark Pawsey:** I have been listening to the evidence with great interest. I just want to reflect on some of the things we have heard. Both of our witnesses have a lot of experience in the business. Mr Bolton, you, for example, have been in the industry for a very long time. How would you characterise the financial management of the Liberty Steel businesses in comparison to the sector more generally?

Jon Bolton: It is a very good question, because there are obviously stark differences. As I mentioned, this is a sector that requires a lot of cash whether it be to run the day-to-day business or for subsequent investment.

Mark Pawsey: That has always been the case in the steel industry, with the greatest respect.

Jon Bolton: Indeed.

Q180 **Mark Pawsey:** You have worked for businesses like Tata that have had to confront and deal with those problems. Are you telling me that Liberty has approached them in a different way?

Jon Bolton: No. I was going on to say that, if you are a large, established company that has a presence globally in different sectors and different products, you have more flexibility, more ability or more capacity to overcome a downturn in one particular geography or one particular sector, or to invest in one particular sector.

Q181 **Mark Pawsey:** You are telling us that Liberty has struggled because it is small. Is that essentially what you are saying?

Jon Bolton: That is one of the elements. Let me use the example of Mittal, for example, in the early 1990s. They were in a very similar situation when they were buying up small assets. They grew very quickly, because they had to. They had to grow very quickly to ensure that they had the scale to manage those assets financially. Either you have to have the scale or you have to have the competitive advantage.

Q182 **Mark Pawsey:** Alternatively, do you not have to have good management skills? Were those management skills lacking in Liberty at the time you were there?

Jon Bolton: No. That is the short answer. I am talking operationally, but the management locally was the same management, just under—

Q183 **Mark Pawsey:** Forgive me. I am focusing on financial management. I am not talking about the guys who operate the plant; I am talking about the guys who control the finances of the business.

Jon Bolton: I understand. You recognise that my responsibility was the operational management and I had a duty of care to the operation, to the running of the business and to the day-to-day operation of that business.

Q184 **Mark Pawsey:** You are a senior executive in the steel industry. You had seen what happened in Tata. How did Liberty behave differently from a financial management point of view?

Jon Bolton: Indeed, in the way the businesses were run, you had greater exposure to that situation. Within a Tata or within an ArcelorMittal, as in Liberty, those finances are managed centrally. Access to cash is managed very carefully. For example, if you had a capital investment decision to make, even though you might be generating that cash locally, the decision on whether you are allowed to invest that cash in your plant was made centrally. That is the same with Tata and ArcelorMittal.

You have a very similar situation in Liberty. However, you are closer to that front line. In terms of the day-to-day cash management, the local management was far more exposed to it than it was previously. As they are currently, as my colleague has mentioned, you rely very much, as normal small businesses do, on the day-to-day cash flow, the normal cash flow into that business. It has to be managed very carefully.

Yes, there is a different focus on it. It is far more sensitive to changes in cash flow, because that scale is not there and you do not have the margins in the business to manage it as effectively.

Q185 **Mark Pawsey:** Mr Krull, in relation to other businesses that you have worked in, you have a history in the sector as well from around the world. How would you characterise the financial management of Liberty when you arrived there?

Anton Krull: I have come into a particular situation in the business. As my colleague has expressed, it is not uncommon in large groups to centralise functions. Treasury is typically centralised in large organisations. Typically, management teams will present plans and will attract appropriate capital from the group to execute on those plans. They would be required to deliver on those plans and be accountable. Of course, if they are not delivering, they need to make way for a new team to deliver on those plans. It is not uncommon. I do not particularly see a large difference in that.

I suppose one of the differences would relate to the involvement of the local management on the boards of the statutory entities. I am currently not on those boards, but under the circumstances it certainly would not be appropriate for me to be on those boards.

Q186 **Mark Pawsey:** If I might go back to you, Mr Bolton, perhaps, given what you have told us about the size of Liberty, and the challenge of raising cash for investment and for funding the growth of the business, does that make the sale of the businesses easier or harder?

Jon Bolton: It depends on who the buyer is, at the end of the day, and what the buyer's interests are in the business. If you look at the speciality steels business, it is a high-value and a very technically involved product. There will be an ongoing demand for those products. It really depends on the business case and how these businesses fit into the prospective buyer's own business.

Q187 **Mark Pawsey:** Can I make an observation? You are telling us that the rising steel price is a bad thing because it demands more capital. It is extraordinary that the rising steel price is not seen as a huge benefit to the sustainability of this sector.

Jon Bolton: Forgive me, Mr Pawsey. That is not what I said at all. I basically said that the businesses in Stocksbridge have a very high-value product that attracts a high margin, which would make them more attractive to prospective buyers, particularly if they have already existing assets in those sectors.

Q188 **Mark Pawsey:** You told us that a rising steel price puts pressure on working capital. This is the first time I have ever heard that a rising price can be anything other than positive for a business.

Jon Bolton: I would have to look back in the notes, but I do not think I said that.

Anton Krull: I think it was me. That is normal. As volumes in a business rise or as prices rise, one needs to have sufficient working capital to produce at certain volume levels, given those dynamics.

Q189 **Mark Pawsey:** If there is a rising price, there should be improving profitability and there should be no challenges in raising that finance.

Anton Krull: Of course, that is correct. Initially, one needs to invest in the working capital to take advantage of rising prices and margins. What I am saying is that, under the current circumstances, working capital is not freely available.

Q190 **Chair:** Because you are not getting any capital from GFG Alliance, you then cannot fund the extra costs. That is what you just said, right?

Anton Krull: That is correct.

Q191 **Richard Fuller:** Mr Bolton, you are one of the country's most experienced experts in managing the steel industry. I took a look at your résumé on LinkedIn. I noticed that you were a director of Tata Steel up until October 2015. You then had your own advisory business, and your work included working with the Scottish Government to restart Dalzell and Clydebridge. In April 2016, you were CEO of Liberty and led its due diligence on the acquisition of those particular assets. How did you manage the inherent conflict of interest of being on all three sides of that particular coin?

Jon Bolton: There was no conflict of interest at any time. Are you referring to the period when I was working on the restart of Dalzell?

Richard Fuller: Yes.

Jon Bolton: When I was on the Scottish Steel Taskforce, which was a very positive experience, working with trade unions and the Scottish Government, initially I was working for Tata. The remit there was to find a solution and to try to avoid the total closure of the plant. The plant had been mothballed by Tata, so I was working for Tata and advising the Scottish Steel Taskforce.

One of the potential buyers that came forward at that time was Liberty. They were happy with the business plan. We were happy with them as a potential buyer. As part of that transaction, Sanjeev asked if I would stay on to run the businesses. Once the transaction was done, I agreed to do that. It is something that was supported by Tata, so I then started working for Liberty, which enabled me to work on the transition and to help and support the Dalzell business. At no point was there any conflict.

Q192 **Richard Fuller:** Are you aware of the phrase "friends of Sanjeev"?

Jon Bolton: I have heard it in passing, yes.

Q193 **Richard Fuller:** What does that phrase mean to you? What is your understanding of it?

Jon Bolton: Almost literally, Sanjeev has many friends and acquaintances. He has a network globally. Yes, it means just that, really, in a literal sense.

Q194 **Richard Fuller:** There is another sense that has been placed on it, which is that they are connected parties with which transactions are done that are then used to raise finance on behalf of the GFG group. Have you asked Mr Gupta any questions about that interpretation that has been widely trailed in the press, including the *Financial Times* and others?

Jon Bolton: Apologies, I cannot really comment on that area. It is not something I am close to.

Q195 **Richard Fuller:** Do you have any concerns about that, for example about circular trading?

Jon Bolton: Again, it is not something I can comment on. Certainly, I cannot comment in detail on anything since the end of 2019. In terms of the central financing of deals, and the strategic direction of the company, that was all managed centrally.

Q196 **Richard Fuller:** You are still an adviser on the advisory board, are you not?

Jon Bolton: I am.

Q197 **Richard Fuller:** Have you asked any questions of Mr Gupta about these reports of circular trading?

Jon Bolton: No, we have not.

Q198 **Richard Fuller:** Why not?

Jon Bolton: Because we are an advisory board. As such, we are offering advice, when asked, about certain aspects of the business. We are not an executive board questioning the executive decisions of Liberty Steel.

Q199 **Richard Fuller:** Circular trading is not an executive responsibility. It is a crime or a potential crime. You are one of the most experienced voices in the steel industry in the United Kingdom. You are on an advisory board to that company, and you are telling this Committee that you have not asked the chief executive any questions about that issue.

Jon Bolton: I repeat my response. It is not an issue that has ever been raised with us. It has been reported and speculated on in the press, but we have no reason to question on that basis. Once again, I reiterate that this is an advisory board. It offers advice, when asked, about certain aspects of the growth of the business. It is not an executive board.

Q200 **Richard Fuller:** That is clear, thank you. Mr Krull, did you do diligence on the GFG group before joining it?

Anton Krull: Yes, I did as much as I could. Clearly, one can only get so much from public sources. Yes, I did. My focus was clear and my role was clear: it was to participate in a process around the future of Liberty Steel, and it was not about the past. That remains clear in my mind as to how I would be able to fit in with the future and what construct would work.

Q201 **Richard Fuller:** One of the pieces of public information that is available to an incoming CFO is to look at the audited accounts. I presume you did and you will have seen that the auditors for many companies in the group were King and King. What is your assessment of King and King as an audit firm?

Anton Krull: I have not met King and King; I have not dealt with them. It is premature for me to make an assessment. I have not dealt with them. I have typically dealt with the top-tier audit firms in my past experience. As I say, I cannot comment more than that.

Q202 **Richard Fuller:** I do not mean to dwell too much on your title, but you are chief financial officer. You joined in April. We are now three months in, and you have not had any conversations with the auditors. Is that because you have not wanted to or because you have been precluded from doing so?

Anton Krull: As I explained, the structure of the group is that there is a central financial reporting function that typically deals with the auditors. The operations would produce the management accounts, typically, and a statutory pack that would go up to a central function, which would complete the process with the auditors. Of course, the auditors would engage with the local operations in conducting and concluding their audit. During my period of two months, that process has not continued.

Q203 **Richard Fuller:** Even before that, during your diligence on the firm, did it not just occur to you that King and King may not have the capacity for doing the audits of what portrays itself as a billion-dollar enterprise?

Anton Krull: It did occur to me. It is certainly one of the areas going forward in terms of both the consolidation of the Liberty Steel UK group and having a clear understanding of the auditors, the transparency and all that goes around that. Going forward, it is critical that there is a consolidated and credible view of Liberty Steel UK that is presented and made clear. It is always appropriate for rotation of audit firms to occur.

Q204 **Richard Fuller:** Yes, that is certainly true. I do not know, gentlemen, if you are aware, but the Committee's request to GFG was to provide witnesses who were best able to speak to the finances of the company and the group. Both of you have had good reason not to be able to answer our questions. Mr Bolton, that is because, as you said, you focused mainly on the management, the strategy of the business and the business plans. Mr Krull, that is because you have been in post for only two months.

Given that that was the request we made, and you were put forward by GFG as best able to speak to it, was it fair for GFG to put you in front of this Committee today?

Jon Bolton: From my perspective, my understanding was that initially I was scheduled to appear at a previous witness session. My role was to provide some insight into the growth of Liberty Steel operationally, its operational strategy and how that was impacted, because the role of the Select Committee is to look at the UK steel sector as well. Because of my experience, my role was, hopefully helpfully, to give some insight into how the Liberty Steel strategy fitted in or was impacting and impacted by the UK steel sector. At no point was I aware that I was being put forward as a witness to comment on the financial aspects of the business.

Q205 **Richard Fuller:** Mr Krull, do you feel you are best placed to talk about the finances of GFG or Liberty Steel Group?

Anton Krull: No, I was surprised that I was being asked to attend and repeatedly asked to understand that I was required to attend based on both my remit and my experience. I was assured that that was understood. On that basis, I was nevertheless being asked to appear before this Committee.

Richard Fuller: Thank you for doing that. I feel very sorry for you for being put in that position.

Q206 **Chair:** Gentlemen, I have a couple of final questions that I would like to mop up with before we bring the session to an end. First, on this question of circular invoicing, I am new to this area so work with me here for a second. It has been reported, for example, that Liberty Steel Newport has sold £2.5 million of steel to a company called VS International, which is run by a chap called Vikrant Sharma, who was previously an employee of Sanjeev Gupta. That company, VS International, sold the same steel to CS Management Services, which is also owned by Sanjeev Gupta. Then CS Management Services sold the same steel back to Liberty Steel Newport, which had sold it two transactions ago.

Actually, no one bought any steel; it just went around in a circle. On both of those occasions, the company drew down supply-chain finance from Greensill Capital, saying that that was a transaction of steel assets. Do you have anything to say about that?

Anton Krull: I cannot comment.

Jon Bolton: No.

Q207 **Chair:** Is that normal practice in the steel industry or is this a bit obscure? Mr Bolton, is it normal in the steel industry?

Jon Bolton: A bit like you, it is a new area for me. I am not really familiar with it. It is normal practice to sell to customers in the normal run of things. I have to say that I am not familiar with the transaction you are talking about.

Q208 **Chair:** It is not common practice in the steel industry, because, if it was, you would know about it.

I referred earlier to the Liberty Steel Group management board, and I read off some names from that board. Until very recently, there was nobody on the Liberty Steel Group management board whose title it was to be chief financial officer. Again, is it usual for a management board, which presumably is making management decisions, to not have a financial officer reporting on the financial status of the businesses they have oversight of? Is that normal? Has either of you seen that before?

Anton Krull: No.

Jon Bolton: It is clearly not normal. Again, it may be my absence of knowledge of this, but there was a financial officer on the management board. I am not sure what document you are looking at, but there was always somebody leading on the financial side as far as the central management team was concerned.

Q209 **Chair:** It had been reported by Mr Gupta that he was going to produce some consolidated accounts for the GFG Alliance. Has that been discussed at one of these advisory board meetings, Mr Bolton?

Jon Bolton: Yes, it has, but those consolidated accounts, clearly, for the various market circumstances and suchlike have not yet been published. It was something that the advisory board was keen to see and, clearly, Liberty and GFG were keen to produce.

Q210 **Chair:** Mr Krull, have you fed into that process of consolidated accounts?

Anton Krull: No.

Q211 **Chair:** Mr Krull, could you just clarify something for me? Is the Liberty Steel commodities business deemed to be part of the Liberty Steel UK group of companies?

Anton Krull: No.

Q212 **Chair:** Earlier, in an answer you gave to Mr Stafford, when he asked about the viability of the businesses in the group, you said the commodities business was in a positive position. How do you have oversight of the commodities business if it is not part of Liberty Steel Group, for which you are the CFO?

Anton Krull: I was referring more to the flat steel and long steel businesses as a commodities grouping rather than the specific entity that you mentioned.

Q213 **Chair:** Very lastly, Mr Bolton, when you were CEO at Liberty Steel, what was your understanding or view of the Liberty Steel commodities business?

Jon Bolton: I had no responsibility for the commodities business as you define it. It was there before Liberty Steel. As such, the commodities business was part of an earlier version of Liberty. Liberty started out as a commodities business. The industrial acquisitions took place later.

Chair: Thank you. That is all of the questions from us today. Thank you to Mr Bolton and Mr Krull for your time and answers today.