House of Commons

Business, Energy and Industrial Strategy Committee

Liberty Steel and the Future of the UK Steel Industry: Government Response to the Committee's Fourth Report

Eighth Special Report of Session 2021–22

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Business, Energy and Industrial Strategy Committee

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Eighth Special Report

On 5 November 2021, the Business, Energy and Industrial Strategy Committee published its Fourth Report of Session 2021–22, Liberty Steel and the Future of the UK Steel Industry (HC 821). The Government's response was received on 6 January 2022. The Government's cover letter and response are appended below. The Committee's recommendations are in bold type, the Government response is in plain type.

Letter from Minister for Industry, 5 January 2022

I would like to thank you, and the Business, Energy and Industrial Strategy Committee, for your comprehensive and detailed recent report on Liberty Steel and the wider UK steel sector. I would like to commend you, and the members of your committee, for the insightful and considered way in which you have conducted this inquiry, and for your active engagement with the steel industry more broadly.

I enclose the Government's response to the Committee's report, both from this Department and the other bodies who have aegis over some of the recommendations.

As you and the Committee have acknowledged within the report, there are live investigations underway with regards to Liberty Steel and the GFG Alliance at the current time and, as I am sure you will appreciate, it is appropriate to allow those to conclude before commenting on some of these matters in more detail. Nonetheless, the response does highlight the Government's approach following the collapse of Greensill Capital and highlights, where possible, where consideration is being given to future potential changes in these policy areas.

Departmental officials, ministerial colleagues and I have engaged extensively with the steel sector and will continue to do so as we continue to navigate through the coronavirus pandemic, support the economic recovery and level up the UK. I wish to thank members of the Steel Council for their ongoing work and engagement with the Government to create a long-term sustainable future for the UK steel industry.

I trust that the response is useful; thank you again for your work and contribution in this important area of public policy.

Yours sincerely,

Lee Rowley MP

Appendix: Government Response

Corporate Governance

1. **The corporate structure and governance of GFG Alliance companies resulted in no formal oversight or accountability of the decisions taken by Sanjeev Gupta. Mr Gupta put members of his staff in an unacceptable position by employing them with job titles associated with traditional executive functions in well run companies, without giving them the required access to information or decision-making powers necessary for them to perform their duties. It is unclear why Mr Gupta opted to structure his companies in this unusual and, given the scale of his operations, unacceptable way.** (Paragraph 28)

2. ***We recommend that Ministers reflect on the systemic risks to UK industry posed by such unusual corporate structures and, if deemed necessary, bring forward amendments to the Companies Act.*** (Paragraph 29)

3. Complex corporate structures exist for a variety of reasons, and the government does not wish to restrict the ability of businesses to structure themselves appropriately. However, the government agrees that those structures should not be a legal barrier to proper scrutiny of companies such as the GFG Alliance.

4. As part of its planned reform of audit and corporate governance, the government is considering whether to enable the new audit, reporting and corporate governance regulator, the Audit, Reporting and Governance Authority (ARGA), to investigate and take action in cases of exceptional public interest, even if the company concerned is not a Public Interest Entity and would be outside ARGA's normal sphere of action.

Audit

5. **We were not reassured by the evidence presented by King & King and note the legal restrictions placed upon Mr Patel, and other auditors who had previously audited GFG Alliance companies, by Sanjeev Gupta.** (Paragraph 44)

6. **Despite public statements over a number of years to the contrary, we see, as yet, no tangible evidence that Sanjeev Gupta and GFG Alliance companies are making improvements to corporate governance or improving transparency through the publication of consolidated accounts.** (Paragraph 45)

7. **We found it utterly unconvincing, and do not believe that King & King had the capacity, expertise, or resources to audit the accounts of multiple large GFG Alliance and Liberty Steel UK companies representing over £2.5 billion of revenue.** (Paragraph 49)

8. **The reputation of Liberty Steel UK has been threatened by the poor audit and accounting practices of GFG Alliance, including the changing of accounting deadlines and its inability to produce consolidated accounts. As these accounts are yet to be published it is difficult to see the true financial picture of Liberty Steel UK. Unless remedied, these deficiencies severely limit the potential of that firm to be viewed as a reliable partner in any long-term strategy for the UK steel industry.** (Paragraph 50)

9. ***We recommend that the Financial Reporting Council, as the competent authority for audit in the UK, refer this case to the relevant Recognised Supervisory Body, the Institute of Chartered Accountants for England and Wales, to investigate King & King under the Audit Enforcement Procedure as a matter of urgent public interest.*** (Paragraph 51)

10. BEIS agrees that the issues raised by the Committee are of public interest and merit investigation. As the Committee's report states, the Financial Reporting Council (FRC) is the relevant public body. As they operate independently from Government, BEIS commends the following response shared by the FRC to the Committee:

a) The FRC recognises the urgent public interest nature of this case, as noted by the Committee.

b) The FRC investigates matters relating to the audits of:

- Public Interest Entities (PIEs), i.e., listed entities, credit institutions and insurance undertakings;
- AIM-listed companies with a market capitalisation in excess of €200m; and
- Lloyd's Syndicates.

c) All other audit-related investigations are delegated to the Recognised Supervisory Bodies (RSBs), such as the Institute of Chartered Accountants for England and Wales (www.icaew.com).

d) The GFG Alliance entities audited by King & King are not within the FRC's usual scope of investigation. However, the FRC can reclaim a matter from an RSB where it is in the public interest to do so, with a view to investigation under its audit enforcement procedure (AEP) (www.frc.org.uk/auditors/enforcement-division/audit-enforcement-procedure).

e) In determining how to respond to concerns about how an audit has been carried out, the FRC must follow the due process set out in the AEP.

f) The FRC does not comment publicly on specific cases, other than as set out in the AEP, to avoid the risk of prejudicing any investigation or enforcement work that it might undertake.

Government rejection of funding for Liberty Steel

11. **We commend the Government's decision to reject GFG Alliance's request for £170 million of financial support in March 2021. The Secretary of State was correct to be cautious about providing a large grant to a group of companies with a centralised, complex and opaque governance structure.** (Paragraph 56)

12. ***In light of the Greensill Capital collapse and subsequent financial hardship of GFG Alliance and Liberty Steel UK, we urge the Government to give consideration to formalising the fit and proper person test for private company directors within any future steel sector deal.*** (Paragraph 57)

13. **We note the recent developments within GFG Alliance and Liberty Steel UK and welcome the injection of capital at Liberty Steel's Rotherham plant. However, we note that once again Sanjeev Gupta has decided to set up an additional corporate entity to provide financial support to Liberty Steel UK companies without clear reporting and decision making on the source and terms of use of that funding.** (Paragraph 60)

14. **We would welcome the Insolvency Service considering whether, on the basis of the evidence we have received, Sanjeev Gupta may have acted in breach of his fiduciary duties as a company director in the United Kingdom.** (Paragraph 61)

15. **More broadly, we believe that until Mr Gupta restructures his GFG Alliance companies into a more acceptable corporate structure and publishes consolidated accounts that are adequately audited, that he fails to fulfil the criteria that we believe should be applied to define a fit and proper person for the purposes of receiving any form of Government support.** (Paragraph 62)

16. The Government is grateful to the Committee for its agreement that providing the grant requested to support GFG Alliance would have been an inappropriate use of taxpayer money.

17. There is, rightly, a very high bar for providing taxpayer support to businesses. Any proposed support, whether to an individual company or sector wide, will be considered on the merits of its business case, and any support provided will need to comply with our new domestic subsidy regime and with the principles and practices on the appropriate use of taxpayers' money.

18. When considering any potential Government intervention, wider factors are considered, such as financial transparency. Equally, the Government reserves the right, and there is precedent for, other policy conditions to be applied if deemed appropriate. The conditions can include decarbonisation targets, commitments to corporate governance including restraints on directors pay and dividends, employment and tax.

19. BEIS has asked the Insolvency Service to work with the Serious Fraud Office to review the available information to determine if it is appropriate for the Insolvency Service to undertake an investigation.

Supply Chain Finance

20. **The way in which future, or prospective, receivables operated between GFG Alliance and Greensill Capital is disputed by both parties. We note that several claims have been made about the use of future receivables and their relation to "suspect invoices" and welcome the Serious Fraud Office's investigation into this matter.** (Paragraph 78)

21. **Steel is a foundational industry in the UK and in need of significant structural reform. The use of high-risk financial funding practices, such as future receivables lending, that Greensill Capital and GFG Alliance engaged in are barriers to such reforms. By his use of such practices Mr Gupta, the so-called "saviour of steel" is creating uncertainties that further undermine the long term viability of the steel industry in the UK.** (Paragraph 79)

22. ***We recommend that the Financial Conduct Authority and HM Treasury investigate the use of, and accounting rules for, future or prospective receivables.*** (Paragraph 80)

23. **GFG Alliance's reported engagement in circular trading, or REPO structures, exacerbated a concentration risk to Greensill Capital by raising large amounts of working capital against invoices created to raise finance instead of selling steel to genuine customers.** (Paragraph 86)

24. **We did not receive evidence that the use of circular trading between companies is a systemic issue, but note the potential criminal liability associated with the worst examples of financial engineering between businesses. Despite repeated reassurances from GFG Alliance, we remain unconvinced by Sanjeev Gupta's attempts to restructure and re-finance his businesses. We are not satisfied that Sanjeev Gupta is adequately addressing the many fundamental issues and concerns associated with the corporate governance, leadership, transparency, funding and operations of his businesses and remained concerned that this poses a threat to the long-term prospects of Liberty Steel UK.** (Paragraph 87)

25. The International Accounting Standards Board (IASB) has an active project on its agenda in respect of supply chain finance (reverse factoring) arrangements. On 26 November 2021, the IASB issued an Exposure Draft which proposed amendments to IAS: 7 Statement of Cash Flows and IFRS: 7 Financial Instrument Disclosures.

26. The proposed amendments include a requirement to disclose information about supplier finance arrangements that enable a user of the financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows, disclosure of the terms and conditions of each supplier finance arrangement and, for each arrangement, the carrying amounts of financial liabilities and ranges of payment dates.

27. The Government welcomes these proposals, however any formal endorsement of the standards will be undertaken by the UK Endorsement Board, the independent body which considers whether international accounting standards should be adopted for use in the UK. Should the exposure draft be issued as an amendment, the UK Endorsement Board will consider whether to adopt the amendment for use in the UK under its normal processes.

28. The Financial Reporting Council will also, as part of its regular reviews of UK GAAP, consider whether these amendments should be reflected in UK GAAP, again, under its normal processes.

29. The Government will continue to closely monitor Liberty Steel UK's restructuring and refinancing efforts, whilst continuing to engage with representatives of the company and trade unions.

Coronavirus Large Business Interruption Loans Scheme

30. **We note that concerns were raised by HM Treasury and shared with BEIS about GFG Alliance and Wyelands Bank during the accreditation process of Greensill Capital to the CLBIL scheme.** (Paragraph 102)

31. **We recognise that the subsequent level of interest from the BEIS Department about the accreditation of Greensill Capital was "unusual" but we are confident that this did not impact the approval process and the British Business Bank's decision remained independent. Given the potential impact of the financial position of Greensill Capital on Liberty Steel's UK operations, we acknowledge the due diligence of both the Secretary of State and his officials in monitoring the accreditation process closely was entirely proper.** (Paragraph 103)

32. **However, the collapse of Greensill Capital and its impact on Liberty Steel UK highlights the fragility of the sector in the UK more generally and raises far reaching and fundamental questions for the Government to consider in terms of how it should work with the industry to secure a sustainable, long-term future.** (Paragraph 104)

33. We welcome the Committee's acknowledgment that BEIS acted properly in this matter, and that the British Business Bank rightly operated independently and made decisions in accordance with its own procedures and practices.

34. As the Business Secretary highlighted during his evidence in July, the Government continues to engage extensively with the sector on developing a long-term sustainable approach, which addresses competitiveness and decarbonisation.

35. The Steel Council which was reconstituted in March 2021 met 4 times last year as part of the ongoing and regular engagement with the steel sector, the Steel Council offers a forum for government, industry and trade unions to work in partnership 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 next meeting of the Council will be scheduled for early this year.

36. The Business Secretary has always been clear that the Government recognises the national importance of steel and that it is a strategic industry feeding into many areas of the economy. With our net zero commitments and Plan for Growth the steel sector's future must be a green one, which is why the Government's focus is decarbonisation.

Electricity prices

37. **High electricity prices are hindering the ability of UK steel producers to compete on the international market and are a deterrent to inward investment. If the Government is serious about decarbonising the steel industry, it must first recognise the severity of the challenge energy prices pose to steel companies in achieving the transition to net zero and take action to reduce these costs.** (Paragraph 115)

38. **UK steel producers were already facing some of the highest electricity prices in Europe prior to recent rises in the wholesale price of gas. Soaring gas prices have since transformed what was a long-standing problem into an immediate crisis. We urge the Government to support UK steel producers but note that short-term bailouts must not be at the expense of a longer-term strategy to secure a level playing field for UK steel producers with their European counterparts.** (Paragraph 119)

39. **We recognise that decisions on how and whether to compensate industry for the costs of electricity will, by necessity, have implications for consumers and other network users. However, it is clear that current electricity costs for UK steel producers**

are unsustainable. Compensation provided by the Government to the UK steel industry to date has fallen far short of the support offered to their competitors and has not translated into a meaningful reduction in the price disparity. Energy policy costs have been brought down but remain twice as high as those in France and Germany while network costs are almost ten times as high. Further support from the UK Government will be needed if the UK steel industry is to compete on a level playing field and attract investment. This issue will only become more urgent as the industry moves to decarbonise and the sector's demand for electricity rises accordingly. (Paragraph 125)

40. ***If additional support is not forthcoming, high electricity prices will continue to have a pernicious effect on the UK steel industry, resulting in long-term decline and future crises. The Government should set out, following a consultation with industry, what support it will offer beyond the current compensation scheme to reduce the cost of electricity for UK steel producers and bring them in line with those of their competitors. At a minimum, the price disparity should be brought down to within £1/MWh of the total cost faced by key competitors in France and Germany and the Government should track any disparity going forward to ensure it does not widen again.*** (Paragraph 126)

41. **When implemented, the Targeted Charging Review has the potential to burden UK steel producers with costs exceeding relief provided to the sector as an energy intensive industry. We note that despite this decision having a potentially significant impact on UK steel producers it has been left entirely to Ofgem without the opportunity for the Government to intervene.** (Paragraph 131)

42. ***Given that UK steel producers are already facing some of the highest electricity prices in Europe and that demand for electricity will only increase as the sector decarbonises, the Government should exempt the steel sector from increased costs arising from Targeted Charging Review reforms.*** (Paragraph 132)

43. We recognise this is a worrying time for businesses facing pressures due to the significant increases in global gas prices, and the subsequent increases in electricity prices. Extensive engagement with industry continues across Government at both a ministerial and official level.

44. We are determined to secure a competitive future for our energy intensive industries and in recent years have provided them with extensive support, including more than £2 billion to help with the costs of electricity and to protect jobs, including over £600 million in relief for electricity costs to the steel sector since 2013.

45. Funding for the indirect costs of the carbon pricing relief scheme has been secured to extend the schemes for a further year to cover financial year 2021/22 as part of the Government's 2020 Spending Review.

46. We held a consultation on the future of the Energy Intensive Industries (EII) compensation schemes for the indirect emission cost due to the UK Emissions Trading Scheme (ETS) and carbon price support mechanism which closed on 9 August and officials are now analysing responses.

47. We have also introduced a metallurgical exemption from the climate change levy. France and Germany have taken similar steps. Our exposure to volatile global gas prices underscores the importance of our plan to build a strong, home-grown renewable energy sector to further reduce our reliance on fossil fuels.

48. A key factor in our energy costs being higher than European competitors is our energy mix. Our exposure to volatile global gas prices underscores the importance of our plan to build a strong, home-grown, low carbon energy sector to further reduce our reliance on fossil fuels.

49. In addition to the measures above, the Government has also established various funds to support businesses with high energy use to cut their bills and reduce their carbon emissions, including the £315 million Industrial Energy Transformation Fund. The first round of winners for Phase 1 included Celsa Steel, winning a £3 million grant to improve energy efficiency.

50. Ofgem have published their research on electricity prices for energy intensive industries in the UK, including network costs (www.ofgem.gov.uk/publications/research-gb-electricity-prices-energy-intensive-industries). This work contributed to HMT's Net Zero Review. The Review's final report was published in October 2021 and focused on the potential exposure of households and sectors to the transition.

51. Ofgem, as the energy market regulator, is independent from Government and decisions on network charges, such as the Target Charging Review, are for it to make. Ofgem operates in a statutory framework set by Parliament.

Public Procurement

52. **Despite advances made since the publication of the Procurement Policy Note in 2015, UK steel producers are still encountering challenges when competing for and securing public contracts. Much of this is due to an opaque and informal approach taken to steel procurement by contracting authorities and action is needed from the Government to make this process more transparent. Furthermore, a lack of transparency in steel supply chains together with an absence of explicit guidance on how social and environmental considerations should be applied has meant that broader objectives are being missed. Public procurement of steel has the potential to deliver wider benefits and further action is needed to ensure that the full value offered by UK steel producers is taken into account when supplying steel into public projects.** (Paragraph 141)

53. ***To ensure full transparency, the Procurement Policy Note (PPN) on steel procurement in major projects should be updated to include a requirement for contracting authorities to provide supply chain plans and publicise supply opportunities for UK steel producers. The Government should also publish updated guidance on how social and environmental considerations should be made in relation to steel purchases to ensure these are taken into account by contracting authorities.*** (Paragraph 142)

54. **High-quality data will be essential for monitoring and improving compliance with steel procurement policy. However, this data is currently incomplete with only partial data being reported by Government Departments and Arm's Length Bodies.**

We welcome the work of the Steel Procurement Taskforce in working to improve the quality of this data. However, at the very least, all Government projects should be fully reporting on the value and origin of their steel requirements. (Paragraph 146)

55. ***A requirement should be set for all Government projects, including steel contracts awarded by the Contracts for Difference scheme and Highways England, to fully report on the value and origin of their steel requirements.*** (Paragraph 147)

56. ***Decisive action should be taken to ensure that UK steel producers do not miss out on the Government's ambitious infrastructure programme. Setting minimum UK steel content targets for major public projects would serve as an important first step to improving opportunities for UK steel producers. The Government should introduce minimum UK steel content targets for major public projects, starting with High Speed 2.*** (Paragraph 1)

57. Since leaving the EU the Government has initiated a review of our public procurement rules with the aim of speeding up and simplifying our processes, placing value for money at their heart, and unleashing opportunities for innovation. In September 2020, we launched our Social Value Model which requires central government departments to expressly evaluate the environmental, social and economic benefits of qualifying procurements.

58. We note the points made by the Committee on steel procurement and these are under active consideration by the Steel Procurement Taskforce (launched in March 2021). This Taskforce brings together Government Departments with the steel sector to explore the difficulties the UK steel sector have reported in competing for and securing major public contracts. The Taskforce is looking at topics such as supply chain transparency, updating the Procurement Policy Note on steel procurement in major projects, and improving the robustness of public procurement data and is expected to report on its findings early in 2022.

59. In the meantime, we are working to make improvements to the data reported in the annual steel pipeline, which details upcoming steel requirements for Government infrastructure projects to enable steel manufacturers to better plan and bid for contracts.

60. We are also publishing annual self-declared information from departments and their arm's-length bodies on how much steel they have procured for their public projects over the last financial year (including what proportion is UK produced) and how they have applied the steel procurement guidance set out in the Government's current Procurement Policy Note: Procuring Steel in Major Projects (PPN 11/16): www.gov.uk/government/publications/procurement-policy-note-1116-procuring-steel-in-major-projects-revised-guidance.

61. The data collection process involves a large data gathering exercise through multiple layers of contractors and subcontractors. We are committed to working with departments and their arm's-length bodies to continue to improve the robustness of data and simplify the data collection process in the coming years.

62. Whilst the National Highways provided a 'nil return' last year while they reviewed their steel data collection process, they have committed to providing their procurement data for 2022 publication.

63. The Contracts for Difference (CfD) scheme supports low-carbon electricity generation by providing developers with the certainty they need to invest in new projects. CfDs are not public contracts and so CfD projects have not been included in the Government's annual publication of publicly procured steel to date. The Government will consider whether it is feasible and appropriate to gather annual figures of UK steel used in low carbon infrastructure projects.

64. The UK is a champion of free and fair trade across the globe. We are party to the World Trade Organisation's plurilateral Agreement on Government Procurement (GPA), which involves most of the world's major economies including the UK, EU, the US, Japan and South Korea. The Agreement essentially commits its signatory parties to guaranteeing fair and transparent public procurements and to treat suppliers from fellow GPA countries in the same manner as domestic suppliers for all covered procurements. Setting UK targets for major procurement projects or any measures which favour, or indirectly discriminate in favour of, UK products or suppliers constitutes a breach of the UK's international obligations under the GPA.

Trade

65. **Given that global steel markets continue to be heavily distorted by state subsidisation and that the EU and the US continue to apply tariffs on imported steel, the UK requires a response from Government regarding potential trade divergence towards UK markets and significant injury to UK steel producers.** (Paragraph 158)

66. **We share the concerns expressed to us that the Trade Remedies Authority's recommendation to revoke safeguards on nine categories of steel imports was not based on an open dialogue with industry and had therefore missed the wider impact its decision would have had on UK steel producers. These concerns also appear to be shared by the UK Government as demonstrated by its decision to overrule the Trade Remedies Authority's recommendation and grant industry more time to appeal its decision. A two-way dialogue with industry must inform future recommendations by the Trade Remedies Authority and we welcome the opportunity given to both parties to do so.** (Paragraph 165)

67. The UK has long been a champion of the rules-based international trading system, and we share the Select Committee's concern about the distortion of global steel markets, including through illegal subsidies and protectionist measures overseas.

68. For this reason, the Government established the Trade Remedies Authority (TRA) to investigate any injury caused by unfair trading practices and unexpected import surges and make recommendations to Government. The UK's regime seeks to provide robust protections where they are needed and to restore a fair playing field for business without imposing unnecessary costs on downstream users and consumers.

69. Trade remedy measures are a key part of making sure this system works effectively. In June 2021 the Government committed itself to a review of the trade remedy framework, to ensure it is up-to-date, champions WTO rules and is fit for purpose. We will continue to work with the TRA to ensure that our trade remedy measures and procedures are appropriate and there is effective engagement between industry and the TRA.

70. The Government recognises that the sector remains concerned and disappointed with the US's continued imposition of the Section 232 tariffs on steel and aluminium products; we have always been clear that the US Section 232 tariffs are unjustified. The UK accounts for less than 1% of US steel and aluminium imports in volume terms. We do not believe that UK imports threaten the viability or "national security" of the US steel or aluminium industries. For that reason, the Government has repeatedly pushed the US to negotiate a deal with the UK. This includes during the Secretary of State for International Trade's December visit to the US with both the Trade Representative, Katherine Tai, and the Secretary of Commerce, Gina Raimondo. Following this visit, the Secretary of State for International Trade invited the Secretary of Commerce to London for talks this month to progress this key issue. Until a deal is agreed, the UK will continue to apply rebalancing measures–they are only necessary as a result of the US Section 232 tariffs. The Government will also take into account progress towards a deal on the US Section 232 tariffs in our response to the rebalancing measures consultation. We expect to issue a response to the consultation soon.

71. More widely, we are also working with like-minded Governments internationally on the issue of excess capacity, which is a global challenge that requires a global solution.

Decarbonisation

72. **There is a clear lack of direction with respect to the future of the nation's blast furnaces both within the Government and in industry. A range of options exist for the decarbonisation of primary steelmaking, including carbon capture and storage (CCS), hydrogen, or a mixture of technologies running in parallel. It will ultimately be for the sector and each individual business, with its own unique sites and products, to work out which technology is optimal for them. However, to enable these decisions industry requires certainty from Government on infrastructure and wider system changes.** (Paragraph 175)

73. **We found broad agreement that the UK should retain a primary steelmaking capacity rather than push its emissions and business abroad, a point recognised in the Government's own Industrial Decarbonisation Strategy. However, if the Government is serious about its emissions targets and given that the nation's blast furnaces will soon need to be replaced, if the UK is to retain its primary steelmaking capacity then key decisions and certainty are needed imminently. The Government's Industrial Decarbonisation strategy has so far failed to provide this certainty and the Government must step up its efforts to provide industry with direction and a supportive policy environment to enable it to transition to a low carbon future.** (Paragraph 176)

74. **We identified enthusiasm from many witnesses for the use of hydrogen direct reduced iron as a technology well-suited to decarbonising the UK steel industry. However, as with other potential solutions, it is a technology that remains untested at scale. A pilot of hydrogen-based steel production in the UK would help to inform future decisions on decarbonisation; create initial capability; develop UK-based expertise; and facilitate a switch to hydrogen once the technology is proven.** (Paragraph 185)

75. ***The Government should commit to a pilot of hydrogen-based steel production in the UK as part of its industrial decarbonisation strategy. Funding for the project should be sought in partnership with interested steel businesses or backed in part by the Clean***

Steel Fund. The Government should further consult on the most appropriate location for the pilot which would deliver the widest benefit for industry as a whole. (Paragraph 186)

76. **Previously used steel, also known as scrap, will play a central role in efforts to decarbonise the UK steel industry. The high availability of scrap in the UK represents a valuable resource which is under-utilised, and a range of measures will be needed to ensure that the recycling of scrap is a more attractive option for UK steel producers than exporting it abroad for others to recycle. We welcome the work of the UK Steel Council in attempting to find solutions to this issue and call on Ministers from both the Department for Business, Energy and Industrial Strategy and the Department for Environment, Food and Rural Affairs (with respect to waste policy) to work with the Council to optimise steel recycling in the UK.** (Paragraph 191)

77. We are working with the sector to better understand their decarbonisation investment plans. These plans may include switching to Electric Arc Furnace (EAF) production methods, carbon capture, usage and storage (CCUS) on existing blast furnaces, hydrogen steelmaking, or other decarbonisation activities.

78. It is important that we work with industry to understand the commercial decisions they will be taking for the future of sites so that any potential Government support is utilised as effectively as possible. The optimum decarbonisation route for each site will be different and, which route is best is a commercial decision for the companies operating these sites.

79. The Net Zero Strategy, published in October, outlines all existing and new support available for industrial decarbonisation projects, for which the steel sector will be able to bid.

80. Further to the Net Zero Strategy, our work on growing the circular economy has focused attention on how the steel scrap market contributes to our ambitions, both on resource efficiency and the decarbonisation agenda. We look forward to working closely with both the steel and scrap sectors to find mutually beneficial solutions in this area.

The future of the UK steel industry

81. **Many of the challenges facing the UK steel industry today are long-running and have led to crises in the past. Without fundamental reform of energy pricing and a clear decarbonisation strategy, the sector will fail to attract much needed investment and continue on a path of accelerating decline. The Government's rhetoric on the strategic importance of the sector must be matched by supportive policy.** (Paragraph 196)

82. **A successful transition to net zero will be dependent on addressing the wider challenges and opportunities facing the UK steel industry. These issues will need to be tackled as part of a broader, strategic approach to decarbonisation.** (Paragraph 199)

83. **The steel industry has faced a number of crises in recent years but action to support the sector has been taken on a mostly ad hoc, reactive basis. The sector cannot continue to lurch from crisis to crisis and action is needed now if the UK is to retain a resilient and competitive domestic industry. Decarbonisation presents a unique opportunity to**

realign the sector but this will require a comprehensive, joined up policy framework to remove barriers to transformation and enable critical investment decisions. (Paragraph 208)

84. ***We call on Ministers to establish a new Sector Deal for the steel industry. The Sector Deal should address long-running challenges to the sector's competitiveness as part of a cohesive plan for decarbonising the industry. It should set out a range of supportive policies to assist this transition and a clear roadmap for how the industry will decarbonise in line with the Government's target to cut emissions by 78% by 2035 and reach net zero by 2050. This Sector Deal should be developed in response to the Steel Council's report later this year and announced no later than Summer 2022.*** (Paragraph 209)

85. The Government recognises the importance of the steel sector, and the vital role it plays in the UK economy and in local communities.

86. As the Business Secretary set out in his evidence to the Committee in July, decarbonised steel production is the future of the sector. The Government is working closely with the sector, including through the Steel Council, to explore their decarbonisation plans and support a more sustainable future.

87. We will continue our ongoing work with the Steel Council, the Steel Procurement Taskforce and across the wider policy space. We look forward to seeing the report from the UK Steel Council and will carefully consider its recommendations.

88. Finally, the Government would like to express its thanks to all members of the Steel Council for working together on the important topic of decarbonisation, including on considerations around an enabling policy landscape. The Business Secretary has been clear in his view that it is of strategic importance for the UK to retain a primary and 'green' steelmaking capacity.