

Impact of excess capacity on attracting finance

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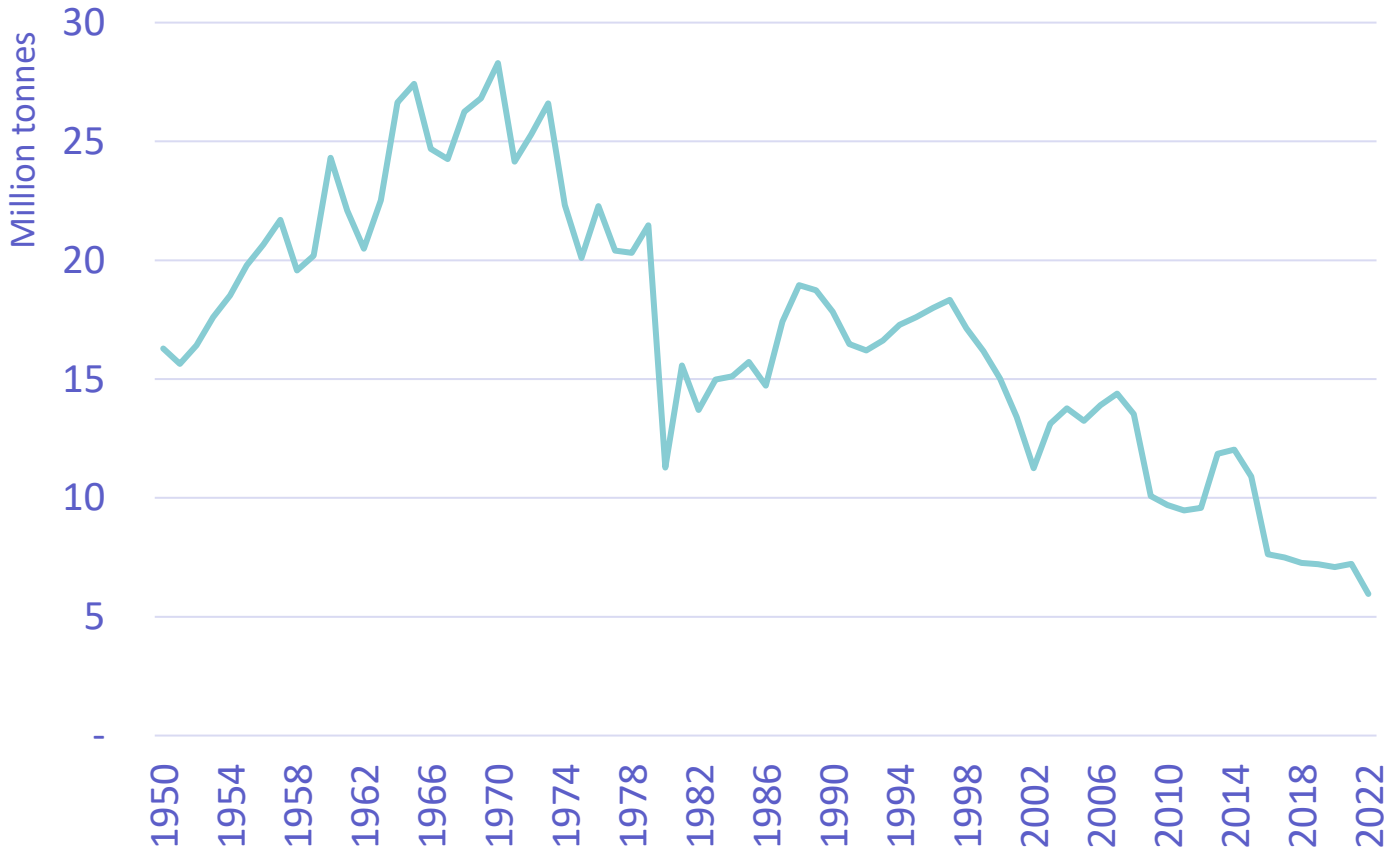
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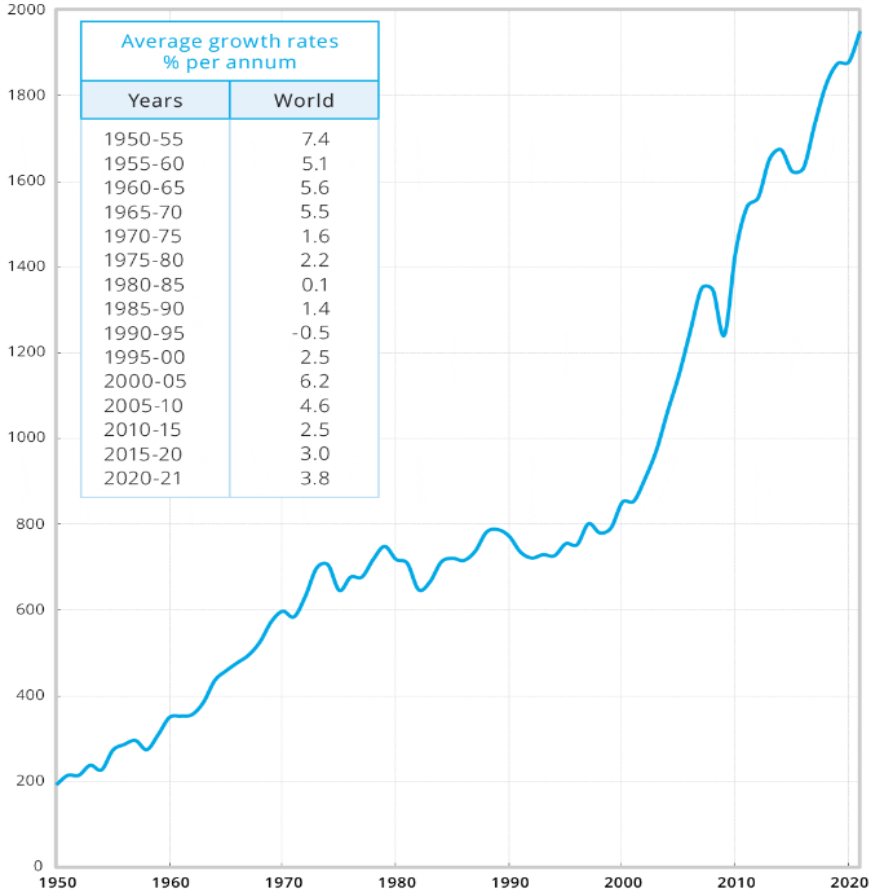


Global excess capacity impact on UK steel production

UK crude steel production



Global crude steel production



Challenges in attracting finance

- Scale of investment
- Return on investment and payoff time – high risk in a volatile market
- Cyclical market but downside increasingly larger than upside
- Capital intensive – profitability requires economies of scale
- Intense global competition (43% of steel produced globally, outside of China, trades internationally) – high impact of trade distortions
- Increasing discrepancy in cost base, particularly energy and carbon
 - Over 90% of the steel produced globally faces no real carbon cost
 - 40% of the UK's imports are from countries that do not face comparable carbon costs
- Risk of new technologies that have not reached scale
- Willingness of buyers to pay a “green premium”

Governments are having to step-in to fund steel decarbonisation

Country	Funding
US	\$85bn available for green steel production and upstream decarbonised energy
France	€1.7bn investment for ArcelorMittal to replace three blast furnaces with EAF/DRI €5.6bn for industrial decarbonisation as part of the “France 2030” Investment Plan
Canada	C\$400m in the Arcelor Mittal DRI plant C\$420m in the Algoma Steel EAF plant
Germany	€1bn grant for Salzgitter for hydrogen-based steelmaking €5bn for the decarbonisation of Germany’s industrial sector €55m initial funding of ArcelorMittal hydrogen-based steel production Industrial Carbon Contract for Difference to provide funding model for industrial decarbonisation
Spain	Signed MoU with ArcelorMittal for hydrogen-based steel plant
Sweden	Joint venture between state-owned energy company Vattenfall, state-owned mining company LKAB, Swedish energy regulator, and steelmaker SSAB in hydrogen-based steelmaking
Belgium	Investment in €1.1bn ArcelorMittal DRI plant
Slovakia	€300m to US Steel Kosice (USSK) for its plan to decarbonise by switching to electric arc furnace from EU Recovery and Resiliency Fund
UK	£500m for Tata Steel UK to reduce emissions at Port Talbot by investing in EAF production

An enabling business environment is also needed for establishing an investment case

- Competitive industrial electricity prices
- Effective carbon pricing on steel imports
- Secure scrap supply and quality at the right price level
- Guarantees to de-risk new technology – offtake agreements & demand aggregation
- A market for differentiated low-emissions steel, initially sold at a premium
- Green public procurement
- Clarity around definition for green steel

There is an opportunity but overcapacity must be addressed for a healthy steel sector

- Opportunity for investment to flow as part of Net Zero transformation
- Excess capacity is suppressing prices and profitability – the UK is not responsible for overcapacity but is suffering the consequences of distortions created elsewhere
- Trade distortions and overcapacity cannot be unilaterally resolved – a global level playing field is essential