

# PUBLIC PROCUREMENT OF STEEL

Time for new thinking for a thriving industry

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## Executive Summary

Public procurement is one of the most powerful levers that Government can use to build up our industrial steelmaking strength, drive economic growth, improve national resilience and fortify domestic supply chains. As the National Wealth Fund will support the UK steel sector up to the tune of £3 billion (bn), including the existing agreed funding to Tata Steel UK, it is vital that the Government uses its buying power to boost the purchase of the steel it is investing in. It is in the Government's interest to maximise the return on its investment, driving growth and supporting jobs here in the UK.

Over the next decade, figures show a steel order book spend worth an estimated £4.3bn in public procurement<sup>1</sup>. However, the data for previous years shows that only 66% of government-purchased steel is produced in the UK, with a third being imported steel, costing over £1.5bn of taxpayer's money. If this trend continues for the next 10 years, the UK steel sector supply chain will potentially miss out on at least £2bn of cumulative direct and indirect GVA<sup>2</sup>. Furthermore, the public procurement steel order book is incomplete, with no detailed mentions of steel requirements for offshore wind, solar, carbon capture & storage, or hydrogen, so the true government future steel requirements

are likely to be significantly higher. As well as contributing to our renewable energy and carbon-capture infrastructure, steel made in UK electric arc furnaces has significant carbon footprint advantages over imported steel<sup>3</sup>.

One of the largest opportunities lies in clean energy and, more specifically, offshore wind development, as highlighted by an independent study from LumenEE, commissioned by UK Steel. This "Bill of Works" study shows that the UK's offshore wind pipeline, the second largest in the world, will require up to 25 million tonnes (Mt) of steel by 2050. This represents a potential £21 billion market for UK steel over the coming decades<sup>4</sup>.

This report aims to highlight the significant opportunity right across the steel sector supply chain, from producers and fabricators to construction, if the Government purchased its steel requirements from the UK rather than imports. The report sets out recommendations that will ensure contractors are fully aware of UK steelmaking capabilities and require that infrastructure projects work closely with and across the wider steel industry.

## Summary of Recommendations

- 1. Public Procurement Contracts:** The UK Government should use the contribution our steel industry makes to national security to mandate or incentivise the use of UK-made steel, where possible, for projects of energy, defence, and related infrastructure via domestic content stipulations in contracts where public funding or subsidy is involved utilising World Trade Organisation (WTO) opt-outs.
- 2. Contracts for Difference (CfDs):** In future auctions, the Government should evaluate the bidders' contributions to sustainability, resilience, and local content, with these criteria applying to at least 30% of the volume auctioned annually, as the EU is currently implementing without challenge in its Net Zero Industry Act.
- 3. Nationally Significant Infrastructure Projects:** These should be required to adhere fully to the Procurement Policy Note for Steel<sup>5</sup> and, given their criticality for our economy, be subject to local content requirements of not below 30%.
- 4. Procurement Policy Note for Steel (PPN):** The existing PPN should be strengthened to require developers and public bodies to justify why they did not use UK-made steel, if it was available, and require a mandatory consultation of the forthcoming UK Steel Digital Catalogue.
- 5. Investment in steel supply chains:** A public-private partnership should drive investment into steel supply chains, which will attract inward investment, create jobs, drive economic growth, and ensure the UK develops resilient supply chains in the face of uncertain geopolitics.

1. Based on DBT Steel Procurement Pipeline: Steel public procurement 2024 - GOV.UK, showing 8Mt of steel are estimated to be required for infrastructure projects over the next decade and assuming an average price of £540/t

2. UK Steel Analysis Stats: UK gov to spend £1.5bn abroad on steel ahead of manifesto plans

3. WorldSteel Co2 Data Collection Summary report 2018, see graphic on page 6.

4. Based on a price of £850/ mt.

5. PPN Website PPN 04/23: Procuring Steel in Government Contracts - GOV.UK

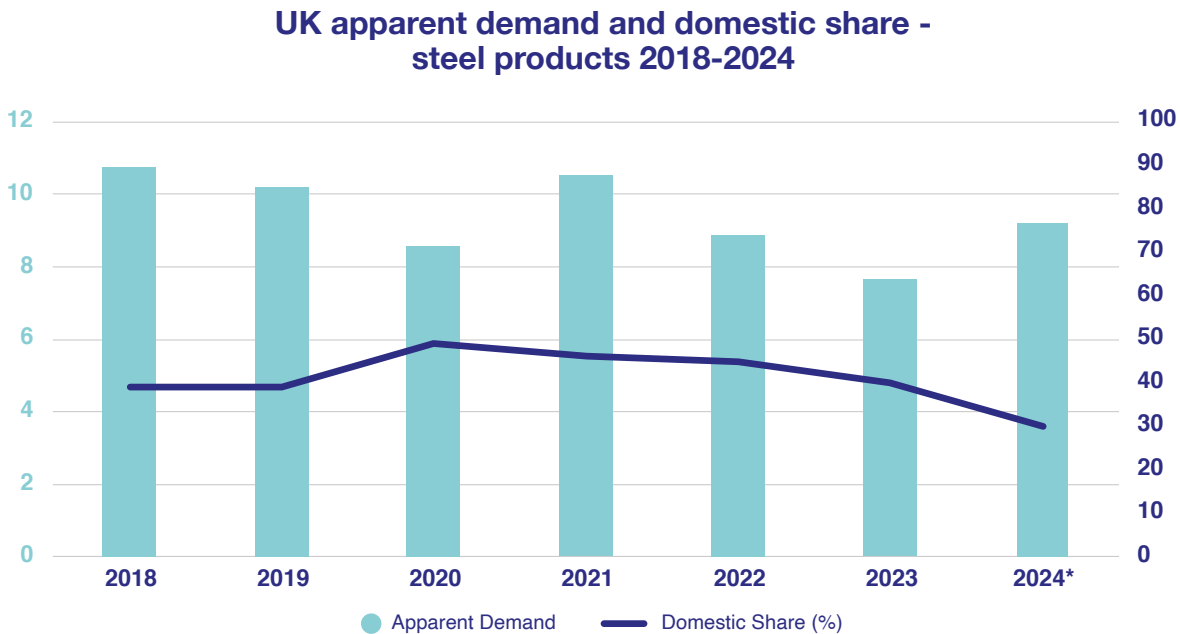


Introduction

Any forthcoming Government Steel Strategy should have procurement reform front and centre, directing UK-made steel into our infrastructure projects, from defence to the rapid expansion of housebuilding and the built environment and significant growth in clean energy projects. If steel is being made in the UK, supported by investment by the UK Government, it stands to reason those public projects—funded by the public purse—are incentivised to use this steel.

A more direct approach is critical, as the share of UK-made steel being utilised for our domestic needs continues to decline year-

on-year. This is the result of underpriced imports, which benefit from lower electricity costs, market-distorting subsidies and other unfair competitive advantages. As of September 2024, we are only supplying 30% of our own steel needs, down from 45% in 2022 – a precipitous decline which needs to be reversed if we are to maintain a viable steel industry and associated supply chain. While procurement is a vital tool, other policy challenges, such as competitive industrial energy prices, must be tackled as well to provide a level playing field for the steel industry.



Source: ISSB, UK Steel Key Statistics

\*2024 is estimated based on Jan-Sep data annualised

Public procurement is a key opportunity that the Steel Strategy can deliver

To make the most of the opportunity stemming from national infrastructure spend, the Government needs to work in partnership with industry and trade unions to fully understand the future demand for steel and maximise its value to the UK economy. We also need to fully understand the sector’s ability to meet that future demand – both now and with the promised government investment – so we can move away from the current stark situation of only providing 32% of total UK domestic steel demand. Crucially, the UK needs a vision of what role the steel sector can play in its economy and develop a public procurement plan as part of the Steel Strategy to achieve that vision.

If further measures are not taken to increase the local content of steel used in public projects, the impact of the Steel Strategy and the £2.5bn steel fund will be weakened as companies continue to face unfair advantages given to foreign competitors by their

governments, who exercise greater flexibility and discretion in their interpretation of procurement rules.

Furthermore, non-market excess steelmaking capacity is a major challenge for the global steel industry, driving down profits and increasing emissions. Measured as the gap between global capacity and crude steel production, global excess capacity in 2023 was estimated at 543Mt, which is over 70 times the size of the UK market. China is expected to export 100Mt of steel during this year alone. This could meet the entirety of the UK’s steel demand for 13 years. The last time these levels of Chinese exports were seen, UK steel plants were forced to close, and thousands of jobs were lost. UK Steel and its members wish to ensure the Steel Strategy marks a fundamental shift towards the sunlit uplands for our sector. We believe this is possible with a change of mindset and changes to policy.

Case Study: Offshore Wind and the LumenEE Bill of Works Analysis

Offshore wind is a prime example of how the green transition can translate into green growth and green jobs for the UK, assuming Government foresight and ambition when allocating investment and designing public procurement policy. The first wave of offshore wind investment in the UK used insufficient amounts of steel made in the UK, therefore missing out on greater benefits of local value creation multiplied through the supply chain.

UK Steel has commissioned LumenEE to carry out analyses to provide independent rigour of the estimated so-called ‘size of the prize’ resulting from future offshore wind construction in UK waters. This has projected that the UK’s fixed and floating offshore wind pipeline, targeting approximately 100GW by 2050, will demand between 21Mt and 25Mt of steel with an estimated value of £21 billion.

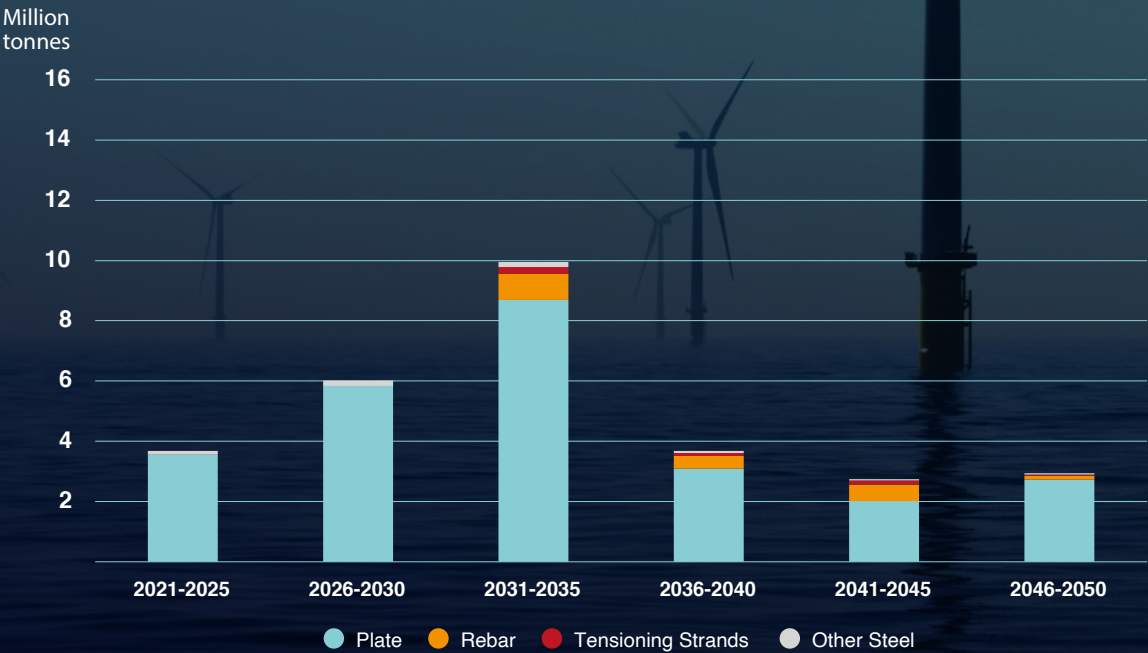
The LumenEE analysis finds that 89% of all the steel that will be required by the offshore wind sector in the UK out to 2050 is steel plate, which the development of the rest of the supply chain will hinge on. The UK will also need significant tonnages of rebar and tensioning strands (between 2.2 and 2.5Mt between

2026 and 2050). This volume poses an immense opportunity for the UK steel industry to meet domestic demand. This demand is concentrated in high-volume components, such as towers and monopiles, which alone represent over half of the total steel demand. The offshore wind supply chain is clearly a growth sector, and this will be the last chance for the UK to capitalise on it.

If the UK is to make the most of the huge expansion in offshore wind in the coming decades, strategic investment alongside primary fabricating capacity will be needed.

Finally, the investment case will require a public procurement policy that guarantees the offtake of these domestically produced materials and components. Through a government-industry partnership and a carefully designed procurement policy, offshore wind could be one of the greatest success stories for this Government. A second phase of the LumenEE report will assess the UK’s existing and potential capability and capacity to feed into this strong pipeline of demand.

UK offshore wind steel demand by steel type 2021-2050<sup>6</sup>



6. Lumen ‘Bill of Works’ report, November 2024

## Case Study: A more assertive procurement attitude is needed from Government

Nations like the US and the EU are increasingly aligning procurement policies with national interests—prioritising local industry, reducing reliance on foreign materials, and driving green growth. The UK has room to implement similar measures under Article XXI of the WTO, allowing for exceptions in the interest of national security.

The US Inflation Reduction Act, US Build America, Buy America Act, as well as the EU Green Deal, Net Zero Industry Act and latest EU guidelines on State Aid, all use exemptions to incentivise investments in domestic content, justified by the contributions that such measures make to addressing climate change. The pandemic, coupled with broader geopolitical turbulence, has also increasingly brought to the fore the

importance of resilient supply chains, not least in relation to the critical areas of energy, defence and related infrastructure.

The UK has always stringently adhered to WTO rules, and many restrictions around procurement and State Aid are also embedded in the UK-EU Trade and Cooperation Agreement (TCA) and the UK Subsidy Control Act (2022). These prohibit the Government from explicitly ring-fencing tenders for public procurement to UK suppliers. However, as other key partners develop and adapt their interpretation of these rules, the UK should also look to achieve parity with these new legal norms, or else it risks putting itself at a disadvantage. Article XXI of the WTO treaty specifically allows for countries to make procurement decisions consistent with the protection of security interests.

### EXAMPLE 1

The US Build America, Buy America Act established a domestic content preference for all federal support of infrastructure projects. The law singles out critical construction materials such as iron and steel that agencies should source from domestic producers when supporting infrastructure projects, where possible. The Build America, Buy America Act was enacted as part of the US Infrastructure Investment and Jobs Act, the formal name for the Bipartisan Infrastructure Law, signed into law in November 2021<sup>7</sup>.

### EXAMPLE 2

The US CHIPS Act directs applicants to describe how they will use domestically produced iron, steel and construction materials in the construction of state-subsidised semiconductor facilities<sup>8</sup>.

### EXAMPLE 3

The EU Net-Zero Industry Act utilises the power of procurement to boost demand for renewable energy by implementing mandatory non-price criteria in procurement procedures for clean technologies and renewable energy auctions. Public authorities must consider criteria such as sustainability, resilience, cybersecurity and other qualitative factors. Sustainability is a minimum mandatory requirement for public procurement. The resilience criterion requires public buyers to diversify supply sources in cases of high dependency on a limited number of suppliers. Authorities must also consider at least one criterion among social sustainability, cyber security, and timely delivery obligations.

7. U.S. Department of Commerce, Build America Buy America <https://www.commerce.gov/oam/build-america-buy-america>

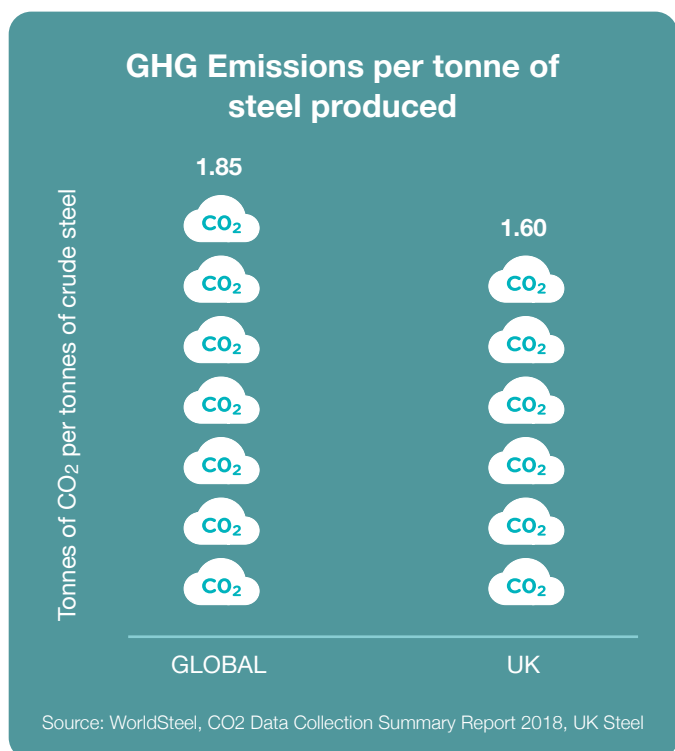
8. The White House, Fact sheet: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/>

## Recommendations

National security, sustainability and resilience are reasons enough to influence public procurement decisions.

### Public Procurement Contracts

- The UK Government should use the contribution our steel industry makes to national security to mandate or incentivise the use of UK-made steel, where possible, for projects of energy, defence and related infrastructure via domestic content stipulations in contracts where public funding or subsidy is involved using World Trade Organisation opt-outs.
- For government contracts in public procurement, sustainability should be a minimum mandatory requirement. Given the ongoing transition to lower-carbon EAF steel production in the UK and the high amount of renewables in our energy mix, this would give domestic industry an immediate advantage when measuring carbon emissions vis-a-vis imported steel and the contribution buying domestic steel makes to strengthening local supply chains<sup>9</sup>. The average carbon footprint of UK-made steel is significantly lower than the global average even before the full and complete transition to EAF, as shown below, and this will improve substantially in the next few years.



- Additional resilience criteria should require public buyers to shorten supply chains with their purchases of steel, with a statutory non-price assessment of the domestic availability of required products.

- Contracts should stipulate the use of steel products accredited to responsible sourcing standards BRW Standard BES6001, BS4449, or equivalent.
- Each government department should appoint a UK Supply Chain Champion who is responsible for monitoring and, where necessary, intervening to ensure public procurement teams and downstream contractors are adhering to their tendering responsibilities.
- As recommended for the Ministry of Defence by the Defence Select Committee, each departmental procurement team should adopt a formalised pre-tender process, overseen by the Supply Chain Champion to understand UK steel industry capability and capacity to contribute to the project or projects being considered.
- As is being considered by the Welsh Government in its draft Social Partnership & Public Procurement Act<sup>10</sup>, requirements to explore the availability of UK-made steel products should be embedded in contracts further down the supply chain, with a duty to explain why UK-made products were not chosen if available. This would again motivate tier 1 and tier 2 contractors to actively consider UK-made products and provide justification for not using them while avoiding the apparent legal difficulties of compelling them to do so.

### Contracts for Difference and Nationally Significant Infrastructure

- In future Contracts for Difference (CfD) auctions, the Government should evaluate the bidders' contributions to sustainability, resilience and local content, with these criteria applying to at least 30% of the volume auctioned annually, as the EU is currently implementing without challenge as part of its Net Zero Industry Act.
- As part of forthcoming rounds of CfD funding, the new system of Sustainable Industry Reward (SIR) payments should be adapted and utilised to incentivise investment in and contracting with domestic steel suppliers, given the environmental and societal benefits. It should reward and support the use and expansion of existing supply chains in deprived areas and not just new ones.
- Investment in local content should also be included as a factor in the awarding of SIRs funding.
- Nationally Significant Infrastructure projects should also adhere to the Procurement Policy Note for Steel and, given their criticality for our economy, be subject to local content requirements of not below 30%.

9. Over two thirds of steelmaking capacity is in countries that have Net Zero targets later than 2060 or none at all. China intends to achieve carbon neutrality by 2060, but in the meantime plans to reach 'peak carbon' by 2030.[1] Meanwhile, India is expected to double its steel emissions by 2030 based on its current trajectory and has a Net Zero target of 2070.[2]

10. Social Partnership and Public Procurement (Wales) Act | GOV.WALES



# THE GOVERNMENT COULD INVEST OR INCENTIVISE INVESTMENT IN STRATEGIC ASSETS, SUCH AS CAPABILITY AND CAPACITY

## Strengthen the Procurement Policy Note for Steel

- The existing PPN should be strengthened to require developers and public bodies that might have purchased imported steel to justify why they did not use UK-made steel if it was available. This would focus minds when purchasing decisions are being made and put the onus on Departments to explain why UK-made products are passed over. This information itself would be valuable in understanding procurement decisions and allow UK steel producers to engage with Departments to overcome misunderstandings or demonstrate their capability and capacity to provide.
- The forthcoming UK Steel Digital Catalogue should be embedded on the Department for Business and Trade website alongside the PPN Notice and Steel Pipeline, ensuring maximum visibility for potential steel buyers.
- The PPN should also contain a confirmatory statement that Departments are required to acknowledge, stating that they have consulted the UK Steel Digital Catalogue for product availability in the UK before making purchase decisions.

## Investment in steel supply chains

- The Government could invest in or incentivise investment in strategic assets, to develop the UK's steelmaking capability and capacity. This would help supply future renewable energy infrastructure projects in the UK, utilising some of the £2.5 billion steel fund.
- The Government could also consider supporting technology development and innovation to build strong links with industry and ensure future investments are targeted at the equipment and product types in highest demand in government-funded contracts.
- This must be accompanied by a strategy to develop primary steel fabrication capability if components are to be made in the UK and if they are to use domestically-produced steel to ensure supply-chain capacity at all stages of the steelmaking process.
- Mandate or provide incentives for the use of steel and components where the UK already has the capability. This should be accompanied by investment in relevant supply-chain capability, including skills.







# NOW IS THE TIME FOR FRESH AND INNOVATIVE THINKING ON PROCUREMENT POLICY TO GIVE THE UK STEEL INDUSTRY THE BEST CHANCE TO SUCCEED

## Conclusion

The steel sector is now at a critical point of transition, and there is a real opportunity to build a strong, innovative industry for the future and reap all the benefits of green growth, green jobs, and economic resilience through a strategic approach to procurement as part of the forthcoming Government Steel Strategy.

Failing to take a more assertive approach could see British steelmakers continue to lose market share and mean that investments in decarbonisation and the offshore wind transition will simply not benefit the UK steel industry and associated

supply chains. The £2.5 billion steel fund will not see a return on investment – all the while our competitors will keep taking steps to protect their domestic industries. We invite the Government to use all the tools at its disposal to build up our nation's steel industry and do justice to the steel communities that depend on it. Now is the time for fresh and innovative thinking on procurement policy to give the UK steel industry the best chance to succeed amid an increasingly unfair and uneven international playing field – a UK industry that will underpin our security, resilience and prosperity.



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UK Steel is the trade association for the UK steel industry and champions the country's steel manufacturers.

We represent the sector's interests to Government and promote our innovative, vibrant and dynamic industry to the public.

**Together, we build the future of the UK steel industry.**

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