

Business, Energy and Industrial Strategy Committee

Oral evidence: Liberty Steel and the future of the
UK steel industry, HC 118

Tuesday 20 July 2021

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

Questions 513 – 581

Witness

I: Rt Hon Kwasi Kwarteng MP, Secretary of State, Department for Business, Energy and Industrial Strategy.



Examination of Witness

Witness: Kwasi Kwarteng.

Q513 **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Committee, for our final session before the summer recess. We are delighted to be joined by the Secretary of State for BEIS, Kwasi Kwarteng. Good morning. The first half of the session this morning will be on our inquiry on the future of the steel industry in the UK. Then, in the second half, we will be doing a section on decarbonising heat in homes. The Secretary of State will be joined by other colleagues, who I will introduce at that point.

Secretary of State, diving straight into our steel inquiry, you know a particular focus of our inquiry has been Liberty Steel. We understand that the refinancing for Liberty Steel is hopefully going to be concluding over the Summer Recess. If that fails and Liberty Steel collapses, what will the Government do over the summer?

Kwasi Kwarteng: You have asked me a number of times about possible interventions, and I have always said that we have to wait and see what happens. The nature of the collapse in the financing and the state the business is actually in will determine Government action. It could well be that there is another buyer and that is something we have to investigate. When Sanjeev Gupta asked me for £170 million and I rejected that, many members of this Committee were quite surprised at that. I said that we have to see if there are private sector solutions. He has gone down that route. He has said he wants to find refinancing in the private sector with his lenders. We have to see that process through.

Q514 **Chair:** Have the Government done any assessment of the underlying assets in the Liberty Steel Group and any that you might define as being strategically important for the country yet, or are you just going to wait to do that at the point it collapses?

Kwasi Kwarteng: We are working on that all the time. We have officials in BEIS. As Secretary of State for six months now, I have been very focused on the steel industry. I have said repeatedly, privately and publicly, that it is essential that we have a steel industry. It is essential that we have steel production capacity. It is a strategic asset for the UK. I have been very frank and open about my views on this.

Q515 **Mark Pawsey:** Thank you, Secretary of State. You have before told us about how important steel is to the UK economy and UK industry. Liberty Steel is a big player in that market. You just referred to the state the business is in. I wonder if you could tell us what your assessment is of what state the business is in, both financially and from a corporate governance perspective. Also, what is your view about the physical nature of the assets that Liberty owns?

Kwasi Kwarteng: I will start off with your second question first, if I may. As I have said repeatedly, the assets are fundamentally good ones.



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Liberty uses comparatively new methods of steel production. It does not have the blast furnace production of old, which is carbon intensive. It is part of a new steel industry, if I can put it that way—a greener steel industry. The products and assets are good.

The problem in this whole episode has been one of financial engineering. One thing that GFG, and Greensill before it, was involved with was working capital finance. This whole issue has been one of financing. When Sanjeev Gupta asked the Government for £170 million, that was a financing need. It was not the fact that the assets were fundamentally bad. It was a financing need. I said no and he has said that he would refinance it in the private sector. I have been good enough to say that I will take him at his word. Let us see that process through.

In terms of your earlier remarks, I have had many conversations with Liberty Steel management. There are difficulties. They have to keep customers onside. They are doing that. You will know that Jon Ferriman, the CEO, has been replaced now by Mr Chowdhury. I know that the new CEO is very focused on keeping this business alive.

Q516 Mark Pawsey: Secretary of State, you will perhaps be aware that the Committee visited Newport a couple of weeks ago, where we saw great potential and the opportunity, with a dock there, to bring materials in and take materials out. We saw the potential for electric arc furnace installation, but assets that, frankly, looked rather tired. We wondered whether your assessment is that this is a business worth making some investment in or supporting because of the potential it has, or because of what it is able to do right now. Our assessment of what we saw the business able to do there right now was limited. It is more potential than actual.

Kwasi Kwarteng: The issue here—you will appreciate this, Mr Pawsey, having been in business yourself—is that there is talent. There is real energy. People want to succeed. The problem is capital and investment. The issue we have had is that GFG had—I have used the word before—an opaque financing structure. It was not clear to me where the investment was coming from.

This whole episode has been started—aggravated, if that is the right word—by a financial liquidity problem. Greensill went down. It was the principal financier of GFG and so GFG had to find other sources of finance. That has been the challenge. Of course, the finance is used to invest in the plant. That is how the business can be better capitalised and succeed in the future. No one doubts that the fundamental assets are good. The workforce is excellent and very motivated, but it needs investment. That is what this whole situation is about.

Mark Pawsey: That is certainly what we saw. We saw a very motivated workforce. We saw enormous opportunity, but a very substantial investment that is required. Thank you for your answers.



Q517 **Alan Brown:** Morning, Secretary. Obviously Liberty Steel is owned by GFG Alliance now. It is part of the evidence we have heard in the Committee that Liberty Steel is part of the GFG Alliance and was involved in a circular financing scheme. GFG Alliance has been described as a company as having poor corporate governance mechanisms. You just described opaque financing mechanisms. That is contrasted with where you previously said that Liberty Steel UK is an important national asset. Do you have concerns about Liberty Steel being owned by the GFG Alliance?

Kwasi Kwarteng: This has always been the fundamental problem. I was very clear with Mr Gupta in the letter when he asked me to give £170 million and I said no, for the reasons I have outlined many times. After that, he came to the conclusion that he is not going to get £170 million from the UK Government, so he said, "I will refinance the assets". I was interested in how he would go about that. I had my doubts, frankly, about his capacity to do that, but he seems to be in a situation where he is refinancing a lot of the assets in GFG.

I said at the time, "Let us give him the chance to do that", and that is what I am doing. I am sticking to my word and allowing him the opportunity to refinance those businesses. If he does that successfully, we should co-operate with him and wish him all the best in driving productivity in Liberty and other assets here in the UK.

Q518 **Alan Brown:** Effectively, if GFG Alliance refinances, you are quite happy for Liberty Steel to stay within that structure.

Kwasi Kwarteng: I am trying to stick to my word. I was very clear at the beginning of this process that, even though the Gupta Family Group had financial difficulties, if Mr Gupta could refinance those assets it was only right for us to give him the chance to do that. I was very clear about that. For me, as Secretary of State, to intervene now would be breaching that commitment. I said, "Let us give him time to refinance". It looks as though the refinancing is working and we should be good enough to stick to our word.

Of course, as Mr Jones said at the beginning of this session, if, for whatever reason, the refinancing does not work out, we have options. I will not discuss them now, because I do not want to anticipate market movements in this, but we will consider options. We are considering options of how we can take things forward.

Q519 **Alan Brown:** If we stick to corporate governance, in a previous session the Committee heard that corporate governance arrangements for Liberty Steel UK are centralised around Sanjeev Gupta. It was quite obvious some of the senior executives of Liberty Steel were not actually able to answer questions members of the Committee were asking them. In a previous evidence session, Professor Siddiqui described the arrangements as highly unusual, because they are all centralised around Sanjeev Gupta. What does that arrangement suggest about Liberty Steel UK and



its ability to operate effectively, even if GFG Alliance refinances?

Kwasi Kwarteng: The refinancing is clearly the key to this. If there is more capital available to invest in what I have said are good fundamental assets, that is a good result and the company will have a future. The separate issue about corporate governance is a legitimate question. Liberty was operating under that corporate governance structure from when Sanjeev Gupta acquired the plant. If he can get refinancing, we have to, essentially, go with that and expect that the company is on a good footing. The corporate governance arrangements of GFG are a separate conversation.

Q520 **Alan Brown:** You said it would be a separate conversation with GFG. Therefore, do you think that Liberty Steel UK would be a more viable steel company if it was actually separated from GFG Alliance and had its own proper corporate governance structure?

Kwasi Kwarteng: I understand where you are coming from. Privately, I can have views about what the optimal capital structure is and what the optimal corporate governance arrangements are. While GFG is going into this sensitive refinancing discussion, it is not appropriate for me to comment on that.

Q521 **Alan Brown:** Can you share that in confidence with the Committee in a private capacity?

Kwasi Kwarteng: We can have a private conversation about this, but I do not think it is appropriate for me, as a Secretary of State. I am not involved in the business. I am not an investor. I am not someone who is personally exposed, in a way, to investment. I am in a privileged position. What I say here could affect investor sentiment and I do not think it is appropriate for me to abuse my position in that way.

Q522 **Alan Brown:** I will move on to a different topic, the steel strategy. Previously in front of the Committee, you did not provide an answer, in terms of whether the Government would produce a strategy for the steel sector. Can you confirm if the Government are going to be looking at an overarching strategy to ensure the long-term sustainability of the steel sector?

Kwasi Kwarteng: All I can pledge to you is that we are definitely looking at a potential steel consultation—a steel deal, if you like. It is definitely something that is being considered. I cannot give you details. I cannot give you chapter and verse. You have to appreciate that we are discussing this very thing in the Steel Council, which I, essentially, resuscitated in March. We have a meeting of the Steel Council tomorrow, where we will be discussing exactly the question that you posed to me. I do not want to anticipate or pre-empt the discussion I will have tomorrow. I am sure after that I can report back and say, “This is where we are going”.

Q523 **Alan Brown:** Can you give any timescales on when a decision will be



made on this potential thing that you are definitely talking about?

Kwasi Kwarteng: In the next few months, we should have more clarity as to what we will be coming out with, but I definitely hear the argument that we have to think of steel on a longer-term basis. I, and a number of my predecessors, have dealt with steel crises over the last five or six years now on an ad hoc basis. We had the Tata Steel crisis, if I can put it that way, in 2016. We have had an ongoing issue with British Steel and Greybull, and then selling it on to Jingye, after a period when it was being looked after by the official receiver. We have issues now.

I want to have a much more sustainable, long-term approach to the sector. It is time now to think about how we can do that. I have said that the principle behind any kind of long-term future for the industry, which I passionately believe in, will be some deal around Government support for the industry and a commitment to decarbonisation. Mr Brown, you will know this very well from the North Sea transition deal, where, essentially, we struck a very similar bargain with oil and gas interests in the North Sea. We came up with the North Sea transition deal, where there was a degree of Government support, but with a firm commitment to decarbonisation on the part of the industry.

Q524 **Alan Brown:** The comparison with oil and gas is not quite right, because there were not the same financial issues with the oil and gas sector. If you keep waiting and seeing what happens with GFG Alliance, is there not a risk then that you are dealing with yet another crisis, rather than long-term sustainability?

Kwasi Kwarteng: I cannot stress this enough: this is a commercial situation. Yes, the industry is important from a strategic point of view, but I, as Secretary of State, cannot just come in and participate, almost as an investor or a kind of co-participant, in what is going on in the industry. I am responsible for the Government Department. I need to legislate and have strategies, but I am not a private equity investor. I am not someone who is competing with other investors to buy assets. That is not a role that is appropriate for a Government Department to play.

Q525 **Alan Brown:** Finally, you are looking at a strategy but you have not decided whether you will produce a strategy. You are just thinking about it.

Kwasi Kwarteng: I am thinking about it. I am thinking about what the elements of the strategy will be. With respect, you are right to say that the oil and gas interests in the North Sea, in Scotland and other places, do not need perhaps as much initial financial support, but their pressures, in terms of decarbonisation, are very considerable. They are responsible for a lot of carbon emissions. In many sectors, in many areas, ongoing support for the industry is, as you know, very controversial. They are not the same, by any stretch of the imagination, but there is an analogy between what we are doing with the North Sea transition deal and what we might do in the future with regard to the steel industry.



Alan Brown: We will see.

Q526 **Mark Pawsey:** I wanted to follow on from the questions from Alan Brown about the need for clarity and decision-making where we come in, step in and put in some support. You said just now that you are not in a position to just come in and provide support. There are two instances, and one of which you have just referred to, when the Government provided a £9 million financial support package for Tata Steel in Scunthorpe. What drove the Government to make that decision then? Why were Government able to support at that time and not able to come up with a support package now?

Kwasi Kwarteng: There was a massive difference. In the Tata situation, the owners themselves were very keen to get Government support. We looked at the situation.

Q527 **Mark Pawsey:** Mr Gupta seems quite keen to get Government support.

Kwasi Kwarteng: You are jumping around. In Mr Gupta's situation, there was not the clarity. I said at the time, "This is too opaque". I could not guarantee that the money was going to stay in the UK, because we did not know what the corporate governance structure was. We did not know what the full liabilities were that Liberty was exposed to. That was the whole point.

Q528 **Mark Pawsey:** Were those criteria met in respect of the support for Tata Steel in Scunthorpe?

Kwasi Kwarteng: Clearly, I was not Secretary of State at the time. Reviewing the papers, there was much more clarity. There was much more of an assurance that any support we provided would stay in the plant, would stay in the UK and would be dedicated to making the actual site that we wanted to help better. In the case of the £170 million, you yourself have said it was £9 million in one instance. Mr Gupta asked for £170 million. By my mathematics, that is nearly 20 times the consideration and there was far less transparency in regard to Mr Gupta's request than there was with Tata. We take each situation as it comes and the situation was completely different.

Q529 **Mark Pawsey:** May I give you another situation then? There was the support in 2020 for Celsa Steel where an undisclosed sum—we do not know the amount that was provided at that time—was provided through Project Birch. Are you saying to us that those requirements—the clarity, the corporate governance, the funds remaining in the UK—were met in that particular case?

Kwasi Kwarteng: Of course they were. It is not a case that people can simply ask the Government for money and we give them money willy-nilly. There is a real process here. Project Birch involved the Treasury. It involved officials analysing the business case, the specifics of the deal and corporate governance, and then signing off on support in a limited way. It is not the case that someone simply writing a letter,



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asking for £150 million, will have that request acceded to. There has to be a process. If there was not a process, you, Mr Jones and your Committee would be very right to question me on that.

Q530 Mark Pawsey: We are also questioning people understanding what the framework is and what the rules are, so they know, if they come for Government support, whether or not, broadly, they are going to be in the ballpark. I think you said that there will be clarity in a few months. Do you acknowledge the need for that clarity, perhaps not just in steel but in other sectors of industry? Businesses need to have some reasonable confidence that, if they make the case and the criteria are in place, there may be some support, and, in other circumstances, where they are not able to meet those tests, support simply is not going to be forthcoming.

Kwasi Kwarteng: That has always been the case. As long as Government have provided limited support in special instances to businesses, it is always the case that there is a process. It has never been the case that people would simply get the money by asking for it. There always has to be a process. There has to be a proper auditing aspect to it. There are accounting issues. There has to be governance credibility.

Q531 Mark Pawsey: Will those issues that the Government look at be more transparent in the future? Will there be a set of criteria, so that businesses that are in difficulty, thinking about coming to Government, know the tests that they have to achieve?

Kwasi Kwarteng: They do all the time. We have a number of funds. If I look at the aviation fund, we have the ATI. We have the automotive transformation fund. We have a whole range of funds that people apply to in the regular way for support. That is the nature of modern industry here in the UK, and across the world in fact.

Q532 Paul Howell: Thanks, Secretary of State. I want to move the discussion on to public procurement. One of the big opportunities for the Government in supporting the steel sector is to spend as much of their own money in that space as they can. One of the submissions we have had noted the disparity between the 160,000 tonnes of steel sourced from UK producers and the 800,000 to 900,000 tonnes of steel in the 2020 pipeline indicated to be used by the Government each year. In that context, I know that the steel procurement taskforce is tasked with looking at what Government and industry can do to address these challenges. Why do you think the industry has encountered difficulty in securing public contracts? What action would you take to support the UK manufacturers to win more contracts?

Kwasi Kwarteng: I hate to bring up the hoary-headed subject of Brexit, but it is the case that, having left the EU, we can have a much more flexible approach to issues of public procurement and sourcing a lot of the materials we use here in the UK. That is why, in March, under Lord Grimstone's co-chairmanship, we launched the steel procurement



taskforce. That was only four months ago. We left the EU only seven months ago. I am hopeful that we can do more to support our industry through a much more rigorous process of public procurement.

Q533 Paul Howell: When do you expect the taskforce to report its findings?

Kwasi Kwarteng: It met again on 8 June, which is a month ago. Although he probably will not appreciate me suggesting this, I would suggest that you speak directly to Lord Grimstone specifically about the steel procurement taskforce. It is a new thing; it has never happened before. It was not something that we inherited. It was something that I was very keen to start, to look at precisely this question.

Q534 Paul Howell: In your mind, do you have a timescale you are working to, when you expect to get the information from the taskforce and, therefore, how long it is going to take the Government to respond and do something about that? Do you have a timeline in your head?

Kwasi Kwarteng: I am going to get Lord Grimstone to give me an update on this. My own view is that we should be able to have something quite concrete by the end of the year, in terms of where they are on procurement. This is something that is entirely new; it is not something that we had before. As I said, we left the EU. That has given us more opportunities in this. We have set up the taskforce. It is coming up with its work. I am confident that, by the end of the year, we should have something more concrete that I can talk to you about.

Q535 Paul Howell: We have had many recommendations as to how procurement policy could be updated to increase public procurement of UK-produced steel. Would you consider things like an explicit default preference for UK suppliers?

Kwasi Kwarteng: Let us see. There are two issues here. I am not the co-chair of the taskforce. Gerry Grimstone, Lord Grimstone, is. It has not come up with its own recommendations yet. Let us see what work the taskforce comes up with and then we can have a very strong, I am sure, and passionate debate about what actual policies we can adopt and how we can change our procurement policy going forward.

Q536 Paul Howell: I will leave that part of the discussion there, as you say, for a conversation with Lord Grimstone. One of the other situations when you get into this space is all about measuring. If you do not measure, you do not know. Government Departments are required to provide data on the amount of steel, but there are big gaps in this data. What are you doing to ensure Government Departments themselves are meeting the requirement for being able to give good information for whatever Lord Grimstone proposes?

Kwasi Kwarteng: You have identified a real problem. That is one of the things the procurement taskforce is looking at—procurement across the Government. That is exactly one of the things that it is looking at. If you look at something like HS2 or other projects, in terms of transport



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infrastructure, there is a huge amount of steel that is required for it. As you say, we have to measure and know how much and where it is coming from. There is no point you beating me up about this when I have set up a taskforce whose job it is to look at these questions, which I have just said will report in a few months, certainly by the end of the year. I cannot give you any more information than that, unfortunately.

Q537 Paul Howell: I have one final point, just to press on a little bit, if that is okay. In terms of the actual procurement policies and things, would you expect them to come up with a more rounded view of procurement to include maybe social and environmental impact of procurement when procurement contracts are being evaluated, or is that outside the remit?

Kwasi Kwarteng: It is very much part of the remit. If you followed what we have been doing in the last six months to two years, in fact, ever since I have been a Minister in the Department, net zero, decarbonisation, has been a thread running through everything we do in BEIS. Also, it has been embedded across Government generally. Clearly, any Government procurement policies will reflect the broader strategic focus on net zero. That is at the centre of any ESG concerns or focus that one would have.

Q538 Chair: Secretary of State, I do not want you to feel unwelcome. We are not beating you up. We are just asking questions.

Kwasi Kwarteng: No, sorry. As soon as I said it, I realised that that was inappropriate vocabulary. I am very sorry about that.

Chair: We could dial it up.

Kwasi Kwarteng: I am very sorry. It was my fault. I apologise.

Chair: There is no need to apologise. I want you to feel welcome.

Kwasi Kwarteng: No, I feel very welcome.

Q539 Chair: Good, I am pleased. We talked a little bit about the taskforce and the context of the sector deal.

Kwasi Kwarteng: It is a potential sector deal. I do not want people to run away with the idea that I have pledged a sector deal. All these things have to be negotiated across Government. We are very interested, in BEIS certainly, in having some form of deal.

Q540 Chair: I am sure that we would agree with you. A key issue that always comes up in the context of that discussion is around energy prices, which I know you know has been running for a very long time. There has been a particular concern lodged with us about the upcoming targeted charging review and how that might increase network costs for UK steel producers. Do you have anything to say to those people who are worried about that today?

Kwasi Kwarteng: We have a consultation, as always in Government. We have a consultation. We need to have one because we need to consider



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the question very broadly. You are quite right to say that we have been conscious of very high industrial energy prices in the UK compared to France and Germany in particular. We need to do something to address that if our heavy industries, in particular, are going to be competitive.

For the first time, I am pleased to say that we are engaging in a consultation process to work out what the best way to proceed on this is. It is not necessarily cost free. One of the compensating features of our price structure is that domestic electricity users generally have much lower prices than their counterparts, certainly in Germany. We have to think of a way of balancing the costs and balancing the burden. We are very aware that heavy industry has faced significantly higher energy costs than its counterparts in Europe.

Q541 **Chair:** Presumably you recognise that, if more electricity is going to be used in steel production, that is an increasing problem and therefore it is more urgent to try to resolve this issue.

Kwasi Kwarteng: No, definitely. The one key feature that we have not talked about is of course on the electricity production side. That is one of the reasons why we want to ramp up clean electricity. We want to increase offshore wind capacity. We want to increase decarbonisation and take coal off the grid, because we want to have a much greater supply of clean electricity.

Q542 **Chair:** I do not think I have seen the terms of reference and a remit published for Lord Grimstone's taskforce. Is that available?

Kwasi Kwarteng: I can definitely get back to you on that.

Q543 **Richard Fuller:** Welcome, Secretary of State. Thank you for taking such a clear line on the taxpayers' chequebook earlier this year, when voices were urging you to—

Kwasi Kwarteng: Many voices were saying I should give the money and I did not.

Q544 **Richard Fuller:** They were and you stood firm. We appreciate that. I am going to ask you a series of questions on state aid and trade remedies, but I will ask you one question as relates to considerations around GFG. You mentioned earlier on that you felt that the steel industry was strategic. You have used the word "opaque", in reference to both, I think, financing and governance. You have talked about the situation of getting private sector financing and changing the situation. Given that one participant in the steel industry is, I think, in a Russian jail for fraud, and another was in a PE firm that had a series of complete busts in its fund, is there a need, if you are going to treat the sector as strategic, for a fit and proper person test, beyond what you have as a director, in order to be the recipient of Government subsidies, if they were to come forward?



Kwasi Kwarteng: I mentioned the process in terms of Project Birch and other programmes. My view is that the approach we take always looks at a whole range of issues.

Q545 **Richard Fuller:** We have that formalised in things like the health service and the charity sector. There are formal tests. It would be helpful to have that in these areas where public money is being spent.

Kwasi Kwarteng: We have to be in a position where we do not want to put burdens on investors. We do not want to put the walls so high on investors that we deter them, but we do have informal tests. That is one of the reasons why I rejected the £170 million.

Q546 **Richard Fuller:** On state aid, you were just talking about energy prices. More broadly, are UK steel producers currently competing on a level playing field? More precisely, in which areas do you think that the UK steel industry is at a disadvantage because of the interventions by Governments of other nations?

Kwasi Kwarteng: I mentioned this before. The global steel sector is one in which there is a degree of overcapacity. You are a great devotee of free enterprise and free markets, Mr Fuller. If you look around the steel industry, you have tariffs everywhere. You have section 232 tariffs in the US. You have all these so-called safeguards in the EU. The Chinese, who produce, after all, 50% of global capacity, subsidise the steel industry very considerably. There is not a steel-producing country in the world that does not support the steel industry.

The reason for that is simple. It is that they see steel, and have done for over 100 years, as a key strategic asset, rightly or wrongly. A real free-marketeer could say this was crazy. Rightly or wrongly, Governments and countries feel they have to have some degree of capacity for steel production. They support it in lots of different ways. That is one of the things I have looked at and asked officials to look at. We never, or rarely, think of this thing from an international point of view.

I made the point to the Prime Minister. I made the point within Government that we have to decide whether we think this is a strategic asset. Once we have decided that, if that is the decision we take, we have to look at ways that we can provide support. That is what we are doing through the Steel Council and the conversations I am having across Government. That does not mean that we simply control the industry. There has to be some measure of competition. It means that we try to help the industry along. We support it.

Q547 **Richard Fuller:** Thank you for burnishing my free market credentials. I would say in response that the fictional owner of Rearden Steel might have questions about the free market approach of the current Government with regard to the steel industry.

Kwasi Kwarteng: Sorry, forgive me; I need to reinforce this.



Richard Fuller: If I can ask you a question, seeing as I have a number of them—

Kwasi Kwarteng: Okay, I will get back to your question when you ask me the next one.

Q548 **Richard Fuller:** I am sure you will. In your Department's submission, you talked about unjustifiable subsidies. Clearly, the Government have a view that there are justifiable subsidies and unjustifiable subsidies. Could you maybe explain to the Committee why and where you see the difference between the two?

Kwasi Kwarteng: There are WTO rules. All this trade is subject to the WTO. Also, when we were in the EU, it was subject to the EU dispensation. I will give you an example of this. The EU and the United States have what are popularly called anti-dumping measures. That is a measure where you are preventing other steel producers massively undercutting your domestic producers by essentially dumping the surplus steel. Those anti-dumping measures are regarded as justifiable interventions, because you are protecting your industry. I am talking broadly. I am not talking about what we do now but, broadly, you are protecting your industry from what is popularly called steel dumping. That is a measure.

If you were to look at a situation where, let us say, we were in the EU and writing cheques of billions of pounds to our industry, we would rightly have been taken to the EU court, in contravention of the EU subsidy regime. That is what happened. Those are two examples of support, one of which is seen as legitimate, potentially, and the other is in contravention, in the case I described, of the EU subsidy regime. We are now finding our own feet, but that was an example of how support in one instance can be legitimate, whereas support in another is not.

Q549 **Richard Fuller:** I will carry on from that, because you talked about the WTO and the UK-EU trade and co-operation agreement still having a say. How much are they impinging on your own sense of how the future of the industry should be directed? A particular issue you talked about is decarbonising the sector. Can you help the Committee understand whether these two other organisations are going to have an impact, or what type of impact they could have, on your abilities there?

Kwasi Kwarteng: We are still waiting for this, but the EU said it would come out in June with a proposal to mitigate imported carbon. It is a carbon leakage, whether you call it a tax or not, but a system whereby, essentially, you are incentivising people not to import products that have been produced in a very carbon-intensive way. Clearly, that is one of the big issues now. It is all very well to reduce carbon emissions in your own domestic production but, if you are importing steel products that are carbon intensive, it defeats the object. The EU has said, I think at the beginning of this year, that it was going to come up with proposals. I am still waiting for them. It will be interesting to read that.



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I said this on the Floor of the House when I was Energy Minister: any look at carbon leakage has to be done multilaterally. That is a very clear example of what the EU is thinking about and what the US is thinking about, and we talk to the US about this a lot.

Q550 **Richard Fuller:** It sounds like you are trying to go more quickly than others. Is that true?

Kwasi Kwarteng: There is an argument. It is one thing for us to decide what we are doing, in terms of decarbonised steel, but, if we are the only people doing it, the danger is that we are imposing costs unnecessarily on our domestic producers. We have to build alliances, with the EU in one instance and particularly with the United States, to see if we can come up with a system where, essentially, we are promoting decarbonised steel together and disincentivising steel production that is highly carbon intensive. That makes sense. It is much more effective, from a decarbonisation point of view, to work together with the EU and the United States.

Q551 **Richard Fuller:** Can I now turn to trade remedies? Which Minister made the decision to overrule the TRA's recommendations on steel tariffs?

Kwasi Kwarteng: It was a collective decision across Government. I had a view. I think that the Prime Minister, the Chancellor of the Exchequer and the Trade Secretary came together, and we decided that this was the right thing to do.

Q552 **Richard Fuller:** In the regulation, it says that the Trade Secretary is the one who has to make the decision. Was that her opening position on it, or did you persuade her?

Kwasi Kwarteng: The Trade Remedies Authority is an ALB, an arm's-length body, of the Department for International Trade. Also, the SI itself was drafted in the name of the Secretary of State for International Trade. I can divulge that her view and my view happened to be pretty similar. We took a very similar line and I think that the outcome that we negotiated was the right one.

Q553 **Richard Fuller:** Okay, you have answered that question. I had a question about this, as you might expect. The decision was to maintain tariffs in a sector where customers are struggling to find supply, where prices are going through the roof and where your independent body said that tariff roll-backs would be made only where there had not been and where it assessed there would not be any economic harm. If the Government are going to jump in when a sector is doing so well to provide protection, what on earth are you going to do when you come across a sector that is not doing well?

Kwasi Kwarteng: In those specifics, you will appreciate that, when we were in the EU, we had those safeguards. It seemed to me very bizarre that, after leaving the EU, those safeguards should fall away. As you know, the TRA was set up in 2018. Ultimately, the Secretary of State for



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DIT, whose power it was and who had the authority, effectively, to overrule it, decided to keep the safeguards, not in all instances. I think it is only 15 out of the 19 safeguards that have been extended for an extra year. You can say that this is not consonant with the true principles of the free market.

Q554 **Richard Fuller:** It is not consonant with the facts. I do not need to be an ideologue; I just need to look at the facts.

Kwasi Kwarteng: We took a different view.

Q555 **Richard Fuller:** Maybe you are sending a very strong signal that the Government are there whenever an industry or sector needs them.

Kwasi Kwarteng: I am being very specific about it.

Q556 **Richard Fuller:** It is a bit disconcerting. The TRA only really got going in June. This is its first major decision and you have ripped up its recommendation and done the complete opposite, where there is no finding on the basis of fact that it was necessary to do that.

Kwasi Kwarteng: There are a couple of things there. It is not every industry. I have said time and time again, in front of this Committee and in other places, that the steel industry is a special case. You might have a different view, but I happen to disagree, respectfully. The steel industry, for the reasons I have mentioned a number of times—for strategic national defence reasons and for the employment opportunities that it affords—is a special industry. You can say that is not pure enough, but I am happy to take that criticism.

Q557 **Richard Fuller:** That was not criticism. What I was saying was about effectiveness, not purity.

Kwasi Kwarteng: I happen to think it is effective. I have to say this to you, Mr Fuller: many people—our colleagues, Back-Bench colleagues, parliamentary colleagues, also from other parties, not just Conservatives—have really commended the approach Liz Truss took on this and said that it is a real sign that this Government are committed to the industry.

Q558 **Richard Fuller:** We can agree on that. That is definitely a clear sign of the Government's commitment. Given that we are going to continue with tariff quotas, they were set on assessments back in 2015 and 2017. Is there a case for changing those now or reassessing what those quota limits should be?

Kwasi Kwarteng: We are always reassessing. The issue you have with the steel industry is as I have described. You have an industry that is subsidised across the world. The capacity is something like 2 billion tonnes a year, which is double what it was 20 years ago. I said that before. There are huge amounts of capacity and every major steel producer supports the industry in some shape or form.



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At the same time, you have an industry that has notoriously cyclical prices. On the highs, it can be extremely expensive and the industry is doing well. When the price collapse happens, the prices can fall very quickly and steeply. It is a highly cyclical industry that enjoys a measure of support, for the reasons I have mentioned. You have to review the situation all the time but, for the time being, it is an industry that should be supported.

Q559 Richard Fuller: This is the final question from me. We had some interesting examples given to us during our inquiry relating to the use of bonded warehouses by overseas producers. Essentially, the effect of bonded warehouses is that imports would come in, under quota, be stored in the warehouse and then be released into the market in the next cycle, which had very depressing effects on price signals. The point that was made to us—and this may be tricky—was this. Would it not be possible to levy the tariff on arrival in the bonded warehouse, rather than on sale, thereby dramatically, or at least somewhat, affecting the risk profile of that holding period in the bonded warehouse? Do you have any thoughts about that issue?

Kwasi Kwarteng: It is a very difficult issue, because we have had a system of bonded warehouses for centuries really, which, for customs and tariff purposes, are treated almost as islands. I have spoken considerably about this. The people operating the Liberty site in Newport raised this exact issue, so we know what the problem is.

You cannot simply undermine the whole concept of bonded warehouses. Ultimately, I could not, because it is an HMRC and Treasury issue. It is ultimately a customs and excise issue, to use that old phrase. It is not a BEIS competence. We are trying to think of ways that we can deal with the problem. The problem is not really with the bonded warehouse; the problem is with the steel dumping and the way it is structured and phased.

Q560 Ms Ghani: Good morning, Secretary of State. You are very welcome. I am going to touch on decarbonisation. You said, in response to Mr Fuller earlier, that you do not want to put any extra burdens on domestic producers when it comes to decarbonising. Also, you want to make sure we take decisions together on the world stage, which is good to hear. I want to focus on the UK at the moment. We generate around 10 million tonnes of scrap steel. We use about a quarter of it and we use only 2.7 million tonnes of recycled steel scrap. The UK was the largest exporter of scrap steel in Europe in 2020. We know that recycling scrap steel has been cited as a key component in efforts to decarbonise the sector. Are the Government considering implementing measures, maybe export tariffs, to incentivise the retention and utilisation of this resource in the UK? What more can be done on the international stage as well?

Kwasi Kwarteng: We are absolutely focused on this. There is an issue if you are making steel and essentially exporting scrap to the point we are, but you want to use the scrap to produce steel. There is a mismatch



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here. That is one of the exact issues we want to raise with the Steel Council. It is a critically important part of the decarbonisation agenda.

Q561 **Ms Ghani:** Are you inclined to promote an export tariff, or are you going to take advice on that?

Kwasi Kwarteng: My instinct is not to jump to have export tariffs, where, essentially, you are preventing people from getting a fair price for their scrap steel. We need to focus on incentivising the use of scrap steel here in the UK. There are ways we can do that, without resorting, I would say, to an export tariff.

Q562 **Ms Ghani:** What would those ways be?

Kwasi Kwarteng: A classic example of this is through the procurement policy. If you were demanding, through Government procurement, more UK-sourced clean steel, that would give an incentive for people to produce steel in a less carbon-intensive way. It could well lead to more retention of the scrap steel. I am not saying it is definitely going to do that, but that is a way in which we could send a signal to the market that we were interested in retaining and using scrap steel here.

Ultimately, this will be driven by price. If the Government can pay a good price for decarbonised steel here in the UK, that would assuredly mean that less of the scrap steel would be exported. That is just one way. I am not saying we are doing this, but that is a way of getting demand for clean steel, which would prevent scrap being exported in the way you have mentioned.

Q563 **Ms Ghani:** I completely understand. It is just an option you are looking at. What would the timetables be for any of these decisions?

Kwasi Kwarteng: What is the date? It is 20 July. I resuscitated the Steel Council in March. We have the steel procurement taskforce that had its first meeting in March. We extended the TRA, the safeguards, at the end of June. It is a very friendly session, but you are asking me for details and policies that we are working on. I cannot tell you specifically what the incentives are, because we are working them up now.

I said to the Chair that we would have some more detail about the procurement taskforce agenda by the end of the year. I similarly think that, if we do that, that would set the timeframe for, perhaps, policies regarding the retention of scrap. That is the sort of timeframe that we are looking at.

Q564 **Ms Ghani:** I am going to move on to electro furnaces. To push you a little bit, not that I am trying to beat you up at all—

Kwasi Kwarteng: I deeply regret using that metaphor. It was a metaphor. I was not being physically beaten up.

Q565 **Ms Ghani:** You said the decisions will be made by the end of the year. Could they coincide with COP by any chance?



Kwasi Kwarteng: The other thing that has not been mentioned at all is that we were the first country—I think it was in February, possibly in March—to have an industrial decarbonisation strategy. As part of the industrial decarbonisation strategy, we want to drive a cleaner, greener steel industry. We will be making the case for that in COP, as we have successfully done in terms of decarbonising our electricity system, with the phasing out of coal. It is all part of the same conversation. There is the same urgency as well, in terms of driving progress.

Q566 **Ms Ghani:** Good, I hope the urgency will mean that decisions are taken at COP. It would be good to hear. I am going to move on to electric arc furnaces.

Kwasi Kwarteng: I cannot hear you.

Ms Ghani: What role do the Government see electric arc furnaces playing in the sector's decarbonisation ambitions and what proportion of steel do you expect to be manufactured in this way? Did you hear the whole question, or did I freeze?

Kwasi Kwarteng: You froze, but I think I have the gist. Electric arc furnaces are really important. We feel that it is a foundation industry. It provides excellent jobs and employment. Critically, if we are going to have a greener steel industry and decarbonise the sector, we cannot simply rely on the old blast furnace methods forever. They are not going to be eliminated immediately, but if, over time, we are essentially phasing out the blast furnace manufacture the question then becomes how else we are going to produce the steel. Electric arc furnaces have a big part to play in that.

Q567 **Ms Ghani:** Are you stating that you think blast furnaces will eventually be removed, or do you think they will always be needed?

Kwasi Kwarteng: I cannot answer that question, because I do not know what the net-zero commitment will be. If carbon capture takes off, there may well be an opportunity to continue having blast furnace manufactured steel with highly effective carbon capture. That is something that I cannot predict in 2021. I cannot possibly answer the question. I think that it will play less of a part than it probably does today, but I cannot say whether it will be eliminated. I do not suppose anyone can answer that question.

Q568 **Ms Ghani:** Are you in the process of removing, or have you put in place a Government plan to remove, the nation's blast furnaces?

Kwasi Kwarteng: No, not at all. It is important that we understand this. Where this is really important is that we are on the cusp of launching carbon capture clusters. Some of these proposed clusters—I am not saying they are happening—happen to be in areas, or could be in areas, where there is a large steel production. The Humber estuary is a classic example of this. If you can produce steel through blast furnaces and capture the carbon onsite, which is possible, from a net-zero point of



view, that is sustainable, but I cannot predict that. I cannot say whether it is going to happen and on what date. There is a strong chance that it could happen. That is all I can say at the moment.

Q569 **Alexander Stafford:** It will not be any surprise that I am going to ask about hydrogen-related stuff. I gather the hydrogen strategy should be out this week, so can we maybe have an update on that as well?

Kwasi Kwarteng: I cannot guarantee it this week, but it is going to be soon, very soon.

Q570 **Alexander Stafford:** Maybe in the strategy something will be said about hydrogen-based steel production. As you know, that is already underway in China, Germany and Sweden. Are the Government considering supporting a trial of hydrogen-based steel production in the UK to test production and to give the industry a better chance of making informed decisions on this route of decarbonisation?

Kwasi Kwarteng: You will know that hydrogen is a particular passion of mine. As Energy Minister, I essentially asked for the hydrogen strategy. I think it was going to be wrapped up in the industrial decarbonisation strategy. We have a separate hydrogen strategy. As you say, it is coming out imminently. We are looking at all sorts of potential uses for hydrogen. Hydrogen can be used to power transport, as you know, particularly HGVs, buses and trains. It can be used to decarbonise natural gas in the home, through blending and possible replacement ultimately. There are trials of that in a number of spots across the UK.

We want it to be part of a decarbonised industrial process, so we are absolutely open to investing in hydrogen, or seeing hydrogen invested in, in the industrial decarbonisation and particularly in the steel industry. As we have announced many times, and people should know, there is an industrial energy transformation fund, which BEIS is responsible for. People apply for some support in, precisely as you are describing, energy transformation. Ultimately, that can involve hydrogen.

Q571 **Alexander Stafford:** On a slightly separate track, also about decarbonisation, I understand the talks between the Government and Tata Steel on an emergency funding scheme, Project Birch, broke down last August. The site visit heard that both parties recognised the business need for a long-term solution to decarbonise. What was it about Tata Steel's proposed solution that was unsatisfactory to the Government and why did it fail?

Kwasi Kwarteng: I cannot remember the details of the case. As you know, I was not responsible at the time. From what I have read, I think there was the classic issue in terms of estimates of the cost of the decarbonisation, where the company's figure was at a slight variance from what officials thought was required.

Q572 **Alexander Stafford:** You cannot say what commitments on decarbonisation the Government wanted that could not be agreed on.



Kwasi Kwarteng: I think it was about the pricing actually. It was a classic negotiation about cost, how much money the company required and how much we felt that we could provide. There was a slight mismatch between those two figures. I do not think there was any difference of view as to the need to decarbonise.

Q573 **Chair:** I have a final few questions. You have noted today how you took the decision not to lend £170 million to GFG Alliance.

Kwasi Kwarteng: It was not lending; it was a grant. It is really important to get that right. It was not a case of us lending the money. He asked for the money as a grant.

Q574 **Chair:** That is understood. Why were BEIS officials therefore chasing the British Business Bank to get Greensill up and running in order to give taxpayer money and subsidy to GFG Alliance?

Kwasi Kwarteng: That is a very different case. With regard to the BBB, that was an arm's-length body. All the decisions about the accreditation of the banks through which they processed the CBILS and provided all that loan support was independent of Government, Ministers and officials. The officials were engaging to try to get an update as to where we were. Greensill was accredited by the BBB. That was not a decision that Ministers, my predecessors or any officials took within BEIS. That was a decision for the BBB—the British Business Bank.

The British Business Bank accredited 29 institutions, as I remember, giving them accredited status as institutions that could disburse the CBILS, the CLBILS and all the support we were providing. Officials wanted an update as to where they were with giving money to certain banks. It was not a decision of the officials to give Greensill money.

Q575 **Chair:** Is it not unusual for officials to chase the BBB quite so frequently about a particular application?

Kwasi Kwarteng: We were in very unusual times. I would not be able to tell you what was usual or unusual. It was the first time in my recollection that we were in the situation that we faced then. There were billions of pounds being used and provided by the Government, rightly, to support the economy. There were regular updates, as far as I remember.

Q576 **Chair:** Was there comparable chasing for other businesses?

Kwasi Kwarteng: I can get back to you on that. I imagine that there might have been, but I cannot confirm. I do not know what the exact correspondence was on each of the 29 lenders. I can do research on that and get back to you.

Q577 **Chair:** That would be useful. The thing I am trying to get to is the relationship, or the working relationship, between the Department and the British Business Bank. The Treasury Select Committee heard recently that information was passed from the Bank of England to the Treasury to BEIS about concerns related to Wyelands Bank and GFG Alliance. There



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was an intrinsic understanding that Liberty Steel was part of that and yet that information seems not to have been passed from BEIS officials to the British Business Bank. Lobbying the British Business Bank to speed up or get updates on the application seemed to be quite frequent. To me, that seems a bit incoherent about the relationship between the two bodies.

Kwasi Kwarteng: I do not think it was. It is not that complicated. You will know that, across Government, there are lots of what we call ALBs—arm’s-length bodies. That means that, operationally, they are independent. Ultimately, I am—or the relevant Secretary of State is—responsible for those arm’s length bodies. The Trade Remedies Authority that we mentioned earlier is an example of an ALB. It is operationally independent. In extreme cases, it can be overruled, as it was.

In the case of the BBB, as far as I remember, nobody has ever overruled any of its lending decisions. That was something that it did itself. It accredited; it had criteria. I would suggest you ask Catherine Lewis La Torre, the CEO of the BBB, what the process was, if you want more information. It was at arm’s length. It was not something that I or my predecessor could interfere with. It would be wrong for us to be able to direct lending in the way people have suggested. I am not saying you are suggesting it, but people have suggested it.

It was quite right for officials to ask for updates. That is a normal thing. Asking for an update is not the same thing as directing funds to specific companies.

Q578 **Chair:** I am not suggesting that. I am just asking about the day-to-day relationship between the BBB and the Department, as an arm’s-length body.

Kwasi Kwarteng: I have tried to describe that.

Q579 **Chair:** Thank you for that. Was the witness to the Treasury Select Committee right when he said that information at Serious Fraud Office level was passed to BEIS, but not passed to the British Business Bank, about Wyelands Bank and GFG Alliance? Was he right in saying that?

Kwasi Kwarteng: I do not know whether he was right or wrong. If that was the case, why did the SFO not open the investigation and declare something publicly last year? It is only really this year that this has been brought to the light. The other thing is that it is very easy with hindsight to say, “This was clearly something that was wrong”. At the time, Greensill was seen as a dynamic, interesting company. It got accreditation and was distributing loans in the way we all read about.

Chair: Sure, but our job is to try to understand how these things work and to make recommendations.

Kwasi Kwarteng: I get that.

Q580 **Chair:** Would you mind coming back to us about whether information was received by the Treasury but not passed on to the British Business



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Bank about Wyelands Bank and GFG?

Kwasi Kwarteng: Yes, I can get back to you on that.

Q581 **Chair:** This is my very last question before we move to the next session. Is it usual for politically appointed special advisers to be asking officials to chase the British Business Bank on particular applications?

Kwasi Kwarteng: As I said, it was a completely unusual situation. We had never been in that position before. When you ask, "Was it usual?", I can say, "Probably not", but the whole situation we were in was unusual.

Chair: Thank you for that.