

UK Steel – Submission to CfD Sustainable Industry Award Consultation

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About UK Steel

UK Steel, is the trade association for the UK steel industry. It represents all the country's steelmakers and a number of downstream steel processors.

Introduction

UK Steel and its members welcome the aspiration to progress towards a fully decarbonised electricity system by 2035. With the move towards electric arc furnace production across the UK steel industry, our members will require affordable, competitively priced green energy to make this important transition. The UK steel industry can also contribute directly to this plan by supplying steel products to the development of renewable electricity deployment, including offshore wind and floating offshore wind.

For the United Kingdom to become a world leader in the production of offshore wind infrastructure, it needs to develop secure, reliable domestic supply chains – and the procurement of UK-made steel is vital to this.

As such, any consideration of non-price factors for the awarding of Contracts for Difference, including the Sustainable Industry Rewards (SIRs) outlined in this consultation, should encourage bidders to support domestic supply chains, UK-based manufacturing and development of UK capacity to produce the products needed to develop our offshore and floating wind turbines. Around 80% of a wind turbine is made of steel, from the foundation to the tower, gears and casings.

Our response to this consultation will focus on the questions and issues relevant to UK steel producers seeking to supply into the development renewable energy infrastructure.

Application of Sustainable Industry Rewards

UK Steel notes the emphasis given to supporting small and medium-sized enterprises (SMEs) (Question 1) in the awarding of SIRs. Given the scale of challenge – delivering up to 50GW of offshore wind by 2030 – identified in the consultation, we believe that businesses of all sizes should be eligible for support under the SIRs proposal if they can make a tangible impact to the aspirations of supporting deprived areas and decarbonisation. In general, steel producers tend not to be SMEs due to the size of operations.

We also have concerns about the 'segmentation' of SIRs by different rounds of CfD allocations. This may lead to a 'stop start' problem with SIR-funded projects. We believe a significantly greater impact would be had by awarding funding that runs through several funding rounds, given the ambitions outlined in the consultation.

Consideration of wider societal impacts

UK steel producers sit at the heart of their communities, many of which would fall under the definition of a 'deprived area' under the consultation. By ordering steel from domestic producers, contractors would support more local jobs, invest in local economies, and make a tangible impact to the vitality of the UK steel industry and its wider supply chain (Question 5).

Steel jobs are concentrated in Wales, Yorkshire and Humberside, paying wages 56% higher than the regional median and 43% higher than the UK national median. This is clearly hugely significant not only for the 40,000 people directly employed by the sector but also some further 50,000 jobs in supply chains, from fabricators to stockists, input suppliers, processors and logistics.

Steel sits at the base of numerous industries, from construction to automotive, energy, aerospace and a wide range of engineering applications, where economic contribution and resilience are interlinked. Steel is an incredibly versatile, cost-effective material, and as the sector decarbonises, there is an excellent opportunity to transform carbon-intensive jobs into low-carbon jobs, supporting a green and just transition.

Given the aspiration of the offshore wind sector deal to use 60% lifetime UK content in domestic projects, consideration should be given to making this aspiration more concrete by mandating the use of locally produced materials, where appropriate or available, in the rewarding of SIRs. A target is far more effective with tangible action to back up its implementation. An alternative could be to reward investment in the development of new supply chains to provide the required materials – again, for companies of all sizes, not just SMEs.

UK steel production sites are less carbon-intensive than the global average for both blast furnace and electric arc furnace steelmaking, and therefore import increases will likely lead to a rise in UK greenhouse gas emissions¹.

Consideration of Circular Economy principles

We believe that the proposed SIR criteria could be more ambitious (Question 10). Given the size and ambition of the offshore wind programme, there are potentially significant contributions that could be made to the development of a circular economy. Consideration should be given to the whole-life process of turbines and their parts, with development of an end-of-life strategy a factor in the awarding of a SIR.

This could include a plan to ensure turbines are decommissioned in a way that ensures their steel is factored back into the domestic scrap market for utilisation by the domestic steel industry in electric arc (lower carbon) production, the sourcing of domestic materials for turbine production, and the impact of carbon emissions from the importing and shipping of non-UK content.

The scale of investment

The encouragement of investment in deprived areas is a suggestion UK Steel supports. However, the scale of investment needed to develop manufacturing facilities, deployment infrastructure and R&S should not be underestimated. For example, Associated British Ports intends to invest £500 million alone to bring its facilities in Port Talbot, Wales, up to standards to accommodate offshore wind². This dwarfs the current suggestions for the size of SIR rewards outlined in the consultation.

As highlighted previously in our consultation response, the annual rewarding of CfDs (and SIRs) will not encourage the long-term investment and thinking needed to make a tangible impact in this regard. Again, given the investment and scale of development required, the awarding of SIRs should not be limited to SMEs if it can be demonstrated a larger company can make a tangible contribution (Question 12). The ability to support investment in ‘anchor’ companies allows further investment to cascade down to SME’s in specific regions. This method also mirrors the way in which offshore wind supply chains operate.

The burden of information sharing

UK Steel members would not have difficulty in compiling and sharing information as outlined in the consultation. UK-made steel complies with all required monitoring standards and the ‘melted and poured’ requirements outlined in the public procurement notice for steel making it easy to track movement of products and the customers purchasing it (Question 13).

¹ World Steel, Co2 Data Collection Summary Report 2018

² Associated British Ports Press Release, 18th December 2023

Measuring carbon and sustainability

While UK steel producers use various science-based targets, there is no internationally agreed emission standard for steelmaking, with competing standards being developed and championed by different steelmakers. The UK will also likely prove too small of a market to set its own standard and will likely need to follow an agreed internationally recognised standard/methodology. While the consultation states that there already are sector-led reporting and initiatives, such the Carbon Trust Joint Industry Programme, these are not widely used by the steel industry (questions 15 and 16)

Nonetheless it is vital the offshore wind sector begins to understand, measure and assess the carbon impact of projects. The steel sector is well versed in conducting Life Cycle Assessments, producing Environmental Product Declarations (EPDs), inputting into the newly developed EU CBAM (Carbon Border Adjustment Methodology) scheme, and the GHG Protocol.

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