ResponsibleSteel Requirements, Options and Consultation Questions on Responsible Sourcing of Input Materials

Draft Version 1.0

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Background

In November 2019, version 1-0 of the ResponsibleSteel Standard was approved and ratified by our membership and board. Steel sites can choose to be independently audited against the 12 Principles of the Standard to demonstrate that they meet high levels of performance when it comes to environmental, social and governance (ESG) issues. Steel sites that become certified against the approved Standard are able to claim that their site is operated in a responsible manner.

The approved Standard contains requirements for input materials (then called raw materials) in its "Responsible Sourcing" Criterion 2.2 and for greenhouse gas (GHG) emissions in its "Climate Change and GHG Emissions" Principle 8. The input materials requirements ask for a high-level commitment to responsible sourcing and for evidence that this commitment is being implemented. However, it does not provide incentives to steel companies and their suppliers to work towards high levels of ESG performance in supply chains. The GHG Principle is ambitious in that it requires company and site level strategies, plans and targets aligned with the achievement of the goals of the Paris Agreement and in that it requires that steel companies and sites to report on their performance. However, it does not set threshold requirements for sites’ current GHG emissions performance.

The ResponsibleSteel membership and Board determined that further requirements for the responsible sourcing of input materials and in relation to greenhouse gas (GHG) emissions would be developed in 2020. Meeting these requirements in addition to the already approved Standard would allow steel sites to not only make claims about the way their site is operated, but also about their sourcing of input materials. Steel sites participating in ResponsibleSteel would be able to choose whether they want to be audited against the additional requirements, but they would not be obliged to do so. Incentives to meet the additional requirements would come from the market in the form of customer, public policy and green finance specifications, from civil society and peer pressure, or from the wish to distinguish from competition.

The ResponsibleSteel certification programme is being developed to cover the entire steel supply chain from mine site or commercial scrap collector down to the steel end user (e.g. the car, construction or white goods manufacturing company). The current ResponsibleSteel Standard can be applied directly at sites where input materials are processed, and at steel making and steel processing sites.

Upstream supply chain activities, such as mining, beneficiation or the commercial collection and processing of scrap, will be covered through other programmes that are either already existent or that are still to be developed. Rather than creating a multitude of standards to cover all steps of the supply chain, ResponsibleSteel will identify and recognise credible programmes that set a similarly ambitious standard and run an equally robust assurance programme. The first steps in this direction started more than two years ago, when ResponsibleSteel, the Initiative for Responsible Mining Assurance (IRMA) and the Towards Sustainable Mining (TSM) programme worked together to compare their respective standards and started thinking about a mechanism for recognising other systems up and down the supply chain. These efforts are still ongoing and ResponsibleSteel will soon present a draft recognition methodology to its members and stakeholders for feedback. Our collaboration with IRMA and TSM is not exclusive and we will also analyse the programmes of Bettercoal and the International Tin Association (ITA). Other programmes are invited to let us know if they want to be analysed and assessed for recognition by ResponsibleSteel. For scrap, we will apply the same approach as we take to mining and other stages of the supply that are not covered by the ResponsibleSteel Standard. We will analyse existing standards and third-party verification programmes such as ISO IWA 19 (Guidance principles for the sustainable management of secondary metals) and the Recycling Industry Operating Standard (RIOS) to determine whether they can be recognised by the ResponsibleSteel programme.
In 2021, ResponsibleSteel will look into options of including downstream supply chains in the ResponsibleSteel certification programme. We are envisaging applying a similar approach as to upstream supply chains. Discussions on this with our board and with members will be kicked off later in 2020.

About this document

This document presents draft versions of the additional requirements for the responsible sourcing of input materials. Once approved, these requirements will have to be met in addition to the already approved Standard version 1.0 if a steel site wishes to claim that its steel products are ResponsibleSteel certified. We have provided guidance on most of the proposed criteria and requirements to explain key terms and concepts. The document also outlines some options for alternative requirements and consultation questions that we ask stakeholders to consider. We are aware that some of the draft requirements and options presented in this draft may be unworkable or may be unauditable, or that the costs and practicalities may outweigh the benefits they will achieve. Where stakeholders feel that this is the case, we welcome clear feedback, so that we can revise the requirements to make sure that future draft versions are practical, auditable and effective.

The Annexes to this document contain the already approved requirements on responsible sourcing so that readers understand what is already covered by our existing Standard. They also contain the input materials that are proposed to be covered by the responsible sourcing requirements and describe some proposals in relation to the sourcing of input materials that were discussed with members but not taken forward for this version of the draft requirements. It is important for us to receive your feedback on the Annexes as well.

This document has been drafted by the ResponsibleSteel Secretariat based on discussions with our Board, Members and stakeholders over the last three years and is put out for public consultation with stakeholders. The proposals in this document have not been endorsed by the ResponsibleSteel Board, its Standards and Assurance Committee, or by the ResponsibleSteel membership.

We are keen to hear from stakeholders whether they support our draft requirements, whether they prefer any of the provided options and what their opinions are on the consultation questions we are posing to them. If stakeholders feel that there are other approaches not outlined here that would be better placed to achieve our long-term objective of responsible supply chains with strong ESG performance, we very much appreciate hearing them. Stakeholders are asked to submit their feedback on the draft requirements, options, consultation questions and Annexes to ResponsibleSteel by 02 October 2020 via the Google form on https://forms.gle/RbS1rT2F7i3sA11K7.

Stakeholders should note that consultation on the additional requirements for GHG is likely to start in mid-August.

Following the public consultation, we will collate and review the received feedback. We are planning to hold working group meetings and a second round of public stakeholder consultation on the input materials and GHG requirements towards the end of 2020, and before the draft requirements are put to our Members and our Board for approval and ratification. We aim to have completed both work streams on input materials and on GHG, if consensus can be reached across our Membership, in Spring 2021.

If you have any questions on the input material requirements, please contact:

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DRAFT Requirements

Responsible sourcing of input materials

Objective:
ResponsibleSteel certified sites increasingly demand and source input materials from supply chains with credible third-party verification of strong ESG performance and proactively address environmental, social and governance risks and impacts in their supply chains.

Background:
Stakeholders, customers and society at large expect companies to take responsibility for what is going on in their supply chains. This expectation reaches beyond the direct suppliers of companies and encompasses all stages of the value chain. The ResponsibleSteel Standard takes companies up on this challenge and takes them on a journey to achieve fully responsible supply chains.

The first ask of the responsible sourcing requirements is that companies commit to increasingly source input materials from supply sites that are verifiably operating in a responsible manner and to address environmental, social and governance (ESG) risks and impacts in their supply chains.

The different types and grades of steel are made from many different mined materials that might be raw or processed, pass through many different suppliers and are mixed and melted at various stages of production. Steel is also made from recycled material, which saves a lot of energy, but the scrap often comes from highly fragmented and opaque supply chains. The ResponsibleSteel Standard requires transparency along these complex supply chains and expects that steel sites understand where exactly their input materials come from. Only when the origin of material and the different suppliers it passes through are known can steel sites start working with their supply chains to improve ESG performance.

ResponsibleSteel recognises that third-party audits against credible and robust standards are the best evidence of strong ESG performance at supply sites and so our Standard allows certified sites to sell steel they produce as 'ResponsibleSteel certified' to the extent that they source input materials from supply chains where each link in the chain can provide this kind of performance evidence. Apart from mined material, scrap is a key ingredient in steel production. Sites with electric arc furnace (EAF) rely heavily on scrap. For EAF sites, such a fully verified supply chain is one where supply sites have either successfully undergone a third-party audit against a recognised scrap standard or have been subject to effective ESG risk and impact assessment and mitigation. This is to acknowledge that scrap contributes to sustainable production since it is recycled material, but also that scrap supply chains are more diversified, with many more players of different sizes, levels of formalisation and maturity.

Where supply sites cannot provide third-party evidence of strong ESG performance, identified ESG risks and impacts must be assessed and addressed over time. Steel sites are likely to face many ESG challenges and will not be in a position to address them all at once. The ResponsibleSteel Standard acknowledges that and asks sites to address the most severe and imminent ones first before turning to other, less pressing issues.

Finally, ResponsibleSteel certified sites must report publicly on their progress in sourcing input materials in a responsible manner.

The following graph summarises the 6 proposed responsible sourcing Criteria:
Steel sites that are certified to these responsible sourcing requirements in addition to the already approved ResponsibleSteel Standard launched in November 2019, might make the following kind of claim: “The site (name of steel site) of (name of corporate owner) is ResponsibleSteel certified. The site has shown in a third-party audit that it is managed responsibly and increasingly sources input materials from responsible supply chains”. The exact wording of any allowed claims is to be discussed over the next few months as we develop the requirements for the responsible sourcing of input materials.

Sourcing is often done at the corporate level rather than at individual steel sites. Due to this, engagement of the corporate owner of a steel site in ResponsibleSteel audits is expected and necessary to demonstrate that the requirements of the ResponsibleSteel Standard are met. The requirements for responsible sourcing have therefore been phrased in a way that allows for this corporate-level engagement.

**Criterion 1. Responsible sourcing commitment**

The site's corporate owner is committed to sourcing input materials for steel making and processing in a responsible manner.

1.1. The site’s corporate owner has a publicly available responsible sourcing commitment to:

a)  source input material from supply chains that have achieved credible third-party verification of strong ESG performance, as recognised by ResponsibleSteel

b)  where credible third-party verification is not available, to effectively address ESG risks and impacts in supply chains.

1.2. Evidence to show that the responsible sourcing commitment is implemented for the site is provided during ResponsibleSteel audits.
Guidance:

Input material: Annex 1 lists the input materials that are covered by our responsible sourcing requirements. We provide different Options here and would appreciate hearing from stakeholders which of the Options they prefer and why.

Corporate owner: The legal entity or entities that have ultimate control over the activities of a site that applies for certification of conformity with the ResponsibleSteel Standard.

Note: The corporate owner will typically be the parent company under whose name a site operates. In the case of joint ventures, the requirements of the corporate owner may apply to more than one legal entity. The identification of the corporate owner shall be determined as part of the application process for site certification.

Credible third-party verification of strong ESG performance, as recognised by ResponsibleSteel: This means either:

- certification of a supply site against the standard of a programme that is recognised by ResponsibleSteel as being credible and robust, or
- achievement of a pre-defined high level of ESG performance demonstrated in a third-party audit that was conducted according to the rules of a programme that is recognised by ResponsibleSteel as being credible and robust.

Over the next few months, we will develop criteria and a methodology for assessing ESG verification programmes that apply to supply chain stages that the ResponsibleSteel Standard approved in November 2019 does not cover. This is the case, for example, at the mine site level. Since a rigorous standard is not sufficient for ensuring strong ESG performance, our recognition assessments will consider:

- the standard of the programme
- the assurance and auditing process
- the governance of the programme
- engagement of external stakeholders in audits and in programme governance
- assurance of auditor competence
- oversight mechanisms for the programme
- claims that can be made by supply sites that have been audited.

We accept not only certification but also other credible third-party verification since many ESG programmes do not result in a binary certified / not certified decision, but have defined different achievement levels or rating scales to classify supplier performance. ResponsibleSteel will determine from which achieved levels of performance mines and other supply chain activities can be recognised as contributing to making responsible sourcing a reality. We will consult with members and stakeholders on the criteria, methodology and required performance levels for these recognition assessments.

Once this is in place, we will assess the mine site verification programmes of the Initiative for Responsible Mining Assurance (IRMA), Towards Sustainable Mining (TSM), Bettercoal and the International Tin Association (ITA) to determine whether they are ambitious, rigorous and independent enough to be recognised as contributing to achieving our vision of "maximising steel’s contribution to a sustainable society". Other programmes are welcome to approach ResponsibleSteel and ask to be assessed for recognition as well. The approach we take to mining will also be applied to other stages of the steel supply chain that are not covered by the existing ResponsibleSteel Standard, for example the commercial processing of scrap. Examples of standards to look at here are ISO IWA 19 (Guidance principles for the sustainable management of secondary metals) and the Recycling Industry Operating Standard (RIOS).
Where credible third-party verification is not available: This might be the case for supply chain stages where there is no verification programme that ResponsibleSteel recognises, or where input material from third-party verified supply sites does not meet the specification needed for a particular product, or where there is not sufficient supply from third-party verified supply sites to meet market demand.

Evidence to show that the responsible sourcing commitment is progressively implemented: Note also Criterion 6, which asks for public reporting on progress.

Supply site: An individual site that produces or processes input materials used in steel making and steel processing.

Supply chain: All supply sites of the steel site, back to the mine site level, where mined material is concerned, or back to the commercial supply site of external scrap, where scrap is concerned.

Commercial supply site of external scrap: This could be a manufacturing site where the scrap is the result of manufacturing processes of final products, such as automobiles and buildings (manufacturing scrap). Or, where it is end-of-life scrap, it could be a scrap dealer or a ship-breaking site, upstream of which the scrap had a previous life.

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**Criterion 2. Supply chain mapping**

The supply chains of the input materials used at the site are mapped and transparency of supply chains is maximised over time.

2.1. There is a mapping of the supply chains for all input materials used at the site. The mapping identifies all known supply sites and all supply chain stages with unknown supply sites:

   a) back to the mine site level for mined material
   b) back to the commercial supply site of external scrap.

2.2. The mapping contains at least the following information for all known supply sites of the site:

   a) name
   b) country and municipality where the supply site operates
   c) provided input material(s)
   d) whether the supply site has achieved credible third-party verification of strong ESG performance, as recognised by ResponsibleSteel and, if so, for which input material(s) and with which result.

2.3. For each input material, the following information is collected on a regular basis:

   a) received quantity from supply sites that have achieved credible third-party verification of strong ESG performance, as recognised by ResponsibleSteel
   b) received quantity from supply sites that have not achieved that verification, identifying whether the supply sites are known or unknown

2.4. For scrap, the following information is collected on a regular basis:

   a) received quantity from supply sites that have achieved credible third-party verification of strong ESG performance, as recognised by ResponsibleSteel, divided into manufacturing scrap and end-of-life scrap
   b) received quantity from supply sites that have not achieved that verification, divided into manufacturing scrap and end-of-life scrap and identifying whether the supply sites are known or unknown
   c) produced quantity of internal scrap.
2.5. Within 3 years of becoming certified to these requirements, the mapping for the site shows that at least 95% of the quantity of received input materials is from supply chains where all links in the chain are known, back to the mine site level or to the commercial supply site of external scrap.

2.6. In the case of new suppliers, ResponsibleSteel certified sites know all links in their supply chain for the delivered input material, back to the mine site level or to the commercial supply site of external scrap.

Guidance:

Mapping: This could be a table, matrix or similar showing what is known and what is not known about the different input material supply chains.

Quantity: Form of measurement for the respective input material, for example mass in tons.

95%: This means 95% of the total input material, not 95% of each individual input material.

Received quantity of scrap: Where it is not possible to distinguish between manufacturing and end-of-life scrap, an estimate of manufacturing and of end-of-life scrap is acceptable.

Internal scrap: Scrap from a crude steel production unit that is then recycled within the same unit (adapted from ISO 20915:2018(E) Life cycle inventory calculation methodology for steel products).

Criterion 3. Responsible sourcing claims

The quantity of steel product sold as 'ResponsibleSteel certified' is calculated and controlled according to a documented system, ensuring that the certified quantity does not exceed the calculated allowance for the site.

3.1. For BF-BOF sites: There is a documented system in place for the site to:

a) record the quantity of input material that is from fully verified supply chains, meaning supply chains where every link in the chain, up to the mine site level or to the level of the commercial supply site of external scrap, has achieved credible third-party verification of strong ESG performance, as recognised by ResponsibleSteel

b) calculate the percentage of that input material in relation to the overall quantity of received input material, using the ResponsibleSteel Chain of Custody Standard

c) sell steel product as 'ResponsibleSteel certified' only if the quantity of input material from fully verified supply chains has reached at least 10% of the overall quantity of received input material

d) ensure that the percentage of steel product sold as 'ResponsibleSteel certified' does not exceed the percentage calculated under b).

Consultation questions on threshold for making 'certified' claims

The draft requirements above mean that only as much steel product can be sold as 'ResponsibleSteel certified' as the site receives input material from fully verified supply chains. For example, if the percentage of input material from fully verified supply chains compared to the total of all input material is 10%, only 10% of outgoing steel product can be sold as certified. This percentage recognises that there are not many supply sites out there with strong ESG performance as evidenced through a credible third-party programme. 10% seems high enough to be credible, yet achievable enough for steel companies to strive for.

We are keen to hear from stakeholders whether 10% is indeed a credible threshold to start making claims or whether they think that a lower or higher percentage would be more appropriate and, if so, which percentage. If stakeholders favour the Option "Focussing on credible third-party verification rather than
addressing ESG risks and impacts in supply chains" presented in the table below, is 10% appropriate or should steel companies be expected to have achieved, for example, 50% of verified input material before they would be allowed to sell 50% of their steel product as 'ResponsibleSteel certified'?

Guidance:

Note that internal scrap is considered certified since it is produced by a site that is certified to the ResponsibleSteel Standard version 1.0, launched in November 2019.

**Fully verified supply chain**: A supply chain where every link in the chain, up to the mine site level or to the level of the commercial supply site of external scrap, has achieved credible third-party verification of strong ESG performance, as recognised by ResponsibleSteel.

**Chain of custody**: Process by which inputs and outputs and associated information are transferred, monitored and controlled as they move through each step in the supply chain. The chain of custody model we intend to use is 'Mass Balance'. This model allows that input materials from verified supply chains is mixed with input materials from non-verified supply chains. However, steel product can only be sold as 'ResponsibleSteel certified' to the extent that input material is from fully verified supply chains. For example, if the percentage of input material from fully verified supply chains compared to the total of all input material is 10%, only 10% of outgoing steel product can be sold as certified.

For steel sites and supply sites, Mass Balance means that on-site separation of verified and non-verified input material is not necessary. However, downstream customers will not know whether the specific product they receive indeed contains input material from fully verified supply chains. Mass balance enables a Chain of Custody, i.e. it assures that the percentage of steel product sold as certified does not exceed the percentage of received input material from fully verified supply chains. However, Mass Balance does not allow full traceability up the supply chain to the mine site level or the commercial supply site of external scrap, meaning one cannot follow the movement of verified input material through the chain. We propose to use Mass Balance since traceability is difficult to achieve for complex supply chains with mixing and melting of input material. We also believe that the impact that programmes like ResponsibleSteel can have in terms of ESG improvements along the supply chain does not hinge on the type of Chain of Custody model used.

If we decide to go with Mass Balance, a full Chain of Custody Standard will have to be developed, including requirements for managing a Chain of Custody system, for documented information and control of that documentation, for conversion factors to calculate input material from fully verified supply chains and outputs (meaning percentage of steel product) that can be sold as ResponsibleSteel certified, as well as for inventory balancing. In addition, we would develop conversion factors that reflect differing levels of ESG performance of supply sites as a way of recognising higher performance and to provide incentives for steel companies to work with their suppliers on improving ESG performance over time. See Annex 3 where Mass Balance and the use of conversion factors are illustrated.

The kinds of claims that certified steel sites could make if we adopted a Mass Balance model would be along the lines of “The site (name of steel site) of (name of corporate owner) is ResponsibleSteel certified. The site has shown in a third-party audit that it is managed responsibly and has systems in place to increasingly source input materials from responsible supply chains”. The exact wording of any allowed claims is to be discussed over the next few months as we develop the requirements for the responsible sourcing of input materials.
3.2. **For EAF sites:** There is a documented system in place for the site to:

- **a)** record the quantity of external scrap that is from fully verified scrap supply chains, meaning supply chains where every link in the chain up to the commercial supply site of external scrap has achieved credible third-party verification of strong ESG performance, as recognised by ResponsibleSteel
- **b)** separately, record the quantity of external scrap that is from supply chains where every link in the chain:
  - **i.** is known, up to level of the commercial supply site of external scrap (as defined in Criterion 2)
  - **ii.** has been subject to risk and impact assessment, and
  - **iii.** is un-associated with high or medium ESG risks and impacts (see Criteria 4 and 5)
- **c)** record the quantity of non-scrap input material that is from fully verified supply chains
- **d)** calculate the percentage of the input material in a) to c) in relation to the overall quantity of received input material, using the ResponsibleSteel Chain of Custody Standard
- **e)** sell steel product as 'ResponsibleSteel certified' only if the quantity of input material calculated under d) has reached at least 10% of the overall quantity of received input material
- **f)** ensure that the percentage of steel product that is sold as 'ResponsibleSteel certified' does not exceed the percentage calculated under d).

**Consultation question on our approach to scrap**

As stated, scrap supply chains are more complex and diversified than the supply chains of other input materials. Through our requirements, we aim to increase transparency and understanding of ESG issues associated with external scrap and incentivise steel companies to address these issues over time. We have framed our requirements to achieve that, but we recognise that there might be other ways to get to the same outcome. If stakeholders have alternative suggestions for scrap supply chains, we would love to hear them.

**Guidance:**

Note that **internal scrap** is considered certified since it is produced by a site that is certified to the ResponsibleSteel Standard version 1-0, launched in November 2019.

**Fully verified scrap supply chains:** One where all supply sites in a supply chain, up to the commercial supply site of external scrap, have either successfully undergone a third-party audit against a recognised scrap standard, or have been subject to effective ESG risk and impact assessment, prevention and mitigation (see consultation question below). This is to acknowledge that scrap contributes to sustainable production since it is recycled material and that scrap supply chains are more complex and diversified.

**Recognised scrap standard:** Over the next few months, ResponsibleSteel will analyse relevant standards to determine if they are comprehensive and robust enough to meet stakeholder expectations on the responsible sourcing of scrap. Examples of standards to look at are ISO IWA 19 (Guidance principles for the sustainable management of secondary metals) and the Recycling Industry Operating Standard (RIOS). For RIOS, it is already clear that additional requirements would have to be defined and met to satisfy ResponsibleSteel stakeholder expectations since RIOS focuses on the recycling facility seeking certification and does not take into account upstream supply sites.
Consultation question on risk management

Discussions with ResponsibleSteel members and stakeholders over the last years confirmed that credible third-party verification of strong ESG performance is what we want to achieve in the long-term. Our proposed Criterion 3 (Responsible sourcing claims) addresses this.

The question is how can we most effectively drive demand for credible third-party verification and, recognising that this is not yet widely available, should we require steel companies to invest time and money in ESG risk and impact management in supply chains in the meantime, accepting that this will drive away resources from our ultimate goal?

When thinking about this question, stakeholders should keep in mind the following considerations:

- the influence of steel companies on suppliers that are not their direct suppliers is very limited since there is no contractual relationship between steel companies and suppliers further upstream
- this means that there is no control of steel companies over activities in these supply chain stages. As a consequence, steel companies have to rely on the assertions of supply sites that ESG risks and impacts have been reliably addressed, but there is no surety for steel companies and ResponsibleSteel stakeholders that this is indeed the case
- where the avoidance or mitigation of ESG risks and impacts in supply chains seems to be too onerous or unachievable, steel companies might simply change suppliers to focus on those with low-risk profiles rather than helping improve the way that current suppliers operate. Where this happens, that there is no positive impact on the ground.
- the effort required to identify, assess and address ESG risks in supply chains is immense with little return, as illustrated above
- in addition, the appropriateness of ESG risk and impact assessment and management is challenging to audit since ResponsibleSteel auditors will have a contract allowing them to visit the steel site, but they will not be authorised to visit upstream supply sites. This means that they will not be in a position to verify evidence first-hand and confirm that risks and impacts have indeed been effectively addressed.

As stated above, ResponsibleSteel’s ultimate goal is to achieve strong ESG performance in supply chains. This will have to be demonstrated through credible third-party verification of supply site performance. ResponsibleSteel will analyse existing verification programmes to identify which ones are robust and comprehensive enough to be recognised as helping to achieve our vision. We favour third-party verification of supply site performance against credible standards because:

- it requires commitment from supply sites to achieve the respective standard rather than imposing actions on supply sites, which is what risk management does
- supply sites are assessed according to criteria that have been agreed by stakeholders from different backgrounds, whereas risk management is approached very differently from company to company
- supply site performance is not only assessed through a document review but also through on-site visits
- supply sites are judged by qualified auditors, often involving the views of different external stakeholders, rather than by the supply site itself or a company that has an interest in the supply site.

If we were to allow steel companies to focus on pushing for credible third-party verification of supply sites and not spend time and resources on ESG risk management, this would very likely accelerate the availability of input material from supply chains with strong ESG performance.
All of these considerations should be kept in mind by stakeholders when reviewing the Options matrix below to determine which one they deem to be best placed to help achieve our vision of "maximising steel’s contribution to a sustainable society".

<table>
<thead>
<tr>
<th><strong>Focussing on credible third-party verification rather than...</strong></th>
<th><strong>Using ready-made tools for...</strong></th>
<th><strong>Using steel company’s own methodology for...</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pros</strong></td>
<td>All supply sites and all countries would be assessed using the same criteria for ESG risk and impact. Results could be shared with all steel companies, so all would be working from the same basis. Effort for steel companies would be relatively low. Would answer to stakeholders that expect companies to conduct supply chain due diligence.</td>
<td>Would make sure that steel companies are aware of their supply chain ESG risks and impacts. Would answer to stakeholders that expect companies to conduct supply chain due diligence.</td>
</tr>
<tr>
<td>Would lead to greater and quicker demand for credible third-party verification of strong ESG performance since steel companies can focus on that. Has greatest potential for positive change at supply sites. Would avoid spending time and resources on something that does not contribute to our ultimate goal.</td>
<td>Will divert considerable resources away from getting supply sites into credible third-party verification programmes. Implies that risk management leads to positive and lasting solutions while supply chains cannot be free of risk and impact.</td>
<td></td>
</tr>
<tr>
<td><strong>Cons</strong></td>
<td>ESG risks and impacts in supply chains might go unnoticed. Credibility risk for ResponsibleSteel and its participants and supporters while credible third-party verification of strong ESG performance is not widely available.</td>
<td>Implies that risk management leads to positive and lasting solutions while supply chains cannot be free of risk and impact.</td>
</tr>
</tbody>
</table>

* Using steel company’s own methodology: Steel companies would be asked to analyse and assess their ESG risks and impacts in input material supply chains in line with a documented methodology. They would have to prioritise prevention and mitigation of risks and impacts and implement action plans depending on their prioritisation. This Option is described in detail in Criteria 4 and 5 below.
Using ready-made tools: ResponsibleSteel would identify a number of existing tools that steel companies could use to identify and assess ESG risks and impacts associated with supply chains. Examples of such tools are:

For ESG risks associated with specific input materials and countries: The report ‘Responsible Sourcing and Due Diligence for the Worldsteel Membership’ compiled by The Dragonfly Initiative (TDI) for worldsteel. The report describes and categorises ESG risks specific to important sourced input materials and to countries where supply sites might operate. It is available to worldsteel members only.

For ESG risks specific to individual supply sites: The Risk Readiness Assessment (RRA) by the Responsible Minerals Initiative (RMI) is a self-assessment tool for minerals and metals producers and processors to assess and communicate their risk management practices and performance using benchmarked norms established through a standards comparison process. The RRA comes with an online platform to administer and share assessment results. To date, the RRA covers the following metals and minerals: Aluminum, Alumina, Bauxite, Cobalt, Copper, Gold, Graphite, Iron Ore, Lead, Lithium, Mica, Molybdenum, Nickel, Palladium, Platinum, Rare Earth Elements, Silver, Steel, Tantalum, Tin, Tungsten, and Zinc.

Consultation question on input materials to cover

When considering which of the Options presented above is most likely to help ensure that supply chains are responsible, stakeholders should also think about which input materials our requirements should apply to. The more materials we ask steel companies to cover in ESG risk management, the more complex our ask will become. Weighing up the effort that has to be put in and the potential positive impact we might derive from ESG risk management is important here. We are proposing two Options below and would like to hear from stakeholders which one does that balancing act best:

<table>
<thead>
<tr>
<th>Description</th>
<th>Input materials covered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top 3 input material categories</strong></td>
<td>• Ferrous raw material&lt;br&gt;• Process coal, coke and/or charcoal&lt;br&gt;• External scrap&lt;br&gt;See Annex 1 for details</td>
</tr>
<tr>
<td>The 3 most important input material categories for steel making and steel processing, by quantity. This Option is likely to cover between 70 and 90% of input materials used in steel making and processing at any given steel site.</td>
<td></td>
</tr>
<tr>
<td><strong>Top purchasing power</strong></td>
<td>• Ferrous raw material&lt;br&gt;• Process coal, coke and/or charcoal&lt;br&gt;• External scrap&lt;br&gt;Non-ferrous raw material: Zinc&lt;br&gt;Ferro alloys:&lt;br&gt;• Chromium&lt;br&gt;• Manganese&lt;br&gt;• Molybdic oxide&lt;br&gt;• Nickel&lt;br&gt;• Niobium&lt;br&gt;• Vanadium</td>
</tr>
<tr>
<td>This Option would include all those input materials where the steel sector buys 50 % or more of the global annual production. This would leverage the purchasing power of the steel sector and thus the power to positively influence supply chain activities.</td>
<td></td>
</tr>
</tbody>
</table>
Note:

Criteria 4 and 5 illustrate how we might implement the Option "Using steel company's own methodology" from the table above. It shows what a comprehensive approach to ESG risk and impact management might look like.

### Criterion 4. Supply chain ESG risk and impact assessment and prioritisation

ESG risks and impacts associated with the input material supply chains of the site are fully understood and priorities for their prevention and mitigation are set depending on severity and likelihood.

**Note:**

Criterion 4 would not have to be applied to supply sites that have achieved credible third-party verification of strong ESG performance, as recognised by ResponsibleSteel.

The Option "Focussing on credible third-party verification rather than addressing ESG risks and impacts in supply chains" would mean that Criterion 4 would not exist.

4.1. There is a documented procedure to identify, analyse and assess the ESG risks and impacts associated with input material supply sites up to the mine site level or to the commercial supply site of external scrap, and to prioritise risks and impacts that must be addressed in the short-term.

4.2 The procedure has been applied to all input material supply chains to:

a) analyse and assess the ESG risks and impacts associated with all known supply sites according to their likelihood and severity and classify them as high, medium or low

b) classify all supply chain stages with unknown supply sites as being associated with high ESG risks and impacts

c) identify supply sites and supply chain stages with high ESG risks and impacts that must be addressed as a priority through the implementation of short-term and longer-term prevention and mitigation plans.

4.3. The results of 4.2 are:

a) documented and justified

b) reviewed and updated regularly and when needed, following the defined ESG risks and impacts procedure.

**Guidance:**

**ESG risks and impacts to address as a priority:** Risks and impacts that can result in significant harm to human rights, health or critical ecosystems will have to be prevented or mitigated as a priority. This will apply, for example, in the case of child and forced labour, contamination of rivers, streams or lakes, and mine site tailings dams using out-of-date technology. ResponsibleSteel will provide mandatory guidance in this respect. In doing so, we will take into account that some risks and impacts will take longer to address than others, so some risks and impacts will be subject to short-term prevention and mitigation plans while others will be subject to longer-term prevention and mitigation plans.

**Procedure:** A formal, approved method for implementing a process or part of a process effectively and consistently. States how the process needs to be done. Defines who, what, where, when, and why. A procedure (or elements of the procedure) may be formalised as documents, videos, on-line resources, etc., but must be auditable both in terms of its existence and in terms of its implementation.

**Short-term:** Depending on the type of risk, a reasonable time frame seems to be between 1 month and 1 year.
**Longer-term:** Depending on the type of risk, a reasonable time frame seems to be between 1 year and 5 years.

**Regularly:** Scheduled at planned, appropriate intervals. The determination of appropriate intervals depends on the matter at hand. The intervals must be frequent enough to detect change and must take account of risk. Annual might be a suitable frequency for some matters. Where changes can happen quickly or where risk is high, the intervals must be shorter.

**When needed:** For example, due to changes in supply site activities, due to contracting new suppliers or because a risk mitigation plan has been fully implemented.

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**Criterion 5. Supply chain ESG risk and impact prevention and mitigation**

ESG risks and impacts associated with the input material supply chains of the site are addressed according to clear priorities and defined plans.

**Note:**

*Criterion 5 would not have to be applied to supply sites that have achieved credible third-party verification of strong ESG performance, as recognised by ResponsibleSteel.*

*The Option "Focussing on credible third-party verification rather than addressing ESG risks and impacts in supply chains" would mean that Criterion 5 would not exist.*

5.1. **Short-term prevention and mitigation plans** have been implemented in line with the set priorities for addressing high ESG risks and impacts in input material supply chains. An updated risks and impacts assessment and evidence provided to the ResponsibleSteel auditors show that the risks and impacts have been reduced at least to medium prior to the site becoming certified to the responsible sourcing requirements outlined in this document.

5.2. **Longer-term prevention and mitigation plans** for high ESG risks and impacts in input material supply chains are being implemented for the site in line with the set priorities. The plans:

   a) are time-bound
   b) are costed
   c) specify mitigation activities and milestones
   d) outline responsibilities for activities
   e) describe how progress of plan implementation is tracked and verified
   f) are backed up by evidence of progressive plan implementation.

5.3. A strategy to prevent and mitigate medium and low ESG risks and impacts associated with the input materials supply chains of the site is being implemented.

5.4. Where new high ESG risks and impacts become known after the site has become certified to the responsible sourcing requirements outlined in this document, these are reduced at least to medium within 12 months.

**Guidance:**

See under Criterion 4.
## Criterion 6. Supply chain reporting

Key figures and developments regarding the responsible sourcing of input materials for the site are reported publicly and regularly.

### 6.1. The following is regularly reported for the site to ResponsibleSteel for publication on the ResponsibleSteel website:

- **a)** percentage of input material that is from fully verified supply chains
- **b)** increase of input material from fully verified supply chains since the last reporting period, in percent
- **c)** percentage of input material that is from known supply sites
- **d)** percentage of input material that is classified as high, medium and low ESG risk or impact
- **e)** description of ESG risk and impact prevention and mitigation plans that have been implemented.

### Guidance:

n/a
Annex 1 (for consultation): Input materials to be covered by ESG risk management requirements

Below, we list important input materials used for steel making and steel processing and present two Options to help determine which of these input materials should be covered by ESG risk management:

- **Top 3 input material categories**: This Option is likely to cover between 70 and 90% of input materials used in steel making and processing at any given steel site.

- **Top purchasing power**: Input materials where the steel sector buys 50% or more of the global production. These input materials have been identified through a project conducted by The Dragonfly Initiative for worldsteel.

Other input material for steel making and processing not included in these Options would be out of scope of the ESG risk management requirements, for example chemicals, electrodes, energy inputs, industrial gases, lubricants, oils, refractories and rolls.

Consultation question on input materials to be covered by ESG risk management requirements (related to Criterion 3)

Which of the two presented Options do you think are best placed to help ensure that supply chains are responsible? If you do not favour any of the presented Options, which other Option do you propose and why? Note that these consultation questions have been posed under Criterion 3 already.

<table>
<thead>
<tr>
<th>Raw material</th>
<th>Raw material sub-category</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top 3 input material categories</strong></td>
<td></td>
</tr>
<tr>
<td>Ferrous raw material</td>
<td>Concentrate</td>
</tr>
<tr>
<td></td>
<td>Direct reduced iron (DRI)</td>
</tr>
<tr>
<td></td>
<td>Fines</td>
</tr>
<tr>
<td></td>
<td>Hot briquetted iron (HBI)</td>
</tr>
<tr>
<td></td>
<td>Lump ore</td>
</tr>
<tr>
<td></td>
<td>Pellets</td>
</tr>
<tr>
<td></td>
<td>Pig iron</td>
</tr>
<tr>
<td></td>
<td>Sinter</td>
</tr>
<tr>
<td>Process coal, coke and charcoal</td>
<td>Anthracite</td>
</tr>
<tr>
<td></td>
<td>Charcoal</td>
</tr>
<tr>
<td></td>
<td>Coke</td>
</tr>
<tr>
<td></td>
<td>Coking coals</td>
</tr>
<tr>
<td></td>
<td>Pulverised coal for injection</td>
</tr>
<tr>
<td><strong>Top purchasing power</strong></td>
<td></td>
</tr>
<tr>
<td>External scrap</td>
<td>Manufacturing scrap</td>
</tr>
<tr>
<td></td>
<td>End-of-life scrap</td>
</tr>
<tr>
<td>Ferro alloy</td>
<td>Chromium</td>
</tr>
<tr>
<td></td>
<td>Manganese</td>
</tr>
<tr>
<td></td>
<td>Molybdic oxide</td>
</tr>
<tr>
<td></td>
<td>Nickel</td>
</tr>
<tr>
<td></td>
<td>Niobium</td>
</tr>
<tr>
<td></td>
<td>Vanadium</td>
</tr>
<tr>
<td>Non-ferrous raw material</td>
<td>Zinc</td>
</tr>
</tbody>
</table>
• Ferrous raw material: Raw material from the earth that becomes one of the main constituents of steel products, and which may have undergone intermediate processing to prepare it for ironmaking

• Process coal, coke and charcoal: Coal, coke and charcoal used in iron and steel making processes

• External scrap: Manufacturing scrap (scrap from the manufacturing processes of final products, such as automobiles and buildings and end-of-life scrap (scrap from after the end of life of final products)

• Ferro alloy: Alloy of iron with non-iron alloy metals, such as manganese, silicon or chromium used in the steelmaking process

• Non-ferrous raw material: Non-ferrous ingredient material for steel products other than ferrous raw material, process coal or ferro alloys

(Definitions adapted from ‘ISO 20915:2018(en) Life cycle inventory calculation methodology for steel products’)

The Options presented above would exclude the following input materials:

<table>
<thead>
<tr>
<th>Ferro alloy</th>
<th>Aluminium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Boron</td>
</tr>
<tr>
<td></td>
<td>Cobalt</td>
</tr>
<tr>
<td></td>
<td>Magnesium</td>
</tr>
<tr>
<td></td>
<td>Phosphorous</td>
</tr>
<tr>
<td></td>
<td>Silicon</td>
</tr>
<tr>
<td></td>
<td>Titanium</td>
</tr>
<tr>
<td></td>
<td>Tungsten</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-ferrous raw material</th>
<th>Aluminium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Magnesium</td>
</tr>
<tr>
<td></td>
<td>Tin</td>
</tr>
</tbody>
</table>

Other input material (Material input and consumables for steel making and processing other than ferrous raw materials, process coal, ferro alloys and non-ferrous raw materials)

<table>
<thead>
<tr>
<th>Material</th>
<th>Material sub-category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lime, Dolomitic lime, Dolomite, Limestone</td>
<td>Other fluxes for slag and BF</td>
</tr>
<tr>
<td>BF &amp; Slag additives</td>
<td>CaC2 (calcium carbide)</td>
</tr>
<tr>
<td>Desulfurizing Products</td>
<td>CaF2 (calcium fluoride)</td>
</tr>
<tr>
<td></td>
<td>Lime-Mg</td>
</tr>
<tr>
<td></td>
<td>Mg (magnesia)</td>
</tr>
</tbody>
</table>
Annex 2 (for consultation): Proposals for draft requirements that were discussed with ResponsibleSteel members but not progressed

Responsible sourcing commitment
It was suggested that we ask for a percentage-based year-on-year increase of supply sites or of supply volume that has achieved credible third-party verification of strong ESG performance, as recognised by ResponsibleSteel. Since this kind of verification is not yet widely available for mine sites and for other supply chain stages, we dismissed that option.

Supply chain mapping
We are asking for 95% but not for 100% of the quantity of input material to be from known supply sites since suppliers might change from month to month to ensure supply, achieve the specification that is needed for a particular product, etc. Some suppliers are also not cooperative and steel companies might not be in a position to simply change supplier since there might be only a very small number of suppliers, the company might not have leverage to push through demands due to their size, etc. Also, we are asking for 95% of the quantity of total input material to be from known supply sites, not for 95% of each individual input material since the origin of some input material is very hard to track.

Responsible sourcing claims
It was suggested that steel product can be sold as 'ResponsibleSteel certified' if a due diligence-type approach has been applied, i.e. if ESG risks and impacts associated with supply sites have been addressed. We believe that risk-based approaches are a first step in creating responsible supply chains, but they do not deliver the level of assurance that is needed to mark resulting steel product as 'certified'. Only third-party audits against clearly defined and comprehensive standards, following an agreed audit protocol by trained and competent auditors can achieve that.

However, we are suggesting to make allowances for EAF sites, which rely heavily on scrap as an input material, to not put them at a disadvantage but rather to provide incentives to seek ResponsibleSteel certification. Scrap supply chains are more diversified, with many more players of different sizes, levels of formalisation and maturity and it will be very challenging and might take many years to see a considerable number of scrap suppliers achieve a recognised level of ESG performance in a third-party audit. At the same time, scrap contributes to sustainable production since it is recycled material. Rather than excluding scrap, we are proposing to allow 'certified' claims on scrap sourced from supply chains that have been subject to effective ESG risk and impact prevention and mitigation measures.

We considered claims about steel product being 'ResponsibleSteel certified' to be accompanied by the percentage of input material that is from fully verified supply chains, for example "Our steel coils are made from 25% input material that is from supply chains operating to high ESG standards". Claims of this nature are complex and difficult to explain and bear the risk of confusing stakeholders. In addition, there are only a few mine sites and a few supply sites in other stages of the supply chain that might be able to provide proof of strong ESG performance through a third-party programme recognised by ResponsibleSteel. If the percentage were to go with the claim, this would allow those familiar with the steel sector to identify the suppliers of a steel company, which could cause competition issues.

Consultation question on other options
Are stakeholders in favour of exploring any of the options outlined here that we did not progress for the draft requirements? If so, which ones and why?
Are there any options not presented in this paper at all that stakeholders feel would be better placed to achieve our long-term goal of responsible supply chains with strong ESG performance? If so, please describe them briefly in your feedback.
Annex 3 (for information): Illustration of mass balance and conversion factors

**Mass balance – simplified and illustrative**

- **Input materials:**
  - Aluminium (metallic)
  - Calcium (cored wire)
  - Dolomite
  - Ferro-Chromium
  - Ferro-Manganese
  - Ferro-Niobium
  - Ferro-Silicon
  - Iron ore
  - Limestone
  - Metallurgical Coal
  - Scrap
  - etc....

- 100,000 tonnes in total = 100%
- Assuming that 10,000 of 100,000 are from fully verified supply chains = 10%
- Then 10% of steel product would be certified

- Could be any input material

- Steel companies could start with those suppliers that are ready and willing to seek verification, the more verified input material they have the stronger their claims could be

**Mass balance – simplified and illustrative**

- 10,000 (= 10%) input material from fully verified supply chains
- 5,000 Met coal
- 3,000 Aluminium
- 2,000 Dolomite
- 90,000 (= 90%) other input material
- not from verified supply chains

- 10% of steel product certified

- **Notes:**
  - Mass balance allows mixing, no physical segregation of verified and non-verified material
  - Does not allow tracing back to origin and it is not known which of the products really contain verified material
  - The impact that ResponsibleSteel can have in terms of ESG improvements along the supply chain does not hinge on the type of Chain of Custody model we use
Mass balance – reflecting differing levels of performance

10 000 (= 10%) input material from fully verified supply chains
- Met coal
- Aluminium
- Dolomite
- 5 000
- 3 000
- 2 000
- IRMA 50
- IRMA 100
- IRMA 100

90 000 (= 90%) other input material not from verified supply chains

Conversion factor 0.5 on IRMA 50
→ 7.5% of steel product certified

- Simplified mass balance model shown on these slides
- We would have to develop a proper chain of custody standard if mass balance is generally accepted
Annex 4 (for information): Responsible sourcing requirements in approved Standard

Already included in the ResponsibleSteel Standard v1-0, approved November 2019:

Criterion 1: Corporate Values and Commitments
The site’s corporate owners have defined and documented the values and policies for responsible business conduct to which they are committed.

1.1. The site’s corporate owners have defined and documented the values, policies and commitments that they require sites under their control to implement, including at least the following:

... a) to d)

e) A responsible sourcing policy that includes a commitment to source raw materials from suppliers whose policies and practices support the implementation of the ResponsibleSteel principles and criteria as applicable to the sourcing of raw materials.

1.2. The values, policies and commitments to which the corporate owners are committed are effectively communicated to the site’s workers, and are readily accessible to the public.

Guidance:
Overarching policies, procedures, codes of conduct, etc. may be set at the corporate owner or ‘group’ level, rather than separately by the individual sites seeking certification. In such cases, auditors will evaluate whether the policy, procedure, code of conduct, etc. is accessible, known, understood and effectively implemented at the site level. Sites must be able to demonstrate to their auditor that this is the case, but are not required to develop their own policies at the site level.

Publication of commitments in a company’s annual report or in a ‘corporate social responsibility’ report would be evidence of implementation of 1.1.1.

ISO 20400: (2017) Sustainable procurement – Guidance might help with the implementation of sustainable procurement practices.

Criterion 2.2: Responsible Sourcing
There are effective procedures in place to ensure that the responsible sourcing commitments of the site’s corporate owner are implemented for the site’s own procurement.

2.1. There are effective procedures in place to implement the corporate owner’s policy commitment to responsible sourcing (see requirement 1.1.1.e) at the site. Procedures include at least the following elements:

a) The corporate owner’s commitment to responsible sourcing is communicated to the site’s tier 1 suppliers of key raw materials;

b) There are documented procurement specifications that implement the corporate owner’s commitment to responsible sourcing as applicable to the site;

c) Tier 1 suppliers of key raw materials to the site are required to document their own responsible
sourcing commitments (if any) and to make these available to the personnel responsible for the site’s procurement.

2.2. The site has access to a listing of its tier 1 suppliers and to copies of their commitments to responsible conduct or responsible sourcing. If the supplier does not have such a commitment this is recorded.

2.3. Key performance indicators for the personnel responsible for the site’s procurement of raw materials have been specified and are aligned with the corporate owner’s commitment to responsible sourcing.

Guidance:

The requirements recognise that the responsible sourcing policy and procedures may be implemented at corporate or group level or by another department that may operate from an off-site location. The fundamental requirement is that the procedures must apply to the site’s procurement, must be effective, and can be audited as such.

The site’s corporate sourcing policy must, as a minimum, cover the sourcing of the key raw materials listed in Annex 2 where these materials are used by the site. The site’s corporate sourcing policy may apply beyond the tier 1 suppliers of key raw materials. Where this is the case, the site’s procedures should reflect this.

Where tier 1 suppliers do not have their own policy on responsible conduct or responsible sourcing, this would be recorded. This would not of itself be a non-compliance for the site. However, the absence of a responsible sourcing policy by a tier 1 supplier does not support the implementation of the corporate commitment required under 1.1.1.e, so the auditor would expect to see action being taken over time to discontinue sourcing from such suppliers.

Note that additional requirements in relation to the site’s responsible sourcing are being developed by ResponsibleSteel, in consultation with its members and other stakeholders, and will be finalised in 2020. Achieving these additional requirements will allow sites to make stronger claims about their performance and, in particular, about the steel produced at the site. ResponsibleSteel anticipates that downstream customers, civil society, financial institutions and other stakeholders will increasingly demand that steel companies achieve this higher level of performance.