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A just transition

Preserving the British steel industry and protecting the climate: Will the new Labour government succeed in squaring the circle?

The United Kingdom is on the precipice of a very exciting era. After more than 150 years, the country that triggered the industrial revolution with the advent of coal is closing down its last remaining coal plant in 2024. After a steady increase in use for over a century, the decline came rapidly with a mix of carbon taxes and renewable energy finally driving this dirty source of energy out of the system, likely forever. Whilst this outcome is to be celebrated widely, the country also has an uncomfortable history in the way previous governments have dealt with the hundreds and thousands of workers that sustained the UK's coal industry. The infamous miners strikes under the Thatcher government 40 years ago have left deep scars in former coal communities that can still be felt today. It was a quintessential example of how a transition was poorly managed and how it underpinned the political economy viewpoints of an entire generation.

Today, as the country sets its path for a transition to net zero, remnants of the past are emerging again. In particular, the site of the Port Talbot steelworks in Wales is contested — where the future of UK's steel manufacturing is being decided. Owned by the Indian conglomerate TATA, the future of Port Talbot steel is a bellwether of the UK's fledgling attempts at an industrial strategy. The company, with a generous £500 million grant from the previous Conservative government, is committed to transition the steelworks from burning coking coal to using electric arc furnaces, and processing scrap steel instead of iron ore.

The result is a significant cut to the workforce with almost 3000 workers, out of a total of 8000, losing their jobs this year and potentially more in the future. TATA has claimed that running the huge blast furnaces was losing £1 million every day and it wants to support the UK's transition to net zero. The Unions have understandably pushed back and proposed their own worker-led plans for transition. Amidst this tussle is the new Labour government, fresh off winning a landslide election - it has

promised to immediately renegotiate a new deal with TATA that secures the jobs at Port Talbot without undermining the transition. If it is successful, it will set an immensely important precedent for other sectors in the economy that will face significant disruption in the coming years.

A competitive edge

The situation raises three interesting challenges for the new business minister, Jonathan Reynolds, who is in charge of the negotiations. The first is to follow through on his commitment that the workforce will be protected, by a 'jobs guarantee' through an injection of £2.5 billion in additional grant support. The second is to ensure the functioning of a competitive business and the third is to not jeopardise the net zero transition. These challenges are interlinked. Legitimate concerns exist that sustaining the production of primary steel through public grants could only artificially prop up an industry that remains uncompetitive against the likes of Sweden, Spain or the US. Concurrently, the union proposal, which seeks an extension of the units running the blast furnace, potentially undermines the urgency of the climate transition.

Squaring this circle requires a clear industrial strategy that exploits the UK's competitive advantages and secures a long-term market for green steel. Domestically, Britain needs a lot of steel - a quarter more than it does today, within this decade. This is largely driven by demands of new renewable energy infrastructure. But serving this demand competitively will require some degree of matching support that steel production receives in other countries such as the Inflation Reduction Act in the US. Some have argued that nationalising the steel industry would more effectively allow the country to develop an industrial strategy that is not beholden to the decisions of private firms. But this is not a cost-free option either and the Labour party's self-imposed fiscal constraints makes this scenario less palatable today.

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But to get the economics right, policy levers need to be aligned. A robust Carbon Border Adjustment Mechanism (CBAM) that prevents carbon leakage; capital subsidies or tax credits to incentivise private investment in new infrastructure; long term clean power contracts for cheap electricity and offtake agreements from public and private buyers that can reduce the cost of capital - such demand and supply side levers will be crucial in transforming the UK steel industry. The US and EU are already deploying these levers to initiate a wave of green

steel projects before 2030, potentially edging out the UK competitively.

If the UK has any competitive advantage, it is the fact that the country generates a lot of scrap steel and existing sites already have the ancillary infrastructure like grid connections. Electric Arc Furnaces (EAFs) with Direct Reduced Iron (DRI) technology, through Hydrogen, is where the future of green steel is headed and the UK is well placed to exploit that opportunity. The Energy Transitions Commission estimates a 30 per cent direct capital subsidy for a new H2-DRI-EAF project coupled with a carbon price of £100/tonne and a premium on offtake could make the economics of green steel highly favourable in the UK. Ensuring that cheap renewables benefit industrial consumers will also be crucial as electricity demand will rise rapidly with a potential fivefold increase if all blast furnaces are converted to EAFs. However, the UK's energy prices are considerably, sometimes up to 80 per cent, more expensive on average than their European counterparts, naturally driving up the costs of steelmaking.

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This transition is unlikely to happen at a pace that could safeguard all the jobs today. So as the steel industry evolves, so too must the workforce. A report from Leeds University business school highlighted that industrial workers are optimistic about the green transition, seeing it as an opportunity for job security and industry competitiveness. Reskilling and upskilling to ensure that workers can operate new technologies and adapt to new roles is critical.

The new Labour government's commitment to retaining and growing UK steel is welcome but a lot more than just public investment will be necessary if the sector needs to run sustainably and competitively over the long term.



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