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Our ref:
Your ref:

10 August 2021

Dear Darren,

Thank you for your letter of 23 July containing follow up questions after the evidence I provided on 20 July. Further to my letter of 4 August, please find answers to these questions below.

- 1. The Committee has heard that Government support on procurement has not yet addressed the barriers experienced by UK steel companies in attempting to supply public projects. You told us that the Steel Procurement Taskforce is currently exploring what can be done to address these challenges. What action is the Taskforce considering to assist UK-based steel manufacturers to win public procurement contracts more frequently?*

I am pleased to say the government has consulted on an ambitious package of major procurement reform. Our aim is to create a simpler and more flexible regime that works much better for British businesses, including steel companies, now that we have left the EU.

The consultation closed on 10 March and the government, led by the Cabinet Office, is currently analysing the over 600 responses received in detail. This will be followed by bringing forward primary legislation when Parliamentary time allows.

On steel specifically, we have established the joint industry and BEIS Steel Procurement Taskforce, with the aim of working with the sector to promote the unique selling points of UK steel and explore how best to support and position the industry for success in forthcoming major public contracts. As I outlined during my evidence, the Taskforce is expected to conclude and report on its findings later in the year.

It is important that suppliers continue to be treated equally and fairly through open competition. Keeping our procurement market open to international competition ensures better value for money for the taxpayer and facilitates UK suppliers being offered reciprocal rights to participate in procurements abroad.

2. *When you gave evidence to this Committee in May, you said you would consider using state aid to support the industry in the areas of public procurement and decarbonisation. Would you consider using state aid to support the steel industry in any other areas and, if so, how specifically would you do so?*

As I set out in May, these are some of the options being considered, including through the Steel Procurement Taskforce and the Steel Council, and further consideration is being given to these in line with our new subsidy control regime. Any decisions on support will be subject to collective government decision-making.

3. *A 'conservatorship' model of state aid, whereby short-term support is later recouped, has been proposed as a potential solution to troubled but economically and strategically important enterprises, including steel producers. Has the Government considered this type of model as a potentially effective response to any future crises that may be faced by UK steel producers?*

Our action to support Celsa Steel through the pandemic with a £30 million loan saved over 1,000 jobs and demonstrates that there are a number of models of support that may be appropriate for the steel sector. When making such decisions, it is important to be responsive to individual circumstances and to ensure the government acts in the best interests of the UK and the UK taxpayer.

Through the Steel Council, we are continuing to work closely with the industry and trade unions to examine proposals to support the steel sector decarbonise and secure a long-term, sustainable future.

4. *When you gave evidence to this Committee in May, you said that any offer of state aid must be "allied with a commitment on the part of the industry towards decarbonisation and producing clean steel". What specific commitments are you looking for from the industry as a condition of financial support?*

Future proofing the UK industry by transitioning to a sustainable and low-carbon model means securing high-wage employment opportunities in areas that we are seeking to level up, as well as supporting the Prime Minister's Ten Point Plan.

Decarbonising steel will be vital for meeting our legally binding commitment to achieve Net Zero by 2050. The Industrial Decarbonisation Strategy commits to work with the Steel Council to consider the implications of the recommendation of the Climate Change Committee to 'set targets for ore-based steelmaking to reach near-zero emissions by 2035'. I am keen to see the industry bring forward ambitious targets for decarbonisation, in terms of both the scale of carbon emission reductions and the dates by when that would be achieved, and to set out their planned investment for this important agenda.

I recognise that this transition will be challenging and needs a partnership approach. New technologies and infrastructure, capital investment and a market for low emissions steel will be needed. Work is ongoing across the Steel Council and government looking at these aspects.

5. *The Trade Remedies Authority recommended revoking measures on nine categories of steel imports. However, the Government decided to override that*

recommendation. On what basis did the Government disagree with the Trade Remedies Authority's recommendation to revoke these measures?

It is important to bear in mind the international context – the global steel industry continues to face difficult long-term trading conditions and high levels of short-term volatility. The gap between capacity and demand now represents almost a quarter of global steel capacity and continues to distort markets, as some governments provide unjustifiable support to their domestic industries.

As I mentioned on 20 July, other jurisdictions have reacted to this excess capacity by implementing trade remedy measures, most notably the US with their s232 tariffs and the EU with their safeguard measures. The EU announced the extension of all 28 of their safeguard measures for three years on the same day as the Trade Remedies Authority (TRA) published its final recommendations (11 June). Therefore, it was necessary to offer the UK steel sector some protection against potential surges in imports of steel where other jurisdictions have safeguard measures and tariffs in place.

As set out by the Secretary of State for Trade on 30 June in a Written Ministerial Statement to the House of Commons, the government accepted the recommendation of the Trade Remedies Authority (TRA) extending 10 of 19 steel safeguards. We also temporarily extended the safeguard measures on 5 further categories of steel. This extension provides the opportunity for industry to request that the TRA reconsiders its recommendation and to submit new evidence.

If the Government had not acted, the safeguard measures would have ended on 1 July 2021 and, under WTO rules, we would not have been able reinstate them for three years, leaving the sector unacceptably exposed.

6. Current Tariff Rate Quotas are based around average EU imports in 2015-2017. Given that demand for steel is lower today than it was five years ago, does the Government plan to reassess the levels at which caps on imports are set?

As part of its review, the Trade Remedies Authority considered appropriate tariff rate quotas for the UK; they reflect the fact that these measures were implemented, in part, to prevent a sudden surge of unfairly traded steel imports when the US implemented their s232 tariffs in 2018. The WTO Agreement on Safeguards requires safeguard restrictions to be progressively liberalised during their lifetime.

7. Concerns were raised by the Department for International Trade last month that legislating to override the TRA recommendation would breach World Trade Organisation rules and leave the UK open to legal challenge. Is the Government expecting such a challenge?

The UK is committed to our international obligations as a leading member of the WTO. The Foreign, Commonwealth and Development Office and the Department for International Trade are responsively engaging with WTO members to answer any questions they may have around this action.

8. How does the Government plan to allocate the Clean Steel Fund once it is released in 2023?

We have not pre-determined how to allocate the Clean Steel Fund. In response to my Department's Call for Evidence in 2019, industry gave a clear preference for the Fund to be launched in 2023. Complex decarbonisation projects have long lead-in times and take time to set up. Companies need that time to review options and develop detailed plans on what decarbonisation pathways are most appropriate for them, ahead of developing specific funding proposals.

Other schemes are available to support the sector and are live now, including the £315 million Industrial Energy Transformation Fund.

9. The Committee has heard that the steel industry is unable to make effective decisions on decarbonisation because the Government has not provided certainty on crucial issues such as hydrogen and CCUS. These decisions require significant investment and cannot be pursued on a purely commercial basis. Do you accept that the steel industry needs certainty from the Government before it can make these decisions?

CCUS and hydrogen-based steelmaking are two of the decarbonisation technologies being explored both within government and in collaboration with the Steel Council.

I recognise that the costs and risks associated with such new decarbonisation technologies, such as CCUS and hydrogen, mean that companies are finding it challenging to invest on a purely commercial basis. Government policy in this area is targeted at reducing the barriers to industrial decarbonisation and enabling companies to make the investments required to reach Net Zero.

The government is investing £1 billion up to 2025 to facilitate the deployment of CCUS in a minimum of two industrial clusters by the mid-2020s, and four clusters by 2030 at the latest, supporting our ambition to capture 10 MtCO₂ per year by the end of the decade.

It is my hope that businesses will face fewer challenges raising capital finance to invest in CCUS when it has been more widely deployed in the UK. Therefore, the government is developing business models to support CCUS projects and stimulate private sector investment. By providing an incentive mechanism for industrial carbon capture and storage, we can help secure the long-term competitiveness of our energy-intensive industries and ensure that the UK's emissions from these sectors are not offshored, while seeking to attract investment from new industries looking to locate to low carbon industrial regions.

Low carbon hydrogen will be vital for meeting our legally binding commitment to achieving net zero across the economy by 2050, with potential to help decarbonise vital UK industry sectors, such as steel. The forthcoming Hydrogen Strategy and consultation package will set out how government is supporting the production and use of low carbon hydrogen across the economy, including through flagship programmes such as:

- The £240 million Net Zero Hydrogen Fund confirmed out to 2025 to support new hydrogen production projects; and

- A Hydrogen Business Model to stimulate private investment in new low carbon hydrogen projects.

10. At our session yesterday, you claimed that the Government was looking at a potential “steel deal” in consultation with the industry. When do you expect this steel deal to materialise?

As I said on 20 July, this is something we are looking at as a potential option but that I cannot commit or confirm at this point as I do not wish to pre-empt the work of the Steel Council or of collective Government decision-making. Any form of offer to the sector will need to be agreed collectively across government, and on the basis of strong commitments and clear targets by industry.

11. What is your assessment of the industry’s attempts to decarbonise the steel industry?

Firstly, decarbonisation of the industry is not going to be easy. All steel producing nations are facing significant global emissions from iron and steel production – globally in 2019 this was 3.5 gigatons of CO₂ (2.6 Gt directly from fuel use and 0.9 Gt indirectly through electricity use). Within the UK, ONS statistics on atmospheric emissions show that greenhouse gas emissions from ‘Iron and Steel’ in the UK was 11.3 MtCO₂e in 2019.

I am very pleased to have re-constituted the Steel Council to focus on this important challenge. At the most recent meeting, steel producers and trade unions demonstrated they are working together to develop detailed and evidence-based plans for decarbonisation. The Steel Council is also actively working to explore the implications of the recommendation of the Climate Change Committee to ‘set targets for ore-based steelmaking to reach near-zero emissions by 2035’, as per the government’s Industrial Decarbonisation Strategy, published on 17 March.

There is still some way to go, both to assess options, finalise plans and to then implement them. But I am championing this agenda with great keenness and energy.

12. In the previous evidence session with this Committee you said that the Steel Council had discussed the Industrial Decarbonisation Strategy and high energy costs within the steel industry. What tangible actions have been undertaken on these issues by the Steel Council since the evidence session in May?

Through the Steel Council, we are working in partnership with the industry and trade unions on the shared objective of creating an achievable, long-term plan to support the sector’s transition to a competitive, sustainable and low carbon future.

The Steel Council met for the third time on 21 July, where it was agreed the Council would meet again after the Summer to discuss progress on the sector’s draft roadmap for achieving decarbonised steel production. Ahead of that, the government and industry will continue to work closely on the various areas raised in the draft roadmap, including on energy prices.

I recognise that UK steel producers are paying more than their European competitors for electricity and this is a key area where we need to consider options. When doing so, we also need to be conscious about how fundamental power is to every business and every household and to human life. Decisions on the price of electricity will need to be carefully considered to ensure that it is fair for all network users.

In the meantime, we continue to provide relief to the steel sector to make electricity prices more competitive, with the total since 2013 now over £600 million.

13. The Government recently decided to hold a public inquiry to determine whether the deep coal mine proposed by West Cumbria Mining will go ahead. Does the Government accept that a certain amount of coal is going to be required in UK industry, irrespective of Net Zero and decarbonisation?

A recent publication of the Digest of UK Energy Statistics ([DUKES 2.1-2.3](#)) shows UK coal consumption for industry, domestic, energy and power generation to 2020. In 2020, the UK Iron and Steel industry used 2.8 million tonnes of coking coal.

There are currently no commercial technologies to replace coking coal in blast furnace primary steel production, although the use of hydrogen and other innovations are being researched and demonstrated at various sites around the world.

14. UK steel producers currently import coal from Australia and the United States. What assessment have you made of the cost and efficiency of importing coal, versus developing a domestic coal capacity?

Removing the option to source coking coal domestically would likely result in some increase in the volumes of material being transported over long distances, which could ultimately increase the carbon intensity of steel production.

15. From April to September 2020 the BEIS Department had eight email exchanges with the British Business Bank to request updates on Greensill's CLBIL accreditation. In one instance a Policy Advisor from BEIS emailed the Bank stating "unfortunately, SPADs are pushing back and want information about when Greensill will be accredited to offer loans of up to £200 million". The NAO reported that the Bank described this level of interest as "unusual". Why did the Department apply this "unusual" level of interest and do you believe that this level of interest respected the Bank's independence in the accreditation decision making process?

The report published earlier in July by the National Audit Office made clear that it is not uncommon for BEIS to request updates on the accreditation of lenders. My officials also received regular updates on the overall progress of lender accreditations and enquired specifically about the status of at least one other lender, Wells Fargo. As with Greensill, my officials were interested in the status of the lender's application and the likely timescales for a decision on accreditation.

These were unprecedented and challenging times, and it was important that, as a Department, we were preparing for all potential outcomes. Being kept abreast of the progress of these applications was an important piece of information. Notwithstanding this, all decisions relating to the accreditation of individual lenders were made independently by the BBB, in line with their lender eligibility criteria.

16. *At a previous Committee session, Professor Siddiqui stated that King & King “is not a public interest entity, so they do not produce audit reports in the enhanced form. [...] We do not actually know whether they were able to audit these transactions as you would expect them to”. What assessment has the Government made of the risk of providing private companies with taxpayer-backed financial support, where appropriate levels of audit are not conducted?*
17. *In a previous evidence session Professor Siddiqui stated that King & King would be “severely stretched” of it was to audit a large amount of GFG Alliance companies. What does this example of King & King suggest about auditing standards and regulations in the UK? a. Do you believe that the audit practices of King & King in relations to GFG Alliance are i) legal, and ii) ethical?*
18. *What has the Government learnt about audit in the UK from the evidence this Committee has gathered about the practices of King & King?*

I am addressing these questions together as the answers are inter-related.

Speaking broadly and generally, when designing and providing financial support, the government uses the HM Treasury Green Book and applies key principles around the effective use of taxpayers’ money, including on mitigating risk. Those responsible for making funding decisions will carry out due diligence, in line with the scheme design, as part of their decision-making and scrutiny processes.

In terms of audit arrangements, I think Professor Siddiqui’s statement refers to the companies in the ‘Gupta Family Group Alliance’ (GFG) and that those companies were not public interest entities (PIEs). This is true, except for Wyelands Bank, which was audited by PWC and then by Saffrey Champness.

As with other privately-owned businesses outside of financial services and insurance, the GFG entities audited by King & King would be subject to standard audit requirements, meaning they must be audited annually unless they qualify for an exemption. The Financial Reporting Council (FRC) has published ethical standards for auditors¹, including that they must not receive an individual audit fee in excess of 15% of their total revenue - this is to prevent capture of the audit firm by a single client.

The FRC’s Professional Oversight Team oversees the delegated inspection of non-PIE audits, including audit monitoring and enforcement, which are carried out by recognised supervisory bodies. In the case of King & King, they are members of the Institute of Chartered Accountants in England and Wales (ICAEW).

It is for ICAEW to comment on whether the practices of its member firm were in line with the professional standards. I cannot offer a view on this, and nor can my officials. However, I would urge you to share your final report with ICAEW, highlighting where the evidence calls into doubt whether standards were met.

You fairly ask about learning lessons. I believe the evidence so far reinforces the case for reform of audit in the UK. My Department has set out that case for reform, including

¹ <https://www.frc.org.uk/getattachment/601c8b09-2c0a-4a6c-8080-30f63e50b4a2/Revised-Ethical-Standard-2019-With-Covers.pdf>

that the very largest privately-owned businesses should be classed as public interest entities, bringing them within the direct scrutiny of the regulator – currently the Financial Reporting Council. A consultation on this and other reforms closed on 8 July 2021, and the government is considering the responses it has received.

I hope that you and the rest of the Committee find these answers useful. I look forward to reading your report on the outcome of this inquiry.

Yours sincerely,



A handwritten signature in black ink, appearing to read 'Kwasi Kwarteng', is centered below the text 'Yours sincerely,'. The signature is written in a cursive, flowing style.

RT HON KWASI KWARTENG MP

Secretary of State for Business, Energy and Industrial Strategy