

Written evidence submitted by GFG Alliance (PEG0097)

Ref: Post-Pandemic Economic Growth inquiry: Call for Evidence

Thank you for the opportunity to respond to your consultation. This is a GFG Alliance group response, covering its three core industrial pillars in the UK: LIBERTY Steel Group, ALVANCE Aluminium Group and SIMEC Energy Group. Headquartered in London, GFG has over 40 businesses in the UK, situated across more than 30 sites in England, Scotland and Wales, employing c.5,500 people. This includes 14 steel businesses, 17 engineering businesses, the UK's only aluminium smelter and several low carbon power generation assets. We bring a broad perspective to the issues raised in the consultation, as we look to create an economically sustainable business model for our industries which is profitable for the long-term, allows for socially sustainable development in local communities and is carbon neutral - all priorities we share with Government.

GFG Alliance is an alliance of global businesses, independent of each other yet united through ownership by the Gupta family, and shared values with a commitment to build a new sustainable industrial ecosystem for the 21st century.

What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?

Government has a vital role to play in kick-starting the economy, bringing forth a package of economic stimulus messages to drive demand from consumers and markets to get the British economy moving again. Some of this may require new spending commitments, but much will be about accelerating existing commitments, for example on infrastructure. In providing this stimulus, however, there are non-financial measures the government can consider to maximise the value of taxpayer investment – both in terms of creating jobs and boosting economic activity across the country but also in building resilience for the future. It is essential that any economic stimulus plan is used to deliver against pre-existing objectives – supporting, protecting and creating British jobs and working towards the UK's climate change objectives.

Prior to the pandemic, the Government set out a series of bold ambitions for the UK: bringing forth an infrastructure revolution, leading the world in delivering a zero-carbon economy, and a commitment to levelling up the UK.

The Government's recovery strategy should continue to advocate these aims and objectives, using the crisis as a means and a motivation to progress and deliver against them. It should also be the catalyst for a more targeted programme of investment and a revitalised industrial strategy that is underpinned by support for key sectors of the economy, including steel and manufacturing.

Whether the government should give a higher priority to environmental goals in future support?

Today, manufacturing steel and aluminium accounts for around 10% of all the world's direct emissions from use of fossil fuels; as an industry, we are stepping up to the challenge to reduce and mitigate this impact. And we have already successfully decoupled growth and emissions, demonstrating that the industry can deliver more while driving down carbon emissions.

GFG ALLIANCE

7 Hertford Street, Mayfair
London, W1J 7RH, United Kingdom

Registered office: GFG Alliance Ltd, 7 Hertford Street
London, W1J 7RH, United Kingdom.
Registered in England and Wales No: 10903832

T: +44 (0) 203 205 8550
E: contactus@gfgalliance.com
gfgalliance.com

GFG see a route to an economically and environmentally sustainable, technology led, manufacturing sector. The steel industry, which underpins the UK's world leading aerospace and automotive sectors as well as the foundation of UK construction and infrastructure, is capable of competing globally, anchoring advanced manufacturing supply chains in the UK, and providing lasting jobs for industrial communities.

At the heart of our group's mission will be an ambition to build on GFG's existing GREENSTEEL strategy to aim for net carbon neutral status by 2030, which will put the group on the pathway to becoming the first carbon neutral steel company in the world.

This strategy will encompass a balanced model, rather than a one-size-fits-all approach. It will aim to tackle emissions at GFG sites by exploring current and new technologies such as Direct Reduced Iron using hydrogen, explore the use of hydrogen for primary steel making, carbon capture and storage, and various forms of renewable energy.

However, these are nascent, immature technologies and will not be at commercial scale quickly enough for the UK to reach its legally binding target to be net-zero by 2050. In order to achieve this, the UK must fully explore options to transition the UK's remaining blast furnaces to electric arc furnaces (EAFs) over time, whilst also investing in new EAFs. These are significant investments that, through partnership between the private and public sector, will create a competitive advantage and steal a march on our peers in Europe and around the world.

Our approach is GREENSTEEL which combines renewable power with Electric Arc Furnaces (EAFs) that recycle steel scrap. The model reduces costs, creates flexibility to better withstand market cycles, gives us an advantage in our markets and reduces emissions from steel making process, producing less than one quarter of the CO₂ as using iron ore through blast furnaces. This approach is perfect for the UK with huge amounts of surplus scrap and an increasingly decarbonised power network.

A responsible UK decarbonisation policy must take ownership not just for the emissions we produce within our borders but also those related to the huge volumes of goods we import each year. One way to do this is to support and invest in low-carbon steel production here in the UK, substituting imports with domestic products in UK supply chains. A globally competitive UK steel sector will help government to tackle global carbon emissions and ensures the UK is a leader in climate action.

Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?

The steel and aluminium industries have played an important and active role in the COVID-19 national effort to date. Donating PPE to local hospitals and care providers, supplying the materials for critical applications including hospital beds, scalpels, and food packaging.

This is as well as continuing to provide materials into our many supply chains in construction and manufacturing which are the engine of the British economy.

The pandemic and our response to it has highlighted some of the limitations of an over-reliance on global supply chains and the need for a resilient domestic industrial sector. There is recognition of the enduring importance of the physical manufacture and supply of goods even in an increasingly modern and service-based economy like the UK, and as the Government designs its economic response it should look to ensure that these foundation industries are central.

The steel sector is a powerful tool for recovery – the Government can look to us to both stimulate economic growth and ensure it is felt in those parts of the country where it is needed most, those critical to the success of the Government’s levelling up agenda.

The crisis has highlighted how the role Government can and must take in response to this unprecedented crisis. Government must evolve to a more proactive approach to deliver new markets for UK products and stimulate demand across the economy. Our European neighbours have been able to navigate state aid rules whilst operating within the EU framework and as we leave the single market and customs union, it is vital that Government actively supports foundation and strategic industries such as steel that directly feed into our world leading automotive, aerospace and renewable energy sectors.

There poses a particular threat to the aerospace sector post-COVID and this must be protected against at all costs. Liberty are a major supplier to the sector in the UK and as a high-value and technically demanding industry that anchors skills domestically, it is of great strategic significance. So good is the control of the process that aircraft undercarriages are made from scrap steel which is recycled at our EAF furnace in Rotherham. The UK is truly a world leader in this field, with every three seconds, a civil aircraft with an undercarriage made from steel lands around the world.

This show of support would not only be symbolically important, but it would also generate £1 billion in additional value to the UK economy and help provide high skilled, well-paid jobs in steelmaking areas that have been undervalued for generations.

For every tonne of UK steel produced, £880 is added to the UK economy. For every 1,000 tonnes produced each year 10 jobs in total are created/protected. This translates into 32,600 high skilled, high paying jobs in places like Wales, Yorkshire and Humberside, plus over 40,000 more supported in supply chains. The sector makes a £2.8 billion contribution to the UK economy, growing to £6.4 billion when our supply chain impact is included.

How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?

A strong steel sector is essential to a strong UK manufacturing base and the delivery of the UK’s industrial strategy. It boosts innovation across high value supply chains, serves as a testbed for the UK’s world-class universities and feeds a pipeline of highly skilled talent that benefits the entire economy.

Critically, it serves as a hub for industrial clustering and the type of industrial cooperation that Government already recognises as essential for the UK in meeting its ambitious climate targets.

GFG anchor skills and innovation here in the UK, further enhancing the long-term resilience and success of the sectors we feed into, including aerospace and automotive manufacturing. We can be central to an industrial revival that can rebalance the UK’s economy and provide high quality, sustainable jobs in the industrial heartlands of the UK. Our sites are predominantly based in the regions of the country Government is seeking to level-up.

One of our proposed investments, in Newport, would be a world-leading project capable of delivering steel manufacturing in a low carbon world. GFG plan to implement state of the art Electric Arc Furnace technology to process scrap steel from a neighbouring processing plant to produce sustainable, low-carbon steel.

This in turn would be fed power by direct line by the newly converted Uskmouth Power Station, a 220MW plant fuelled by Subcoal pellets, which are 50% biogenic materials and 50% non-recyclable

plastic produced from raw waste streams. The pellets burn as clean as natural gas, with much lower emissions than traditional coal. Our strategy in Newport will see us invest in targeting reductions of sources responsible for contributing 65% of global CO₂ emissions. It would make Newport both the headquarters and a global hub of innovation and design for this exportable technology that we believe will ultimately determine the future economic viability of the wider industry.

With a long history of successful innovation in materials and materials processing technologies, the UK has a significant advantage in developing technologies for high-quality, high volume production from scrap to allow much more complete substitution with primary steel.

There is a clear opportunity for technology innovation in this space that has not previously been exploited because steel scrap supplies have to date been completely absorbed by the lowest grade product and almost exclusively exported rather than becoming viable feedstock for sustainable steel production. The Government should therefore be exploring ways to incentivise domestic scrap recycling and improving scrap refining processes, which would deliver a significant competitive advantage over our European neighbours.

Is the Industrial Strategy still a relevant and appropriate vehicle through which to deliver post pandemic growth?

The Industrial Strategy was established to boost productivity by backing businesses to create good jobs and increase the earning power of people throughout the UK with investment in skills, industries and infrastructure.

GFG remain wholly supportive of this ambition. However, in order to deliver on this ambition, the private sector needs Government to stand by our side to create the right conditions for success. Our foundation industries have suffered from long-standing disinterest from successive governments, a short-term approach by financial markets and a lack of fresh thinking from owners. This has led to a situation today, where many of the UK's manufacturing assets are subscale, antiquated, and hugely carbon intensive.

To turn this around a bold approach is required from industry and government that will mean tough and sometimes difficult actions to stabilise, restore and revive these industries. We welcome the work Government has done to deliver on its Industry Strategy but as a priority call on them to reengage with UK Steel on a renewed Steel Sector Deal that can deliver for industrial communities throughout the UK. Such a deal should include commitments to explore investment in new technology and EAFs; incentives for domestic recycling and scrap retention; an evaluation of energy pricing and renewable energy production to support heavy industry; tackle soaring business rates in the sector and strengthen government issued steel procurement guidelines and their reporting mechanisms.

What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the 'levelling up' agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?

Steel producers stand ready to invest and innovate here in the UK – all we require from Government is a partner that shares our vision for the future and can help deliver the right foundations for success.

Steel provides the high-quality materials vital to address an array of challenges. From delivering the Government's infrastructure revolution to creating a low carbon economy, steel is an essential component. Decarbonisation and clean energy must play a central role in any future economic

stimulus package and is key to creating a long-term, sustainable future for the steel industry in the UK. The recovery provides the perfect opportunity for partnership with the industry, which remains one of the highest emitting and hard to abate sectors, to transform to a model that can deliver both an economically and environmentally sustainable future.

Steel production currently accounts for 8% of carbon emissions in the UK. GREENSTEEL can reduce this to almost nothing, acting as a catalyst for the wider industry and make the UK a global leader in industrial decarbonisation. GFG are investing in major renewables projects throughout the UK, including a windfarm in Glenshero and the conversion of Uskmouth Power Station to pelletised waste, to contribute to UK renewable energy targets but also to directly support GREENSTEEL processes.

The UK has already been significant progress in decarbonising our sources of power due to its active policies on climate change and already has a comparably low emissions electricity grid, with potential for further improvement. This improvement would be very easy to achieve if the decision were taken to liberalise technology restrictions at the next round of CfD auctions so that they include onshore wind and solar. This will reduce the overall cost of decarbonisation by making some of the cheapest low carbon technologies financeable.

Recycling steel in the UK today leads to a reduction in emissions of more than two-thirds compared to global average primary steel. This benefit will increase with more renewable generation capacity and will be strategically important as global pressure to mitigate climate change increases. Steel also directly feeds into a number of downstream sectors that the UK is a world-leader in including aerospace, automotive and renewable energy.

As a foundation sector, steel is a vital component of these critical sectors. We are both reliant upon and fundamental to their success. Steel producers provide the very materials that enable these sectors to function and grow, and in providing a reliable, and adaptable domestic source of steel, we shorten and strengthen the UK's manufacturing and construction supply chains.

As a sector predominated by large companies, we anchor skills and innovation here in the UK, further enhancing the long-term resilience and success of the sectors we feed into.

What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises)?

The importance of foundation industries like steel and aluminium to the economic revival that will be needed once the current crisis facing us has settled down is undeniable.

Government rightly stated in their Clean Steel Fund consultation in November 2019 that 'steel is a strategically important industry for the UK and can be an important part of our clean growth story'. We fully support this position and call for government to play a central role in "repatriating" key manufacturing capabilities such as steel as part of a new national resilience. In doing so, government and industry in partnership can realise this once-in-a-generation opportunity to restore the fortunes of manufacturing in the UK and invest in low carbon, green technology.

The continued disruption to international industrial supply chains from COVID-19 has highlighted the need for a larger, more resilient UK-based supply chain for components. Steel as foundation industry is at the heart of these supply chains and needs a proactive industrial policy to strengthen after generations of decline.

UK Government has announced a budget of £640bn for infrastructure over the next 5 years and this provides the perfect opportunity for partnership, with public spending to boost the economy, deliver GVA, growth and jobs throughout the country. Industry is looking for a culture change in procurement, bringing it into line with our European neighbours, which would include making clear commitments to UK-originating content and UK standards as a minimum.

The need for government to intervene to support the “repatriation” of key manufacturing capabilities such as steel as part of a new national resilience framework is clear. GFG echo the sector’s demands that domestic steel be used to deliver on the pipeline of infrastructure projects planned in the coming years, most notably HS2.

HS2 is a huge opportunity to roll out a new approach, back British manufacturing, and the industrial heartlands of the UK. Using steel from the UK will spread the economic, social and environmental benefits of HS beyond the route and with Phase 1 projected to use 1.3MT of steel, more than 90% of this steel can and should be sourced from the UK.

And we know that the industry can respond dynamically to meet this demand. At our own sites in Rotherham, we are investing in our facilities to enable production of rebar, an essential component for HS2 and the construction sector. More than 50% of rebar used in UK projects is currently imported – we aim to substitute those imports with high-quality, competitive British content, providing choice in the market and delivering wider benefits to the UK economy for taxpayer’s money

In taking this more strategic approach to procurement, the Government must take the opportunity to use this recovery and the committed spend on public infrastructure projects to start to deliver a levelling up agenda, ensuring that the public sector buys British.

What opportunities exist for the UK economy post Brexit and the pandemic for export growth?

If we can ensure a level playing field for industry in the UK, it can prosper on the global market.

The UK’s electricity prices for large industrial energy users are higher than in any EU country. In 2018/19 UK steel producers paid 51% more than German producers and 110% more than French producers, even after the compensation and exemption schemes already provided by the Government.

This amounts to a £55 million/year additional expense for the UK steel sector, this not only reduces our immediate competitiveness in global markets but also undermines the case for investment in the UK and erodes our long term competitiveness and ability to remain at the cutting edge of steel making.

The UK steel sector survives and thrives on the basis of free trade – exporting almost 50% of its production each year. Some 90% of this goes to three major markets – the EU (2.5 million tonnes), the US (350,000 tonnes) and Turkey (300,000 tonnes).

Maintaining tariff free trade (or regaining, in the case of the US) and as frictionless as possible trade with these markets is critical to the future health of UK steel companies and their ability to recover and rebuild after COVID-19.

A comprehensive trade agreement with the EU is the number one free trade agreement priority for GFG and other UK steel producers. The EU is by far the largest export market for UK steel companies (70% of exports/30% of production) and their UK based customers in the manufacturing sector.

The UK must look to capitalise on the opportunities from a green economic rescue following the impact of COVID-19 and this offers us a once-in-a-lifetime opportunity to truly become world leaders in the push to a zero-carbon future.

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