

British Steel Ltd

British Steel faces uncertain future despite Scunthorpe rescue

UK industry needs radical reform to end crippling cycle of boom and bust



British Steel's Scunthorpe plant relies on inflexible, highly polluting blast furnace technology © Jon Super/FT

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Four years ago Tony Gosling marched to demand tariffs on the cheap Chinese steel imports that were threatening the viability of the UK industry in which his family has worked for four generations. Within weeks he may be employed by a Chinese steelmaker.

Mr Gosling, 54, is one of about 4,000 workers at British Steel's Scunthorpe plant, which is being sold to Chinese producer Jingye after the UK's second biggest steelmaker collapsed in May. Jingye will be the fourth owner in 20 years of a business that has been locked in a crippling cycle of boom and bust for decades.

He welcomed the deal, saying it brought much needed stability. “We have been keeping that plant going. Some of the kit is ancient. It needs investment,” he said.

But amid the relief among workers over the sale announced last week, questions are being asked yet again about whether there is a future for steelmakers in the UK.

The answer appears to be no unless Jingye and the rest of the industry invest in radical reform, and UK politicians commit to a steel strategy that looks beyond an election cycle — even if it means job losses in the near term.

Over the past 25 years the industry has suffered a series of crises that have resulted in the demise of renowned steelworks at Ravenscraig in Scotland, Redcar in Teeside and the break-up of the old British Steel under the ownership of Tata Steel.

“The problem is that making liquid steel in the UK flies in the face of economic sense,” said Andrzej Kotas, managing director of Metals Consulting International. “We have no iron ore, no coal and very high energy costs. So to pretend we can make competitive liquid steel is complete nonsense.”

Rod Beddows, a consultant at natural resources corporate finance boutique HCF, said that the UK had “an economically irrational structure”.

“It is the result of a sequence of largely poorly planned rationalisations and developments going back at least to the 1970s driven . . . by political imperatives.”



Tony Gosling, who is one of about 4,000 workers at British Steel's Scunthorpe plant, welcomed the Jingye deal
© Jon Super/FT

Britain's two biggest steelmakers — Tata Steel's operation at Port Talbot in south Wales, which makes flat steel, and British Steel's Scunthorpe plant, which produces long products such as girders and rails — rely on inflexible, highly polluting blast furnace technology. Blast furnaces have to run continuously, so adjusting production to demand or pricing cycles is difficult. Moreover, production and processing are scattered across various sites, particularly in Port Talbot's case.

This complexity weighs on steelmakers that are already burdened by global overcapacity and UK energy prices that are much higher than continental rivals. The industry estimates that British steel producers pay 62 per cent more for electricity than competitors in Germany and 80 per cent more than in France.

UK business rates also penalise investment. "It has been very difficult for anyone to make a strong steel business" in the UK, said Mr Beddows.

Some experts such as Mr Kotas wonder whether Britain should simply import raw steel from low-cost countries and focus instead on processing it into higher value added products.

Others insist that global trade tensions highlight the need for domestic production. “As soon as there is a trade war what happens? It is a good thing to have a certain amount of independence [in steelmaking] because it is critical to national infrastructure,” said Stephen Phipson, chief executive of Make UK.

Yet for the industry to survive it needs a shake-up, as well as lower cost energy, according to industry experts.

For a start, Britain’s commitment to net zero emissions by 2050 meant blast furnace technology would be illegal in 30 years, said Julian Allwood, professor of engineering at Cambridge university.

Second, the world already has more than enough steel production to meet global demand, while countries such as India continue to add capacity. Prices plunged early this year and competition would only intensify, he added.

The answer for the UK is to develop new ways to produce steel, and reduce waste. The car industry, for example, only uses about half the steel it buys. The rest is discarded as waste. The industry will have to transition to “electric arc” technology — which uses high currents to melt steel scrap, burning off some impurities, and convert it into liquid steel. This method is less polluting and more adaptable to demand cycles than blast furnaces.

The technology could also be used to recycle scrap steel, which the UK had in abundance, said Professor Allwood. Roughly 60 per cent of all steel in the US is produced through recycling, against just 22 per cent in the UK. Recycling steel produces just a third of the emissions of traditional processes.

The UK’s high energy prices make electric arc technology costly. Yet some companies, such as Liberty House and Celsa, are still attempting to build so-called “green steel” businesses in the UK.

The key will be whether the UK government is prepared to reduce energy prices and support a transition that will hit jobs in the short-term. Recycling steel from scrap requires just a third of the workforce of traditional steelmaking, according to government estimates.

Those who have lived through multiple crises in the industry over recent decades are sceptical.

“There is no evidence that the energy, focus, drive or commitment exists to reach that solution. Hence we go through cycle after cycle,” said Mr Beddows.

The question now is whether Jingye’s acquisition of British Steel will herald a new era, or merely repeat the buy and bust cycle of the past. While Jingye has pledged £1.2bn of investment over a decade, there are scant details about how that money will be spent.

“A new owner doing the same again — is that going to work? Probably not,” said James Campbell, principal analyst at CRU, the mining and metals consultancy.

Mr Phipson at Make UK added that the investment needed to be in the new technology rather than coke-fired blast furnaces. “It saves jobs, as long as there is a long-term investment plan,” he said.

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