

Steel Quotas: Building Resilience into the UK Manufacturing Supply Chain

Executive summary

- Quotas are fundamental to retaining steelmaking capacity in the UK
- Steel imports likely to fall by 25%, not 51% as billed
- UK industry has substantial capacity to meet shortfall, operating at just 30%
- UK capability to melt steel vital if downstream manufacturers are to avoid tariffs in key export markets
- Lessons from the US suggest steel quotas have limited impact on inflation

Introduction

The Government's steel quota measure is a bold and crucial part of its strategy to save our steel industry, but the measure is controversial and has sparked a lot of questions about the need for quotas, the availability of domestic supply, and the impact on inflation. In the following document UK Steel will address these points directly to dispel some myths and reassure members of parliament that it is in our national interest to back the policy.

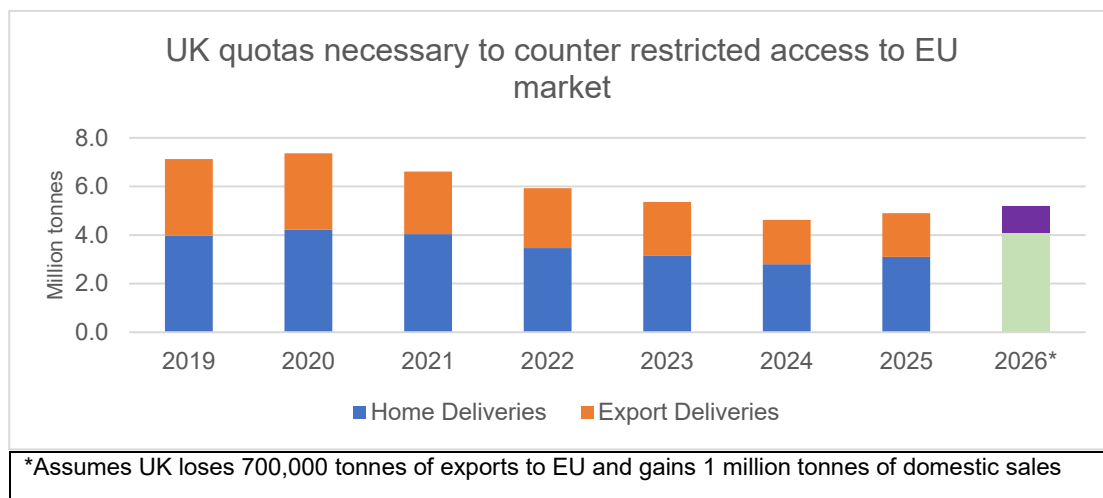
1. Need for quotas

Global overcapacity and extensive Government subsidisation, primarily in China, have driven steel production in the UK to its lowest level since the Victorian Age. The UK Government's new steel quota measure follows steps taken by our allies the US, Canada and European Union to safeguard steelmaking capability in the western world.

The new measures offer a window of opportunity to arrest the decline, reshore supply chains that are crucial to our national security, and secure domestic supply for our broader manufacturing sector. The capability to make our own steel will be increasingly important as our major trading partners introduce melt and pour requirements in their imports of manufactured goods. To reverse the quota measure would be to ring the death knell for much of our steel industry and hamstring our future manufacturing export. It would also undermine our sovereignty in production of munitions, energy infrastructure and pipelines, leaving us exposed in critical areas the next time there is a pandemic or the Suez Canal is blocked.

Opposition has formed around the timing of the measure, but the UK was forced to act now due to the European Union's decision to restrict imports. UK steelmakers' sales to our largest export market are likely to decline from 1.7 million tonnes in 2025 to less than 1 million tonnes in 2026, an unsustainable hit for much of our industry. As **chart 1.0** makes clear, the UK has to safeguard more of our domestic market to make up for this loss of export sales. This is exactly the policy Canada undertook when President Trump's measures cut off their primary export market.

Chart 1.0



Critics of the quotas claim the UK cannot meet the shortfall. The chart shows that far from a supply requirement that UK steelmakers can't meet, our domestic sales would simply return to 2020 levels. **Without the quotas, the size of our potential market is unsustainable.**

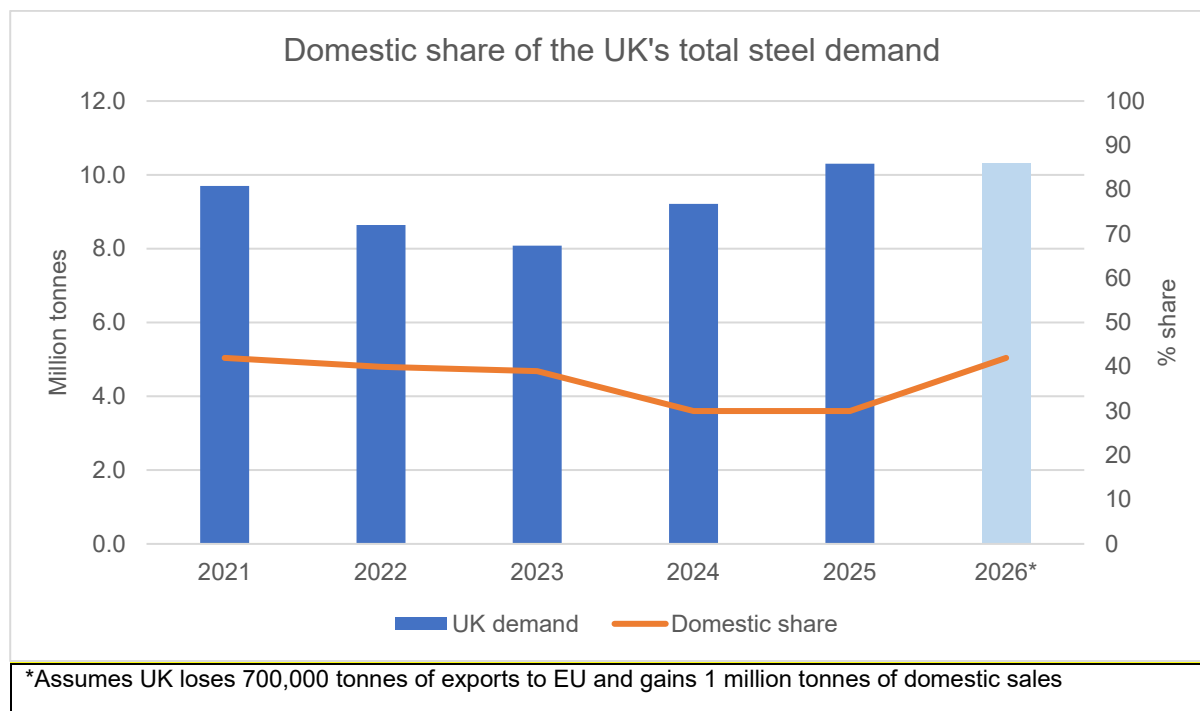
2. Domestic supply potential

Much has been made of the 51% decline in the size of the new quota system relative to the former safeguard measure. But the important metric is the impact on actual imports, and when you compare quota allocations with normal import levels, **the cut is actually less than 25%.**

Critics of the measure have pointed to UK steelmakers having a monopoly. In reality, assuming stable demand and an extra one million tonnes of domestic sales, domestic steelmakers share of the UK market would rise from a historic nadir of 30% in 2025 to 42% (see chart 2.0), **the same level it was in 2021.**

There has also been much made of the measure applying to products not made in the UK. The finalised UK quotas saw the removal of 11 commodity codes which UK Steel agreed are not available domestically. Due to the breadth of products included under each code, there are instances of certain products not produced locally being captured, **however in these cases there is often ample availability of quota.** For instance, in categories 4, 7 and 12A, the quota is larger than historic import levels and therefore not at all restrictive.

Chart 2.0



The most legitimate concern is where stockholders and traders will fill the quotas to secure a dominant position in supply of commodity products, busting the quotas at the expense of companies who require smaller volumes of specialist steels. **Increasing the quota sizes would not alleviate these problems.** In these cases, we fully back authorised use schemes for specific importers for specific uses such as bright-drawing, line pipe production and aerospace.

3. Building resilience in UK manufacturing

Besides the national security implications of relying on imported steel, the loss of our steel industry could be calamitous for the broader manufacturing sector, much of which exists as a result of the upstream capability.

Protectionism is not going away, and countries are developing ever more rules to safeguard their heavy industries. The US applies melt and pour rules to imports of steel and steel derivatives. That means UK companies that produce wire, fasteners, automotive body stamps, tubes etc. who rely on imported steel cannot access the favourable tariff of 25% in the US market and instead face 50% as the rest of the world does.

The EU is looking at similar policies that will make many UK manufacturers uncompetitive if they use imported steel. The UK is lobbying hard to access EU programmes such as the Industrial Accelerator Act that aim to ensure industrial goods are made in Europe. The EU will not want the UK to be a backdoor for subsidised steel. It is in the interests of UK manufacturers who export to reshore their supply chains and support a thriving UK steel industry or we will lose more than just the steel sector.

4. Cost increases will not cause significant inflation

There has been a lot of noise that the quotas will cause inflation in the UK economy. There are a few reasons why this is not likely:

- **Vast majority of imports will be tariff free**

Imports will still account for almost 60% of UK steel use with most of that entering tariff free, restraining domestic price rises.

- **50% tariff will not be paid by most importers**

July 2026

Where some deliveries will be subject to tariffs, the majority will not, bringing average tariff costs for importers down well below 50%.

- **Huge amount of stock in the system**

UK steel prices are very volatile currently. They jumped sharply when the provisional quotas were announced and now they are falling. There is a massive amount of stock in the UK with reports of the docks and bonded warehouses being full.

- **Transition period and rollover**

Bookings made before 14-March and arriving before 30-September will not be counted towards the quotas. There is widespread expectation that in a number of cases, order dates will be retroactively changed to avoid the quotas. The rollover mechanism also allows unused quota to be utilised in the next quarter, adding further flexibility for importers who can put steel into warehouses and wait for the next quarter to clear, avoiding tariffs.

- **Lessons from the US experience**

President Donald Trump's Section 232 measure in February 2025 really did place 50% tariffs on all imports of steel (besides 25% for UK melted steel). **The measure resulted in a 25% decline in imports, increased steel production and billions of dollars of investment.**

While there were price increases, they were not 50% despite no tariff-free quotas. The inclusion of steel derivative products from tractors to wind turbines means customers were able to absorb price increases. While this has passed on cost to consumers, **US core inflation rate (2.9%) is lower than in February 2025 (3.1%) when Section 232 was introduced.** Clearly higher steel prices have minimal impact on inflation.

5. Conclusion

The vast majority of concerns about lack of domestic supply are misplaced, but beyond that, there are two clear reasons why quotas are strategically prudent for the UK:

- COVID-19 and the closure of the Strait of Hormuz hit the UK economy harder than any other in the G7 due to our dependence on imports and highlighted the need for the UK to increase resilience in its supply chains.
- The quotas are an opportunity for manufacturers to work with suppliers to strengthen UK capability rather than allow its decline. With the changes happening in global supply chains, it will be in manufacturers' interests to do so.

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