UK STEEL

October 2025

UK Steel – Budget Submission 2025

About UK Steel

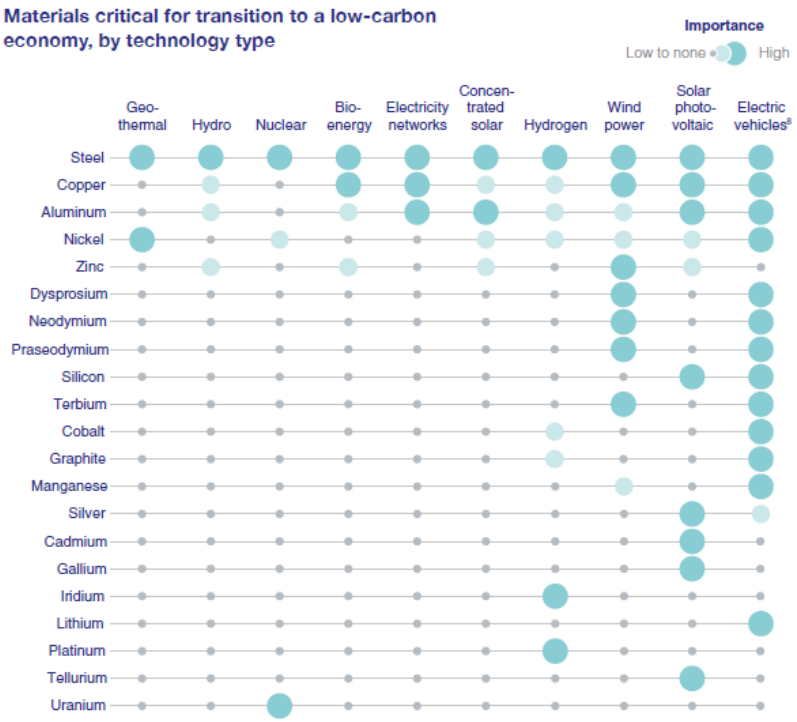
UK Steel is the trade association for the UK steel industry. It represents all the country's steelmakers and a large number of downstream steel processors.

Introduction

- **Steel is a key driver of economic growth and supply chain resilience.**
- **The steel industry directly contributes £2.9 billion to UK GDP and supports a further £3.8 billion, while directly contributing £4 billion to the UK's balance of trade.**
- **The sector employs 39,800 people directly in the UK and supports a further 50,000 in supply chains, with a median steel sector salary that is 43% higher than the UK national median and 56% higher than the regional median in Wales, and Yorkshire & Humberside, where its jobs are concentrated.**
- **Steel is central to the UK's decarbonisation journey, being infinitely recyclable and used in every single technology required for a Net Zero future.**
- **The UK is in a prime position to lead green steelmaking as one of the world's largest generators of steel scrap.**

Steel is a foundation industry, literally the building block of our society, feeding into everything from construction to transport, critical national infrastructure, defence, energy pipelines, wind turbines, household goods, food packaging, and medical, industrial, and agricultural equipment. Steel is the bedrock of the UK's supply chains and is fundamental to the future of the UK economy, our economic resilience and national security. The industry supports thousands of jobs and communities both directly and indirectly along the supply chain, particularly in Wales, South Yorkshire and the Northeast of England.

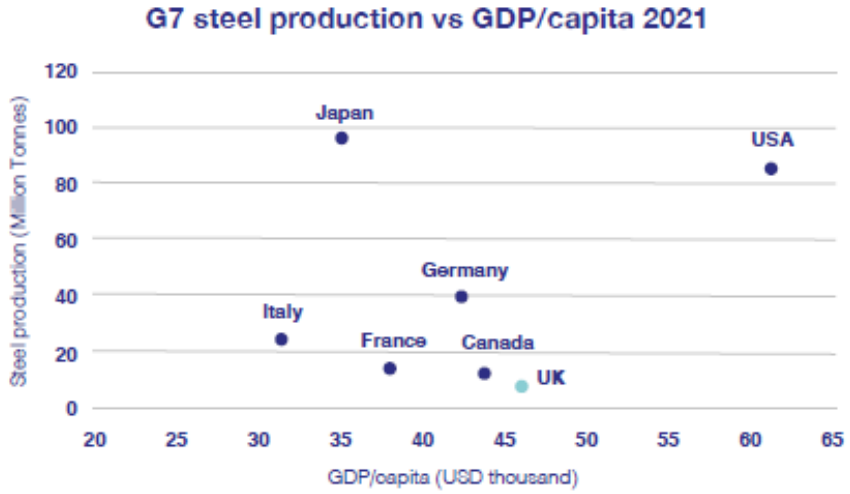
Steel is not only a driver for growth and a major employer in the regions where it is located, but it is also at the heart of a low-carbon economy. Steel is not only infinitely recyclable but also critical to all low-emission energy generation and every single technology required for a Net Zero future.



Source: McKinsey (2021), Critical raw materials for strategic technologies and sectors in the EU, A foresight study, European Commission, Mar 9, 2020; The role of critical minerals in clean energy transitions, IEA, May 2021

Despite the clear advantages of a strong steel sector, the UK steel sector has faced an uncompetitive business environment, driven by persistently high electricity prices. Combined with the unprecedented growth in steel produced in developing economies, fuelled by state subsidies, it has become increasingly challenging to compete in a global market for steel riddled with distortions and excess steelmaking capacity. The landscape remains challenging for the UK steel sector due to a weak economic climate and the absence of a clear operating framework to ensure a competitive business environment and a level playing field with our competitors.

The UK is an outlier in terms of its steel production relative to the size of its economy and relative to the size of its manufacturing base, which creates significant risks for its economic resilience. France, which is comparable to the UK in terms of GDP, population, and size of its manufacturing sector, produces almost three times the amount of steel. The UK's steel production has contracted at one of the fastest rates in the world over the last 50 years, second only to Venezuela. If the UK steel industry were to continue contracting, the UK would become the only major economy and steel consumer almost entirely reliant on imports.



Source: World Bank and World Steel Association

We welcome the National Wealth Fund and the Government's £2.5bn commitment to the steel industry. It is clear that the Government wishes to revitalise the steel industry, increase investment, and improve the business environment for steel. We believe this is a great starting point, and in this submission, UK Steel recommends that the Budget include policies that support the UK steel industry in thriving in an increasingly competitive international environment. These policies will enable the UK steel sector to continue supporting economic prosperity and well-paid, highly skilled jobs across the country, providing security of supply for a strategically important product and decarbonising in line with our domestic and international responsibilities.

UK Steel Budget Priorities

Summary of Priorities:

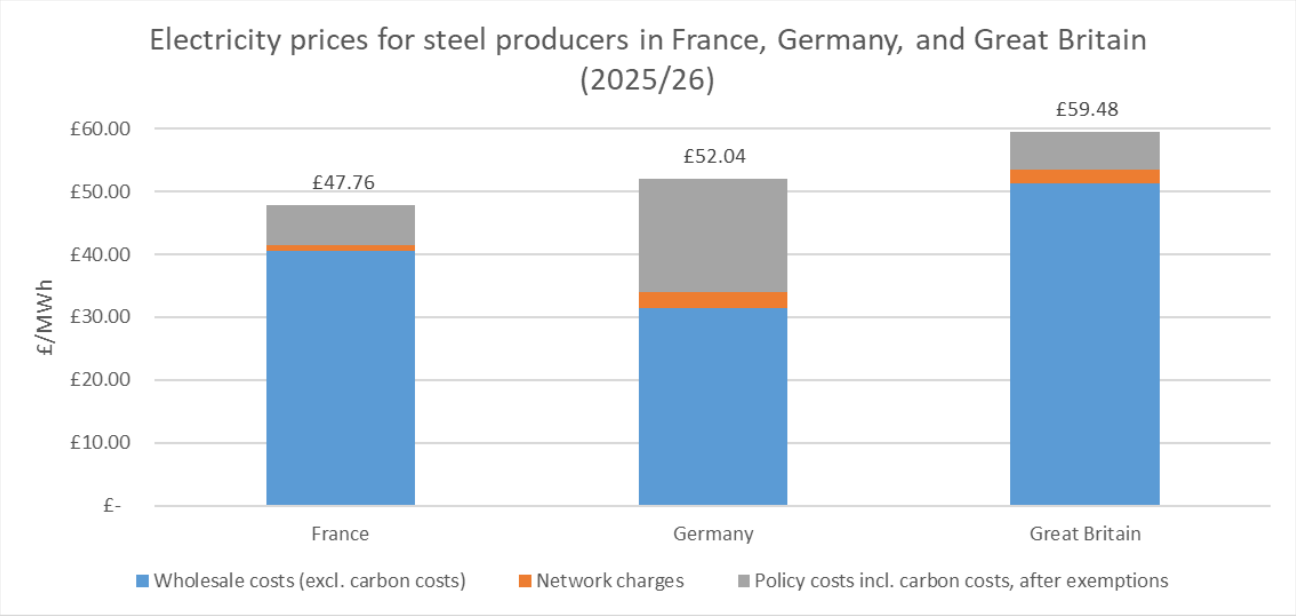
1. **Introduce a wholesale price rebalancing scheme to establish competitive electricity prices for the steel sector**
2. **Implement the increase in Network Charging Compensation and backdate it to April 2025**
3. **Abolish the Carbon Price Support Mechanism**
4. **Make the £2.5bn steel funding available for continued investment in decarbonisation and the capabilities of the industry**
5. **Negotiate UK-specific country quota within EU import regime and implement new UK import quota system**
6. **Cancel proposals to remove the lower rate of landfill tax**

Priority 1: Introduce a wholesale price rebalancing scheme to establish competitive electricity prices for the steel sector

The UK has some of Europe's highest industrial electricity prices, which are well above those of other key industrial competitors, as evidenced in the recent consultation on the Network Charging Compensation Scheme uplift. As steel production is particularly electro-intensive, this damages both the sector's competitiveness and ability to attract inward investment. Higher electricity costs naturally increase production costs (electricity costs can represent around 20% of conversion costs[1]), making UK producers less competitive in home and export markets. More damaging still is the long-term erosion of investment. With many UK producers being part of multinational companies with facilities elsewhere in the EU and globally, there is fierce competition for capital investment. It is clear that the UK consistently loses out due to its poorer business environment. Persistent cost disadvantages in the UK result in underinvestment, which further erodes competitiveness.

Critically, the disparity between UK electricity prices and those found elsewhere is also a serious impediment to decarbonising the steel sector in the UK. While four steel companies already operate electric arc furnaces, Tata Steel UK is now investing in a new EAF in Port Talbot, and EAFs have been part of British Steel's investment plans prior to the recent Government intervention. Switching to EAF production substantially increases electricity, meaning that national electricity prices will become an ever more critical factor in determining competitiveness and attracting investments. Other decarbonisation routes, such as CCUS and Hydrogen-DRI-EAF, are also more electro-intensive than blast furnace production.

In 2025/26, British industrial electricity prices are 14-25% higher than in France or Germany, £7-£12/MWh, despite the Government's most recent actions to reduce prices*. This disparity imposes a substantial cost burden on the sector. In 2025/26 alone, our assessment indicates that the price disparity adds £26 million to UK producers' electricity bills compared to those in France, which has contributed to the UK steel industry's average annual loss of at least £290 million since 2020. Since 2017/18, UK steelmakers have paid £845 million more for electricity than French competitors and £721 million more than their German counterparts since 2016/17.



Source: UK Steel. This assumes that the announced uplift to Network Charging Compensation (NCC) to 90% is backdated to April 2025

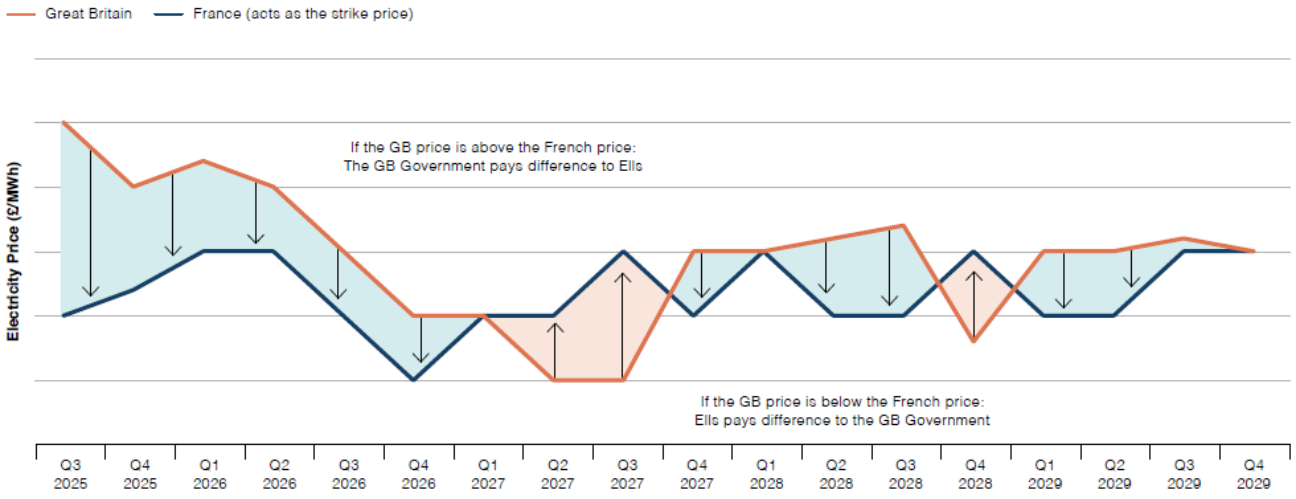
The principal driver of the price gap is Great Britain's higher wholesale electricity prices, a consequence of its gas-heavy generation mix, which contrasts with the nuclear-dominated system in France and the greater reliance on coal and renewables in Germany. Network and policy costs are now broadly aligned with European competitors following the introduction of the British Industrial Supercharger and the announced Network Charging Compensation (NCC) uplift.

Without further decisive action, high electricity prices will continue to undermine the sector's competitiveness,

[1] Conversion costs - the costs of converting the basic raw materials into steel.

undermine investment cases, and jeopardise the UK's ability to retain a sustainable, low-carbon steel industry. UK Steel has therefore recommended that the **Government implement a wholesale price rebalancing scheme to align GB prices with the lowest-cost European competitor,** as outlined in the published report written by Baringa.

As such, a wholesale price rebalancing scheme with the UK Government would be the most effective solution to deliver competitive electricity prices. Such a scheme would shield the UK steel industry from wholesale electricity price volatility by providing a wholesale electricity price set to match the lowest-cost European competitor. When market prices exceed this price, the government compensates the steel sector for the difference, ensuring it only pays the fixed price. Conversely, if prices fall below the price, the steel sector repays the difference. This reconciliation could be calculated after each regulatory period, with the price regularly updated to reflect market conditions. For illustration in the Figure below, the price is set to achieve parity with France, which Baringa projects to have the lowest prices. Actual prices should reflect broader market dynamics to ensure global competitiveness. This mechanism offers several benefits: it ensures UK steel producers remain price competitive, provides stable and predictable costs that support long-term investment, and shares risks and rewards between the government and industry.



Source: UK Steel

The scheme could be financed via the £2.5bn funding for the steel industry. Alternatively, it could also be funded through general taxation or by socialising the costs among electricity consumers. Based on projected EII demand, the wholesale price rebalancing scheme's net cost to consumers is estimated at £51 million per year between 2026 and 2030 (equivalent to £0.17/MWh), shifting to an average net benefit of £13 million annually between 2031 and 2035. However, the scheme could be designed to expose the steel sector to certain price and carbon signals, encouraging steel producers to operate flexibly, which could potentially result in wholesale energy savings of £20-30 million by 2030. Additionally, all consumers could save on Capacity Market costs if the wholesale price rebalancing scheme excludes peak hours, incentivising production cuts when prices and carbon emissions are highest.

However, at its core, such a scheme is not a subsidy, but a risk-sharing mechanism, which has already been proven in other markets. If the wholesale price rebalancing scheme were implemented this year, it could reduce industrial electricity prices by £10.75/MWh and deliver competitive electricity prices in line with France and Germany.

Recommendation: Implement a wholesale price rebalancing scheme for wholesale electricity to align GB prices with the lowest-cost European competitor.

Priority 2: Implement the increase in Network Charging Compensation and backdate it to April 2025

As part of its Industrial Strategy, the Government announced an increase to the Network Charging Compensation, which compensates electro-intensive manufacturers for costs they incur from being connected to the power grid, i.e. transmission (TNUoS), distribution (DUoS), and balancing (BSUoS) costs. The current compensation rate is 60%, but this will be uplifted to 90%, in line with UK Steel's recommendations and what is provided in Germany.

UK Steel welcomes the indication that the uplift will apply from April 2025, so that charges incurred from this point will be covered by the higher compensation rate when payments are made in 2026. The Government is also urged to move from a compensation approach to an exemption scheme to reduce any negative impact on cash flows.

Given the Government's intent to address uncompetitive industrial electricity prices, it will be important that **the uplifted Network Charging Compensation rate applies from April 2025**. This will ensure UK steelmakers are not exposed to network charges 3–10 times higher than their nearest competitors. Without this backdating, the sector would face an additional penalty of an estimated £14.5 million in 2025/26, directly undermining competitiveness and investment confidence.

An ongoing electricity price disparity will continue to negatively impact the steel industry in numerous ways. The steel sector operates on relatively thin margins. Whilst increasingly specialised and high-value steels are being produced, market requirements and economies of scale mean that the vast majority of steel, even in developed economies, is commoditised and available from a broad range of sources. Therefore, there is intense competition, which keeps steel prices and margins low. It will also harm the industry's decarbonisation, as new electric arc production is more electro-intensive. The sector consumes 2.5TWh of grid electricity each year, the equivalent of 800,000 houses.

Recommendation: Implement the increase in network charging compensation to 90% and backdate it to April 2025.

Priority 3: Abolish the Carbon Price Support Mechanism

The UK's Carbon Price Support mechanism is increasing the UK's carbon price unnecessarily compared to the EU. Some UK steel companies today receive near-full compensation for pass-through costs from power generators in industrial electricity prices. However, not all benefit from this, and many EIIs are not eligible for the ETS/CPS compensation, resulting in higher electricity prices and a price differential with many European countries. This will remain a problem until either the UK removes the CPS or expands the compensation for the indirect cost of carbon in electricity prices to more EIIs.

The UK ETS price currently stands at £55 per tonne of CO_2. This results in a total UK carbon price of around £73/tCO_2. Moreover, in the 2017 Budget, it was explicitly stated that *"… the Total Carbon Price, currently created by the combination of the EU Emissions Trading System and the Carbon Price Support, is set at the right level, and will continue to target a similar total carbon price until unabated coal is no longer used*". The GB energy market has not used coal for power generation since October 2024. At the time of the above statement, the total carbon price stood at £25/tCO_2. The UK's total carbon price passed this target point in early 2018 and has remained well above since.

The original purpose of the Carbon Price Floor mechanism was to provide a stable minimum carbon price in the UK, to drive investment within the power sector and later to drive out coal. With the EU price remaining well below projections in 2013 and 2014, the UK total carbon price quickly became 4-5 times higher than the EU's and contributed significantly to the electricity price disparity between the UK and the continent. In order to minimise this impact on industrial competitiveness, HMT froze the CPS rate at £18/tCO_2 in the 2014 Budget, assuming the EU price would remain low for the remainder of the decade.

However, the UK has now introduced its own ETS with a cap consistent with Net Zero and a minimum auction price, making a separate top-up tax unnecessary, and the UK ETS prices have remained much higher than the

intended total carbon price. Considering that the Government is now pursuing to link its ETS with the EU ETS, there is no point in having a separate top-up carbon tax, which only increases power prices.

Recommendation: Remove the CPS completely, as the UK has left the EU Emission Trading System to create our own ETS. With the auction reserve price, the Government has ensured both the benefits of emissions trading and the certainty of a bankable carbon price. There is no logical argument for retaining both an ETS and a top-up carbon price for power outside of the UK ETS.

Priority 4: Make the £2.5bn steel funding available for continued investment in decarbonisation and the capabilities of the industry

The UK Government has committed £2.5 billion to support the steel industry's transition towards decarbonisation, energy efficiency, productivity, and long-term competitiveness. This funding represents a once-in-a-generation opportunity to modernise and secure the future of one of the UK's most strategically important industries. However, progress is currently stalled due to uncertainty surrounding the ownership of two major steel companies. While the resolution of these ownership issues is critical, it should not delay the deployment of much-needed investment across the wider sector.

Every month of delay risks losing vital momentum. New steelmaking capabilities, improvements in productivity, and investment in downstream decarbonisation require long lead times and clear market signals. If the funding remains inaccessible until new ownership arrangements are finalised, valuable time will be lost, and the UK will fall further behind international competitors that are already investing heavily in modernising their industries.

Unlocking this funding now would enable companies across the UK steel sector to move forward with projects that cut emissions, improve productivity and growth, and strengthen domestic supply chains. These investments would directly support national priorities, including energy security, industrial resilience, and the delivery of Net Zero.

The Government should therefore make the £2.5 billion available immediately, ensuring that the entire UK steel industry can begin investing in decarbonisation, advanced capabilities, innovation, and improved productivity. Acting now would demonstrate the Government's commitment to rebuilding the UK steel sector, safeguard skilled jobs, and position the industry to meet growing domestic demand for green, high-quality steel.

Recommendation: Implement the manifesto commitment and make available the £2.5bn for the steel industry to invest in productivity gains, decarbonisation, and new capabilities.

Priority 5: Negotiate UK-specific country quota within EU import regime and implement new UK import quota system

The EU's proposed import quota system poses an immediate and severe threat to the UK steel industry. The EU plans to halve tariff-free import quotas, returning imports to 2013 levels and imposing a 50% tariff on exports exceeding these limits. Given that 80% of UK steel exports go to the EU, this would devastate the UK's largest market while simultaneously exposing the domestic market to a flood of redirected imports. With imports already covering 70% of UK steel demand, the industry risks being squeezed out both at home and abroad.

This crisis reflects a broader global challenge of steel overcapacity, driven by heavily subsidised production in China and other Asian nations. Subsidised excess production, which is expected to rise from 600 to 721 million tonnes globally by 2027, is forcing other exporters to seek new markets, further depressing prices. Countries including the US, Canada, and India are already acting to defend their domestic industries.

UK Steel therefore urges the Government to take two urgent steps: first, to negotiate with the EU for UK-specific country quotas, ensuring continued access to the European market; and second, to implement new, stricter UK import quotas in line with the EU's timetable. These actions would protect the UK's strategic steel capacity, restore fair competition, and support the Government's goal of rebuilding a resilient, low-carbon steel industry.

Recommendation: Negotiate preferential treatment for the UK, including country-specific quotas
Recommendation: Put in place its own tightened import quotas, aligned with the EU timetable for implementation

Priority 6: Cancel proposals to remove the lower rate of landfill tax

While recognising inflationary pressures and the growing burden of taxation on the regulatory authorities responsible for enforcing landfill tax collection and broader environmental inspections, UK Steel members regret the HM Treasury's decision to reform landfill tax in a regressive manner, which will seriously impact not only steel but also other industries, without delivering any significant gain in environmental outcomes. UK steel companies are operating in an uncompetitive business environment, and any decision to increase the financial burden contradicts the Government's stated aim to encourage economic growth and ensure proportionate regulation.

As UK Steel and its members have emphasised in previous consultation responses, particularly regarding increased and new charges for registration of waste exemptions by the Environment Agency, the Government should consider regulating in-scope industries in a more risk-based manner, better targeting resources at known problems and high-risk operations. Smarter, more targeted regulation would help regulators better manage their limited resources while reducing the burden on low-risk and compliant industries and companies. This would be consistent with government objectives and help avoid further costs on the private sector.

We urge HM Treasury to maintain the lower rate of landfill tax, preserve the Qualifying Fines Regime and water discounting scheme, and explore alternatives to future tax and fee increases to help our industry and others manage costs and remain competitive while protecting the environment.

Recommendation: Maintain the lower rate of landfill tax and preserve the Qualifying Fines Regime and water discounting scheme

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