

British Steel Ltd

Doubts raised over Chinese rescue plan for British Steel

Sceptics question Jingye's motives and business logic in moving into UK industry



British Steel runs two blast furnaces at the Scunthorpe plant, one of the UK's only two remaining integrated steelworks that make metal from raw materials © Reuters

Peggy Hollinger, Nikou Asgari and Jim Pickard in London, **Chris Tighe** in Newcastle and **Christian Shepherd** in Beijing

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A Chinese conglomerate's rescue plan for Britain's second-biggest steelmaker has been met by doubts from unions and industry insiders who question the buyer's motives and business logic.

Jingye Group, a privately owned Chinese group whose interests span hotels, property, tourism and chemicals alongside steelmaking, agreed to buy British Steel from the UK's Insolvency Service. The deal — at a price of just £50m, according to people briefed on the negotiations — could save up to 4,000 jobs and has sparked hopes of a revival for the vast Scunthorpe steel plant in Lincolnshire, one of the UK's two remaining blast furnace works.

Before the acquisition the Chinese company had said it was not buying British Steel simply to sell it again at a profit, but was in it for the long haul, pledging to cut costs and ramp up production from 2.5m tonnes per year to more than 3m, according to a presentation by the group seen by the Financial Times.

However, industry experts have questioned whether Jingye can turn the steelmaker round when so many others have failed. Over the past 20 years British Steel has been merged or sold three times, and finally collapsed in May when Brexit uncertainty led to a slump in customer orders and a cash crisis over carbon credit obligations.

“Making liquid steel in the UK flies in the face of economic common sense,” said Andrzej Kotas, managing director of Metals Consulting International. “The UK has no iron ore, no coal and a very high cost of energy. To pretend we can make competitive liquid steel is complete nonsense.”

A spokesperson said Jingye had no comment due to top executives still being overseas.

Compounding practical considerations about reviving the business are longstanding complaints that Chinese dumping of low-priced products into the EU has been a catalyst for British Steel's decline.

“We have been campaigning for years about cheap Chinese steel damaging the UK,” said Paul Warren, Teesside-based national organiser for the Community steel union.

Mr Warren said he feared Jingye could use the deal to gain industry knowhow and then abandon the company, taking the newly acquired technologies back to China.

“Why do the Chinese think they can make a profit, as nobody else can?” he asked. An immediate commitment to relining one of Scunthorpe’s blast furnaces, likely to cost between £10m-£20m, would help allay anxieties, he said.

Li Xinchuang, head of China Metallurgical Industry Planning and Research Institute, a government consultancy, said that fears Jingye would transfer technology from British Steel back to China were “groundless”, as the country already had a large number of advanced manufacturers selling similar products.

“The business logic of the acquisition is not complicated,” he said. Jingye wants to add steel for use in railways to its product mix, as well as to localise production in Europe and to raise their international profile, he said.

Mr Warren was previously the convener for all steel unions at the Redcar steelworks, which closed abruptly in 2015 during a global market rout after a failed rescue attempt by Thai-owned Sahaviriya Steel Industries UK. The plant closure cost Teesside 3,000 steel jobs and effectively ended its 165-year history of iron and steelmaking.

At the same time that Redcar was closing, Beijing was aggressively pushing its steelmakers to cut steel production capacity, hitting China’s steel hubs with job losses. After years of ballooning demand driven by vast infrastructure projects, the country’s need for steel had started to peak.

Jingye, founded in 1994 in Hebei province by Li Ganpo, a former Chinese Communist party official, is an example of a Chinese steelmaker that fared relatively well through the industry upheaval. It is one of the largest private enterprises in Hebei, which produces about a fifth of China’s steel output.

At the same time as it cut production by around 2.5m tonnes, closing a 450-cubic metre blast furnace, Jingye also invested in higher-end and less polluting plants and took advantage of government capacity swap programmes to pour money into plants with easier access to international markets.

In 2018 the company had revenue of Rmb90bn (\$13bn) and Rmb39bn in assets. On Monday it said it intended to invest £1.2bn in British Steel over the next decade.

At recent industry conferences, Mr Li, a former representative at the national Chinese People's Political Consultative Conference, an advisory body, has said Chinese steelmakers need to tap international markets in order to guard against a potential return to oversupply at home.

British Steel runs two blast furnaces at the Scunthorpe plant, one of the UK's only two remaining integrated steelworks that make metal from raw materials. In addition to other operations in Teesside, it also has a factory in France.

The steel industry remains a highly emotive subject in the UK, home to the first industrial revolution. Aside from fears over Jingye's intentions, UK steel unions have also blamed the government for failing to support struggling steelworks.

The government has remained tight-lipped about the prospect of state assistance for the new owners of British Steel, issuing only a bare-bones public statement.

UK business secretary Andrea Leadsom, who made a visit to Scunthorpe on Monday afternoon, said only that she was "very optimistic" about the prospects of the takeover, even though it was yet to be finalised pending regulatory approval.

People close to the process said they expected the bidder to apply for government money towards making the plants more environmentally friendly and for the training of staff. "That hasn't yet been agreed but there are pots of money for which the company can apply," one official said.

Gareth Stace, director of UK steel, an industry lobby group, said Jingye faced a daunting task to return British Steel to profit - although that was one faced by all steelmakers at this stage in the cycle.

“The price of steel is at a two-year low, while the price of iron ore and coking coal is at a five-year high,” he said. “You would struggle to find any blast furnace site that is making money at the moment.”

Mr Stace said the government must address obstacles to competitiveness such as high energy prices and a failure to prioritise British-produced steel in its own procurement plans.

“I think this deal is really good for the sector,” he added. “We need government to look much wider now and to take a more proactive stance so we are not in the same place with another steelmaker in a year or two’s time,”.

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