Gupta fiasco shows Greensteel is de-industrialisation by stealth

Anglo-Indian steel magnate Sanjeev Gupta is head of the Gupta Family Group Alliance (GFG Alliance) empire, a complex international network of mining, renewable energy, manufacturing, property, and finance companies. In 2013 Gupta, originally an off-the-radar commodities trader, began a rapidly accelerating spree of acquiring distressed steel and manufacturing companies primarily throughout the UK, Europe, and Australia, and promising to return them to profit—causing the recently-obscure Gupta to be proclaimed a leading industrialist and the “saviour of steel” in the space of a few years. The opaque and complex nature of GFG’s finances and the staggering speed of Gupta’s acquisitions raised questions—how was Gupta funding his extraordinary buying spree, and how was he able to successfully “rescue” so many steel mills where others had failed? Recent revelations exposed the truth—the GFG empire was built on a mountain of debt, heavily dependent on financing from now-bankrupt “supply chain finance” lender, Greensill Capital, to fund its operations. Greensill used complex financial alchemy to create billions in cash for GFG by securitising predicted revenues that would not be realised for years, sometimes decades. GFG was Greensill’s biggest customer, and the two companies rose in tandem.

The Gupta Family Group Alliance touts its Whyalla steel plant as greensteel technology. Photo: Screenshot

The sudden collapse of Greensill in March 2021 threw Gupta’s empire and tens of thousands of jobs into jeopardy, impacting strategically significant steelworks such as South Australia’s Whyalla works, and InfraBuild, Australia’s largest integrated manufacturer and supplier of steel products. On 15 May 2021 the ABC reported that State Labor MP Eddie Hughes had described Whyalla as the “only integrated steelworks in the nation that produces structural steel and rail … an integral part of our sovereign manufacturing capacity”. InfraBuild’s directors claimed the company was safely “ringfenced” from the rest of the GFG empire; however as the 19 March 2021 *Australian Financial Review* noted, “If InfraBuild is ring-fenced, it will be a rare exception. Most of the GFG companies are closely connected in complex structures, often relying on inter-company loans, supply agreements and more.” The fate of GFG-affiliated steelworks in Australia, the UK and Europe is still uncertain, with the company struggling to stay solvent, creditors descending, and Britain’s Serious Fraud Office announcing 14 May 2021 that it would be launching an investigation into GFG’s “suspected fraud, fraudulent trading and money laundering”, and its financing arrangements with Greensill Capital.

Greensteel

Gupta’s debt-driven acquisition spree enabled implementation of his flagship “Greensteel” initiative. Instead of producing primary steel from iron ore and coking coal, his steelworks would essentially be transformed into steel recycling plants, particularly in the UK. “Greensteel” recycled locallysourced scrap steel, replacing traditional blast furnaces with Electric Arc Furnaces, which were powered by renewables and “low carbon energy”, run by GFG-affiliated renewable energy projects.

Gupta announced GFG would build on “Greensteel” (and “Greenaluminium”), to reach GFG’s carbon neutral “CN30” goal “to become a carbon neutral industrial group by 2030”, as declared in GFG’s March 2021 “Champions of Sustainable Industry” publication. Greensteel’s recycled scrap steel did not serve sectors which require specialty or strong high-carbon primary steel, but Gupta claimed GFG would use “breakthrough technolog[y]”— using hydrogen to produce steel—which he claimed would “revolutionise the steel industry”, in a 1 October 2020 article, “Steel and Hydrogen are the Perfect Match”. Although Gupta acknowledged hydrogen’s prohibitive expense and difficulties associated with transport and storage (as observed in the 28 April 2021 *AAS*, “hydrogen is an energy *carrier*, not an energy source” and therefore “requires an enormous amount of energy from another source to create it”), Gupta and GFG claimed in various publications that with the “right investment”, “hydrogen steel making *could* lead to a major breakthrough in carbon neutral steel production” … “ *If* we get the process right…” (emphasis added).

Sanjeev Gupta, who built a green industrial empire on Lex Greensill’s financial alchemy. Photo: Twitter

Gupta zeroed in on Australia, where he planned to expand into reviving the auto industry with electric vehicle production, claiming the “growing momentum on decarbonisation” (helped along by coercive government policies) meant that Gupta’s low-carbon steel would be in high demand globally. Gupta planned to shift Whyalla’s steel production into using magnetite iron ore (which has a history of cost blow-outs and project failures in Australia) which he claimed in a 1 October 2020 article enabled “new, less carbon intensive technologies and processes to be used”. Despite the fact that his plans evidently relied on unproven processing technology, Gupta claimed it made “more economic sense for Australia to produce and export Greensteel than to export hydrogen”, but Australia needed “the right policy and financial framework to *incentivise investment*” (emphasis added)—i.e., coercive government policies which financially punished high carbon-emitting primary steel production.

In his 29 October 2019 article “Carbon Neutral Steel”, Gupta grandiosely claimed Greensteel ushered in “re-industrialisation of the developed world by reviving and restoring our industry”; however, even members of the “Greensteel Council”—a GFG-founded panel established in 2017, which included former UK ministers—have acknowledged recycled steel is generally of a lower quality than high carbon-emitting primary steel. A year prior to his 2017 appointment to the Greensteel Council, University of Cambridge Professor and ead author of the 5th Assessment report of the Intergovernmental Panel on Climate Change, Professor Julian Allwood, authored *A bright future for UK steel: A strategy for innovation and leadership through up-cycling and integration*, which claimed that all future steel demands could be met by recycling the existing stock. Allwood admitted that the quality of recycled steel was generally low, but he claimed this could be mitigated—listing a number of possible innovations that could “up-cycle” steel, including scrap steel purification approaches that have been tried but abandoned because of a lack of commercial interest, and unproven novel technologies. Allwood acknowledged that as the UK moved to renewable energy like wind and solar, the intermittent (and unreliable) energy meant it would become more difficult to balance electricity demands, but suggested production “could be timed to help balance total supply and demand”. Far from “re-industrialising” the steel industry as claimed, Gupta’s “Greensteel” schemes are inefficient and extremely costly, reducing essential steelworks into glorified recycling facilities, or which rely on unreliable renewable energy sources—with Gupta’s future “hydrogen steel” plans based on the unproven viability of new technology.

Even hardcore proponents of rapid transition to a “net-zero” carbon emission economy, such as the international Energy Transitions Commission, acknowledge “[s]everal critical technologies that need to be deployed at scale by the end of the 2020s/early 2030s *still lack technological readiness*”,[1] for example—“zero-carbon steel production”.

Ideological dogma destroys UK steel policy

Professor Allwood’s report acknowledged the extraordinarily high electricity costs in the UK, at nearly 80 per cent higher than the median price in Europe. Writing for the 3 April 2016 Guardian, political economist Will Hutton denounced the ideological “dogmas destroying UK steel [which] also inhibit future economic growth … the plight of British steel making is the culmination of 40 years of refusal to organise economic, financial and industrial policy to support the generation of value. … The combination of a privatised electricity industry—insisting on sky-high returns for strategic investment — with demanding targets for the reduction of carbon dioxide emissions has meant incredible rises in the price of electricity, especially for industrial users such as steel. … [T]he same effects impact across all of what remains of our manufacturing sector—so it becomes a less solid market for steel, adding one more twist to the downward vicious circle.”

In a 10 April 2018 interview, Jon Bolton, former CEO of GFG-affiliated Liberty Steel Continental Europe and a member of GFG’s global advisory board, claimed GFG was “not looking for a hand out”, but wanted “a levelling of the playing field” so that cost-intensive decarbonised Greensteel could compete from a “position that is level with the rest of our competitors”—the traditional primary steel industry.[2] On 17 January 2021, Gupta demanded a much stronger policy framework and “incentives regime” to “drive decarbonisation and reward ambition”, including carbon pricing, removing subsidies from coal used in steel production, and an export tariff on steel scrap to encourage domestic recycling.

Shortly afterward, on 7 April 2021, the UK government did level the playing field in GFG's favour—announcing its "Industrial decarbonisation strategy", of which "[d]ecarbonising UK industry was a 'core part' of its "green industrial revolution" plans. The government acknowledged the lack of demand for low carbon industrial products, which risked "being undercut by cheaper, high carbon alternatives", saying it would take action "by *creating demand*" (emphasis added) i.e. by policy interventions or "levers", focusing on "addressing market failures or barriers to decarbonisation", including fiscal intervention (such as carbon pricing) and "fairly distributing the costs of decarbonisation between the taxpayer, industry and consumers of industrial products".

Some of Gupta's success in achieving these policies can be attributed to the revolving door between GFG-affiliated companies and the UK government, which has included a number of high-profile UK ministers, politicians and political staffers who have gone on to work for GFG,[3] in addition to the UK energy ministers who went to front GFG's "Greensteel Council". In October 2020, GFG announced a new Global Advisory Board, which included a former First Minister of Wales and Leader of the Welsh Labor Party, Carwyn Jones, who had previously approved a £200 million investment for a neverrealised GFG-affiliated tidal power project while in government, and other members with curious links to British intelligence. One, Lord Lancaster of Kimbolton (Mark Lancaster), a colonel, was former Minister of State for the Armed Forces, Member of the House of Lords, and at least as recently as 2019, Deputy Commander of the 77th Brigade, the UK's online psychological warfare unit.

Another GFG board member is Alexander Downer, who as former Foreign Minister of Australia had top access to high level information from Australia's intelligence agencies. In 2008- 14 Downer served on the board of scandal-ridden commercial intelligence advisory firm Hakluyt & Company, which was founded by former MI6 officers and has employed numerous former British intelligence personnel. Downer was appointed Australia's High Commissioner to the United Kingdom in 2014-18, but in 2016 was reported to be still attending Hakluyt client conferences and company retreats.[4] GFG's Global Advisory Board includes Australian economist Ross Garnaut, a primary driver of disastrous 1980s free-market "reforms" which devastated Australia's industrial economy, and author of the 2008 *Garnaut Climate Change Review* which the Citizens Party described as "the basis of today's counterproductive 'renewables industry' and carbon trading."[5] Garnaut is the Chair of ZEN energy (Zero Emissions Now) which merged with GFG-affiliated renewable energy company, SIMEC, in 2017. GFG de-merged and sold Garnaut's share back to him as a cost-cutting measure in August 2020, with ZEN retaining significant energy supply contracts with the South Australian government and a number of industrial clients.

The Gupta-GFG story is a cautionary tale. Governments, particularly in the UK, are demanding a "green industrial revolution" and implementing regulations which will level the playing field for expensive and unproven decarbonisation projects. GFG's debt-driven acquisition of international steelworks, which Gupta then devolved into recycled scrap centres or converted to new unproven production methods, enabled Greensteel's deindustrialisation by stealth and has placed strategically important steel production in jeopardy. For a time Greensill's financial alchemy made this scheme appear economically viable, but its collapse has exposed Gupta as the emperor who has no clothes.

By Melissa Harrison, Australian Alert Service, 19 May 2021

Footnotes

1. "Making Mission Possible", Energy Transitions Commission, September 2020.

2. Jonny Williamson, "The Greensteel revolution: What's it all about?", The Manufacturer, (themanufacturer.com).

3. Sylvia Pfeifer et al., "How Sanjeev Gupta sold his green revolution to Britain's politicians", Financial Times, 25 April 2021.

4. Charles Miranda, "Britain is concerned about Australia's links to Hakluyt security firm created by former MI6 agents", news.com.au, 18 Jan. 2016.

5. "Economic hit man Ross Garnaut takes aim at SA", Citizens Party Media Release, 26 June 2015.

Read more: "'Green steel' is a job-destroying fantasy", from the 26 May AAS.
