Responsible sourcing draft requirements – Discussion sessions with members

07, 08 and 09 July 2021
Marnie Bammert, Technical and Assurance Director
Housekeeping

- Observe antitrust issues
- Webinar is recorded for internal purposes
- Slides will be posted on ResponsibleSteel website
- Please unmute to ask questions or use the Q&A box on your screen
- Chatham House rule: You can speak about what was said in this meeting, but you cannot make known who said what

Please show who you are:

- Click on participants list at bottom or top of your screen
- Buttons next to your name, one says “More”
- Click on it and rename yourself
- Provide your first name and the organisation you are with
Antitrust statement

ResponsibleSteel is committed to complying with all relevant antitrust and competition laws and regulations. Failure to abide by these laws and regulations can potentially have extremely serious consequences for ResponsibleSteel and its members, including heavy fines and, in some jurisdictions, imprisonment for individuals. ResponsibleSteel has therefore adopted an Antitrust Policy, compliance with which is a condition of ResponsibleSteel membership and participation. You are asked to have due regard for this Policy today and indeed in respect of all other ResponsibleSteel activities.
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<td>• Creating or linking up with a platform for collecting and (confidentially) sharing supplier information</td>
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<td>• Contents of a “baseline” supplier code of conduct</td>
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Aim and format of sessions

Aim
Get closer to consensus on responsible sourcing requirements

Format
• RS to set the scene
• Members relaying their positions to other members
• RS to feed in positions from members and stakeholders who are not present
• Polls on specific questions to gauge the room’s temperature
• Issues cannot easily be untangled, so we might stray from the agenda if it helps the conversation

Full written feedback we received has been emailed to you and posted on https://www.responsiblesteel.org/resources/

Sessions will be followed-up with individual calls with members and stakeholders as needed
## Agenda today

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<td>Wrap-up and close</td>
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Guiding questions for today

Linking responsible sourcing and GHG

• 3 Performance Levels each for sourcing and GHG, associated with different claims
• Level 1 to be achieved for both sourcing and GHG before any claims can be made

Supplier self-assessments versus third-party audits

• What is the role of self-assessments?
• Are they sufficient to confirm that a supplier is acting responsibly and to make public claims to that end?
• Are there other types of assessments we might want to accept?
Chain of Custody and under what circumstances can steel be sold as certified?

- What are the kinds of claims that steel sites want to make?
- What are the claims that their customers and stakeholders expect to see?
- What Chain of Custody models exist and which ones are suitable for the steel sector?
- What is the ‘Input Material Score’ and how does the calculation work?
- What ESG performance levels do we expect from mine sites?
- Do we want different Levels of Performance?
- What do we expect from processing sites?
- What do we expect from traders, brokers and transportation companies?
Linking responsible sourcing and GHG

- 3 Performance Levels each for sourcing and GHG, with different claims
- Level 1 to be achieved for sourcing and GHG before any claims can be made

Draft claim: “Our site has achieved Level 1 of 3 of ResponsibleSteel ‘Steel Certification’. This means that we are engaging with our input material supply chains to improve ESG performance and that our CO2 emissions are lower than the global average. See responsiblesteel.org/certification for more information.”

- Extensive discussions by the ResponsibleSteel Board
- Not credible in the eyes of stakeholders to certify a site with bad GHG emissions intensity but good sourcing and vice versa
- RS accommodated concerns by linking sourcing and GHG at the lowest level only
Opinions on linking sourcing and GHG (Afternoon session)

Certification body: Link at lowest level. Context, potentially add some

Steel company: Decouple. Simplicity. 2 types of claims, site + sourcing (origin of material), bolt-on of GHG claim. Global business, would exclude sites from certain regions because of GHG, existing standard hefty on GHG already. How does RS grow? Would exclude half of the sector to have GHG. Stepwise approach. Labels should be what they say. Flexibility to get in and then build up. Site certification already ambitious, people who are not there will not apply for GHG. Locking them all together in one net will hinder progress. Strike a balance

Steel company: Beginning of sustainability journey. Lower carbon, all want to go there, how to do it. RS can cast the net wide enough to provide access to many. Might not be worth the climb if too ambitious. End goal in mind, supplement journey. Pretty well educated we are now, but not suppliers. Learning as we go. Conflict minerals, certain aspect certified. RS should realise where we are in the journey, de-couple. Some requirements in site cert are ambitious. If now voluntary now and intended to become mandatory, is this achievable? Keep optional, not as part of site cert.
Opinions on linking sourcing and GHG (Afternoon session contd.)

Standard-setter: Setting a standard is not easy, cant take the high jump, need an on-ramp. Which on-ramp is the right one? Look at your risks. Scepticism around sustainability claims there is, especially related to industry-driven schemes. Do not lose your edge, sense of confidence, trust. Claims must be clear. Outside world will not read the fine print of your claims. Reputational risk in de-coupling. Different scores in IRMA to offer on-ramp. Be clear and proactive on what a site meets. Expectations for suppliers going forward need to be clear. Signal to mining companies important. Targeted claims, do not call it responsible today if you might not be able to change it later on.

Consultancy: Also works with IRMA and experience with FSC. What is the % of industry you want to attract over the next years? Leadership-focused standard at IRMA, but now with on-ramp. If half of industry to be involved, would have to create very different standard. Cert is not for everyone. If not there yet, not a bad thing. If everyone is there, what is the point of certifying? Critical point to be set. Inclusivity not necessarily primary principle. Plea for ambition.

Standard-setter: GHG requirements were part of recognition assessments for mining schemes.
Opinions on linking sourcing and GHG (Morning session)

Standard-setter: Focus on 1 area to avoid delays of certified steel getting to market and to keep up momentum. Sourcing and GHG currently the key topics, but others may raise to the top, e.g. water, and how do you then deal with them?

Standard-setter: Not decoupling per se but avoid issues in reaching level 1. RS is not just about GHG which is an important differentiator. Initial requirements must be achievable. Market focus on GHG is a real risk. Credibility is lost quickly if one or the other is ignored. Define sensible starting point, standard can be revised. Could have separate GHG label?

Steel company: Too far-reaching by asking for 3 levels. Prone to mis-interpretation. Issues in reaching level 1. Levels discouraging, stick with 1 level but show difference to best performer

Steel company: Decoupling, not because 1 is more important than the other, but because it will allow addressing both issues properly. Provides more flexibility. They are a global company, coupling will exclude sites in some regions. Clear claims needed to be truthful. AM says meet sourcing now, GHG claims should be a bolt-on. Could have separate GHG label
Linking responsible sourcing and GHG

Opinions on linking sourcing and GHG (Morning session contd.)

Steel company: separate issues. You also have the site certification, steel certification is a differentiator. Standard can be revised in future. Do not shoot for the moon. Transition process that needs to be initiated, claims can be graded

Consultancy: Is setting the bar high letting great get in the way of good? Could this be a branding issue where "Responsible" is the highest level but partial labels may be earned along the way and branded differently? Having both together enables holistic conversation, are you happy for them to be looked at separately? Might drive the market in the wrong direction if you were to decouple

Industry association: concerned about external perception if decoupled, how easy is it to communicate splitting? Also, the perception of not talking about the other issue is a concern

Independent: Hardly any mine sites that are near “certification”. You need both issues up to some level

Steel company: Include today that increased performance will be expected, define several steps. Clear path ahead of us. Transition important. De-couple now but state that in 3 years or so coupling will occur
Supplier self-assessments versus third-party audits

Remember that we want to promote recognised ESG standards in the supply chain, not just any standard

- What is the role of self-assessments?
- Are they sufficient to confirm that a supplier is acting responsibly and to make public claims to that end?
- Are there other types of assessments we might want to accept?

Self-assessments: Align behind clear and agreed criteria, get mines to start working on ESG issues

Only the starting point as perception of one’s own performance will inherently be biased and rigour of assessment will vary
Supplier self-assessments versus third-party audits

Opinions on self-assessments (Afternoon session)

Consultancy: No, we are well beyond self-assessments. Reputational impact would be profound. 3rd party audits. Self-assess useful to bring people in, identify gaps, but that is it

Certification body: Auditing perspective is that self-assess are not objective

Certification body: Self-assess not to be basis for claims

Standard-setter: Rating agencies: if they can pass RS’ recognition process that’s good.

Steel company: No claims on self-assess. Know Ecovadis well, would dilute the waters. Being able to cover off a certain percentage of supply chain is important. Especially in relation to scrap, this becomes difficult. One particular alloy, necessary to get everything done?

Standard-setter: Processing sites expectations should be the same as for mining
Supplier self-assessments versus third-party audits

Opinions on self-assessments (Morning session)

Steel company: No claims based on self-assessment

Steel company: Self-assessment gets mines engaged and understand issues. Concern is pace, hardly any mines “certified”, what could be the starting point for RS? There are other ways for pointing to future requirements

Steel company: Agrees with AM, good to promote step-in

Consultancy: Inaccuracy of self-assessment, but audits not fool-proof either

Certification body: Auditor perspective, what is the level of acceptance if there are a lot of gaps, is an action plan sufficient?

Consultancy: Focus on mining, there are other stages of supply chain which could start with self-assessment as well, e.g. molybdenum, other options such as “proxy certification”
Chain of Custody / circumstances for selling ‘certified steel’

• What are the kinds of claims that steel sites want to make?
• What are the claims that their customers and stakeholders expect to see?

Draft proposal:

“Our site has achieved Level 1 of 3 of ResponsibleSteel ‘Steel Certification’. This means that we are engaging with our input material supply chains to improve ESG performance and that our CO2 emissions are lower than the global average. See responsiblesteel.org/certification for more information.”

Important not to overstate, yet claims should be meaningful to attract interest

Opinions?
Opinions on claims (Afternoon session)

Steel company: Steel certified full-stop, don’t make it too complicated. Other systems are nuanced on all fronts and RS is not, just for sourcing and GHG. Calculation of mined material score / input material score not easy to do. EU Taxonomy: Transitional category. Green activities and transitional activities.

Standard-setter: Started off as binary system. Has now become more complex with different levels. Trying to balance high bar of IRMA and don’t want to certify status quo but want mechanism to bring in many and improve over time and also gives you the credibility needed with civil society. Even end user brands are using levels. Start low with 3rd party audit and work yourself up. Do not lose nuance

Standard-setter: Complexity of communicating, but reality is that their system with 5-level rating scale was meant to improve practice. Allows addressing issues in much more nuanced way, e.g. FPIC.

Industry association: Multilevel system for ITA Code to encourage disclosure and inclusivity. Tin sector smaller than most sectors, so ensures you can join process and demonstrate.

Certification body: Has levels system too. 5 years ago would have said keep it simple. This has changed. Some companies are seeking higher levels. Recognise different levels of performance
Chain of Custody / circumstances for selling ‘certified steel’

Opinions on claims (Morning session)

Steel company: do not adopt levels, difficult to understand. Provide the actual figures for the site in question. Figures may evolve over time.

Steel company: Do not adopt levels. Is this piece of steel responsible is what clients want to know. Simplicity. Enough mines that participate in programmes? Need to define accepted ESG level for mines. Statement could be x% meet or exceed certain level. %in-%out (mass balance) not an option, they prefer a system where you can label entire production as RS certified not just certain %.

Steel company: Simple claims needed. Unlikely that higher levels could currently be achieved. Not keen on figures to go with claim since products will be benchmarked by customers (comparing apples with pears). Careful not to dilute the site certification standard, is not achieved lightly. Simple yet credible claims. Something in-between self-assess and 3rd party onsite audit that gives you an outlook on risk. If no risk, no requirement to audit? Independent risk assessment process needed

RS: Look at broadening the recognition assessments?
Opinions on claims (Morning session contd.)

Steel company: Mass balance does not work due to % limitation. Not many mines signed up to the mining programmes yet, so high share cannot be achieved. What is a legitimate baseline? Has to be somewhat difficult to achieve.

Steel company: Companies expected to assess their whole portfolio and communicate on risk level, could be recognised in claim. There are other ESG analysts that have their own framework, could be leveraged if reliable.

Independent: Need input from mining companies. Are they prepared to go through 3rd party audit?

Consultancy: Partial audits? Desk-based audits? Instead of all or nothing approach. No cherry-picking to cover only well-performing areas though.
Traceability and Chain of Custody are not the same (from ISO 22095 Chain of custody — General terminology and models):

**Traceability** = the ability to trace the history, application or location of a product. It delivers the ability to follow the movement of a product and its components through specified stages of production, processing and distribution.

The concepts of traceability and chain of custody are not identical. A **chain of custody is a chain of responsibility for the custodianship of materials** ... as they move through a supply chain. Its purpose is to ensure that the specified characteristics that are claimed for a particular material ... are indeed the ones that are actually delivered in the output.

A **chain of custody system can use traceability records** to identify the supply chain actors that take legal ownership or physical control over a material.... (RS addition: for example invoices, delivery notes)

We do not require traceability but chain of custody
Chain of Custody / circumstances for selling ‘certified steel’

What Chain of Custody models exist and which ones are suitable for the steel sector?

<table>
<thead>
<tr>
<th>Models without mixing</th>
<th>Models with mixing</th>
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<tbody>
<tr>
<td>Identity preserved</td>
<td>Segregated</td>
</tr>
<tr>
<td><strong>Controlled blending</strong></td>
<td><strong>Mass balance</strong></td>
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<tr>
<td><strong>Book and claim</strong></td>
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<table>
<thead>
<tr>
<th>Physical separation of materials?</th>
<th>Yes</th>
<th>Yes</th>
<th>Yes, for the part with specified characteristics</th>
<th>No</th>
<th>No</th>
</tr>
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<tbody>
<tr>
<td>Volumes sold with specified characteristics match or do not exceed volumes bought with specified characteristics</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes, within specified timeframe</td>
<td>No, but claimed volumes shall be in balance with associated credits</td>
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What Chain of Custody documentation has to be kept at each stage of the supply chain to ensure the eligible origin of mined material?

Documentation usually required by a Chain of Custody system: For example,

- Order slips
- Invoices
- Delivery notes
- Bills of lading

The Mined Material Score must be shown on the documentation to show that ‘specified characteristics’ are kept and to allow calculation of one’s own Score.

Also need a system to capture the Mined Material Scores of all suppliers and calculate one’s own Score.

Certification could potentially be done remotely.
Any thoughts on Chain of Custody?

Independent: ASI has a CoC standard (mass balance), can be done remotely including a virtual site walk to check materials with the ASI logo/claims. Early days for ASI. CoC taxonomy to help people understand the different approaches out there. There is a need for traceability in the steel sector for some products, e.g., construction, automotive.

Steel company: Have some experience with traceability and sustainability claims using SAP to track coils, etc. (downstream supply chain). Is complex when intermediaries are involved.
Thank you for your contributions!

Looking forward to our conversations on 08 and 09 July

Marnie Bammert, mbammert@responsiblesteel.org
Responsible sourcing draft requirements – Discussion session with members

08 July 2021
09:00-11:00 CET and repeated at
17:00-19:00 CET

Marnie Bammert, Technical and Assurance Director
## Agenda today

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Supply chain visibility and using an “auditable mechanism”

The following mined materials are in scope where these are used by the site, whether in raw or processed form:

- Ferrous raw material
- Coal / Charcoal
- Limestone
- Ferro alloys
- Non-ferrous raw materials

Is this clear enough?
Supply chain visibility and using an “auditable mechanism”

- 95% of total volume of mined material in scope to be known to origin
- No disclosure required
- No traceability required, not expected to note down where each shipment comes from
- Auditable mechanism: When suppliers cannot or do not want to support visibility efforts: E.g. commissioning a specialised service provider to map external scrap supply chain. Or requesting that suppliers provide information on their sourcing to the steel site’s ResponsibleSteel auditors under a Non-Disclosure Agreement (NDA)
- Due diligence legislation: Visibility is the starting point
Supply chain visibility and using an “auditable mechanism”

Guiding questions:

• Why is it so difficult to know the origin of processed material?
• To what extent can we accept blind spots in supply chains?
• What are the implications of an “auditable mechanism” in terms of cost and effort? How can it best be implemented? (see below)

Auditable mechanism could be: Steel site requests from a sample of scrap suppliers to provide evidence directly to the auditors on their scrap sources under a NDA. Auditors could review evidence related to provenance, such as customs declarations, certificates of origin or shipping logs.

Opinions?
Supply chain visibility and using an “auditable mechanism”

Afternoon session

Certification body: E.g. in timber, you only have to prove that it is indeed recycled, then nothing else is needed

Certification body: Suppliers are sometimes shared, could create a network approach. SEDEX is an example of a platform, have harmonised due diligence checklist. Audited by one, can share results with others. See also steel company comment below

Academia: Clarification of definition of origin needed. For Scrap we give helpful examples. For mined material it is the mine site. Supply chain audits he was engaged in: There can be thousands of transactions. Auditors take samples under NDAs. Time-consuming but doable and gets results
Supply chain visibility and using an “auditable mechanism”

Afternoon session (contd.)

Steel company: Scrap suppliers they have interviewed. Diversity of audit frameworks and questionnaires from customers a challenge. Might be more inclined in engaging in certification or support an auditable mechanism due to this. Should be paid by RS or customers. Certification is marketable they realise. Many different intermediaries make things very complicated, mixing in scrap very common. If EU origin and staying there, is low risk and this should be recognised

Consultancy: Not traceability but visibility is required here. “Reasonable” effort should be required. Sometimes, especially for spot markets, even country of tier 1 alloy suppliers that is bought from is not known

Standard-setter: With mines, you may also want to know if that mine site sources ores from others (e.g. from ASM, and processes on site)
Supply chain visibility and using an “auditable mechanism”

Morning session

Steel company: mined material not a challenge, but ferro alloys since lots of input materials required. Can be a secret where the raw materials are from. 5 or more suppliers, blending. It is different for iron ore or coking coal. Auditable mechanism could help, but cannot speak on behalf of suppliers. Processors have big impacts, often biggest from environmental and human rights points of view than mining.

Steel company: coal blends are tricky. Willingness to share information might be limited and tracing back might be challenging.

Steel company: agrees, supply may change throughout the year, not sure that suppliers would open their books to auditors. Sinter and pellets included? Yes. Many materials used by steel sector. BES 6001: Identify the mine site is the default. Look at processing site if mine not known (i.e. go as far as you can). Need to talk to suppliers to understand issues with being transparent.

Steel company: agrees, processed and non-processed to be treated differently. Primary raw materials: If focussing on that could be challenging too. Mines not always have the biggest impact. Env impact of coal plant, sinter plant, etc. bigger than mining. Knowing supply chain back to mine site could be default requirement, but if not possible, then ask them to disclose within auditable mechanism. If not possible, ask for country of origin. If not possible, supplier must provide evidence of there not being risk.
Supply chain visibility and using an “auditable mechanism”

Morning session (contd.)

Downstream business: supportive of the 95% requirement, the more that is known the better. Risk-based approach? Concentrate risk?

Independent: Maximum traceability boundary in BES 6001 (report or explain). Auditable mechanism or clearing house. How do we enable change to start? Beneficial to align to due diligence legislation? Influence of individual companies might be limited. Build coalition? Find ways of opening up supply chains. Agrees with ASCSS on below comments

Steel company: Lots of processed materials. 95% challenging. Materials come from different mines. Processing has higher impacts than mining, e.g. in ferro-chromium production

Consultancy: IMOA (molybdenum). There might be interest in auditable mechanism. Increased request for audits are a concern to them. Platform could be helpful. Align more with OECD re choke point thinking?

Industry association: Tin suppliers carry out audits to meet OECD requirements. Should be sufficient for RS purposes. LME requirements relevant? They have a self-declaration form on supply chain transparency which could be reviewed by RS

Consultancy: Do audits give the confidence where we need it? We need confidence where there are risks/uncertainties. Avoid false declarations. Directors Declarations are (legally) binding. Potential tool? Focus on risk instead?

Certification body: MoU could be another tool to use
Public disclosure on sourcing-related information

Our proposed draft requirements:

5.1. The following site-related information is regularly reported to ResponsibleSteel for publication on the ResponsibleSteel website:

a) Countries of origin for each input material category and the share that each country accounts for in relation to the used quantity of the respective input material;

b) Percentage of input material that is from fully known supply chains, per input material category, and changes in percentage since the last reporting period;

c) Aggregated results of self-assessments and third-party audits against ResponsibleSteel-recognised ESG standards in mined material supply chains, per input material category;

d) Percentage of external scrap suppliers that are classified as high or medium ESG risk and changes since the last reporting period;

e) Support provided to input material suppliers to address ESG issues since the last reporting period;

f) ResponsibleSteel-accepted ESG achievement levels present in the site’s mined material supply chains, per input material category, and changes since the last reporting period;

g) Mined Material Score and Level, External Scrap Level and combined Input Material Level and changes in score and levels since the last reporting period.
Apart from country of origin, which might give away the names of suppliers, the requirements ask for aggregated data or summarised information.

The disclosures could be retrieved from the audit reports, so no separate reporting stream to RS might be needed.

Responds well to due diligence legislation.

Guiding questions:

• What are the expectations of downstream customers and civil society when it comes to disclosure on sourcing?

• What exactly are steel company concerns when they refer to “sensitive information” that should not be published? Is it just knowing which suppliers they buy from?
Public disclosure on sourcing-related information

**Afternoon session**

**Standard-setter:** Be more specific on c)

**Steel company:** drop a) can even have price implications if supplier can be derived from the country of origin. Interested in risk level we are, not country. Use a scale that is publicly available so there is no debate and no difference in how risk is judged. Provides info that is actionable. RS to develop or determine a scale to use?

**Academia:** Country-level ask is reasonable and since info is about sourcing is appropriate. What are we concerned about? Env scale, social, etc.? Which one is used? Some stakeholders might be interested in issues that are not reflected in scale. RAND has provided a scale for the EU. Contains 1 parameter only. But, drive up participation in programme, unreasonable barriers should be avoided

**Certification body:** If country of origin provided to auditor that should be sufficient, does not need to be published. Looks like standard stuff we are asking, should be fine apart from a)

**Steel company:** Measuring ESG risk will be important. Annex 3 not clear

**Standard-setter:** Audit results publicly available, so miners in their programmes would have no issues with required disclosures

**Steel company:** Sites usually do not purchase themselves, must be taken into account in requirements
Morning session

Downstream: Defined level of detail not needed. They as customers need to know that risks are understood and managed. Are happy to rely on third-party certification. Have similar challenges in understanding their own sources. More than 12000 suppliers. Certification scheme to do leg work

Steel company: Country of origin, percentage can be competitively sensitive information

Consultancy: Want to know an aggregate of all covered certificates, percentage of supply chain that is known, whether any material assumptions have been made. Stakeholders ask for information because they want to do their own assessment. Delicate balance to strike here. Trust in RS audits should be our aim rather than comprehensive disclosure

Standard-setter: Challenge is that we are new and are yet to build trust in our system. Disclosures are a way to gain that trust

Steel company: Sufficient recognised mining programmes available? Who decides on the risk level of scrap suppliers?
Scrap supply chains

Requirements cover **external scrap**: Scrap provided from outside of the steelworks, including manufacturing scrap (from the manufacturing of final steel-containing products such as automobiles) as well as end of life scrap (scrap from after the end of its previous life).

Does not include **internal scrap** (from crude steel making and recycled within the same unit) nor does it include home scrap (from downstream steel production within the steelworks).

(Adapted from ISO 20915:2018(E) Life cycle inventory calculation methodology for steel products).
Scrap supply chains

**Upstream cut-off point** (Furthest link in supply chain covered by the responsible sourcing requirements):

The first company that receives or consolidates scrap after the previous life of the scrap. To give some examples of previous lives and the furthest link in the upstream supply chain:

<table>
<thead>
<tr>
<th>Previous scrap life</th>
<th>Furthest link in the upstream scrap supply chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings or bridges</td>
<td>The company that receives the recovered scrap after demolition</td>
</tr>
<tr>
<td>Ships or cars</td>
<td>The company that dismantles these items, such as the shipbreaking yard</td>
</tr>
<tr>
<td>Fridges, toasters and other household appliances</td>
<td>The company that accepts and consolidates scrap after collection from households and other sources</td>
</tr>
</tbody>
</table>
Scrap supply chains

Work with suppliers to increase transparency, address ESG risks and implement the ‘Responsible Scrap Principles’, meaning:

• Within 3 years of becoming certified, at least 30% of total quantity of external scrap is from supply chains where all links in the chain are known, up to the primary scrap consolidation or manufacturing site
• Do scrap supply sites systematically manage environmental, health and safety, labour and human rights issues?
• If not, assess them for ESG risks
• Where there are high ESG risks, discuss and agree with them how the issues will be addressed and if and how the steel company can support suppliers in doing so
• Keep track of supplier progress in addressing ESG risks
### Scrap supply chains – Requirements to sell ‘certified steel’

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Score of 1</th>
<th>Score of 2</th>
<th>Score of 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Scrap suppliers are known up to the primary scrap consolidation or the manufacturing site</td>
<td>For at least 50% of the purchased scrap (by mass)</td>
<td>80% of the purchased scrap (by mass)</td>
<td>95% of the purchased scrap (by mass)</td>
</tr>
<tr>
<td>b) In fully known supply chains, tier 1 supply sites are certified to a ResponsibleSteel-recognised CoC Standard if they provide scrap to the site</td>
<td>There is evidence for the suppliers of at least 20% of the purchased scrap (by mass)</td>
<td>40% of the purchased scrap (by mass)</td>
<td>50% of the purchased scrap (by mass)</td>
</tr>
<tr>
<td>c) Known suppliers adhere to the ‘Responsible Scrap Principles’</td>
<td>At least 50% of tier 1 suppliers</td>
<td>At least 50% of tier 1 and tier 2 suppliers</td>
<td>At least 50% of suppliers up to the primary scrap consolidation or manufacturing sites</td>
</tr>
<tr>
<td>d) Known suppliers systematically manage environmental, health and safety, labour and human rights issues in line with recognised standards and guidelines</td>
<td>There is evidence for the suppliers of at least 20% of the purchased scrap (by mass)</td>
<td>40% of the purchased scrap (by mass)</td>
<td>50% of the purchased scrap (by mass)</td>
</tr>
<tr>
<td>e) Where known supply sites do not systematically manage environmental, health and safety, labour and human rights issues, they are assessed for ESG risks that are not covered by their management approach</td>
<td>There is evidence of ESG risk reduction for the suppliers of at least 20% of the purchased scrap (by mass)</td>
<td>40% of the purchased scrap (by mass)</td>
<td>50% of the purchased scrap (by mass)</td>
</tr>
<tr>
<td>f) High and medium ESG risks are addressed together with known suppliers</td>
<td>There is evidence of ESG risk reduction for the suppliers of at least 20% of the purchased scrap (by mass)</td>
<td>40% of the purchased scrap (by mass)</td>
<td>50% of the purchased scrap (by mass)</td>
</tr>
<tr>
<td>g) ESG risk reduction efforts are effective</td>
<td>There is evidence of ESG risk reduction for the suppliers of at least 20% of the purchased scrap (by mass)</td>
<td>40% of the purchased scrap (by mass)</td>
<td>50% of the purchased scrap (by mass)</td>
</tr>
</tbody>
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Scrap supply chains

Afternoon session

Steel company: The way that scrap is bought is different around the world. Would you create disadvantages for steelmakers based on where they are located? Degree of influence needed to facilitate change. What is the degree of influence you have over scrap suppliers? Scrap much needed, lots of competition for scrap. Seek joint way rather than each company individually.

Certification body: Go up to the choke point as in OECD, so examples for cut-off point make sense (First consolidation points)

Consultancy: Identified point is refinery. There is more than 1 identified point in many supply chains, makes things very complex

Steel company: Agree with TDI. Level of influence will vary from region to region and from mill to mill. Will be a big lift for many 1-person businesses. 100+ suppliers, difficult for SMEs. Instead of Code of Conduct, agree on rather high-level principles. Frame the requirements around the actual scrap terminology used by industry?

Academia: Ontario: Govt licensing scheme of scrap producers recently introduced. Seems to largely align with our Scrap Principles. Have a pre-approved list?

Steel company: Drop Code of Conduct, rather use agreed principles. Transparency goes to the core of scrap suppliers’ business. Other than that, no issues have their scrap suppliers with what is outlined in RS Scrap Principles. Very small companies, also in developed companies, is often the first commercial level. Minimum threshold for size of company that should be covered by RS requirements? Buyers share concerns. Even small companies might be inclined to export rather than selling locally if too challenging. In regions where ESG risk is known to be low, acknowledge that in requirements. Buyers speak about chemical content, not about type of scrap. Abundant, local, easy to get is what buyers look for.
Scrap supply chains

Morning session

Steel company presentation on knowing the scrap source, which is virtually impossible in many cases (RS is seeking permissions to make recording of presentation available to members). US-Turkey do most of the seaborne trade. EU: No imports of scrap. High quality scrap needed in future, not the “bad” stuff that is causing problems. Can check human rights issues when you carry out audits, but no means to do so otherwise. EU: radioactive checks legally required since 2018

Steel company: Incinerators (CO2 impact relatively high, but removing waste material), municipal recycling facilities, also directly from manufacturers is where they source their scrap, relatively easy to trace back. ESG risks relatively low (apart from CO2 at incinerators). Accumulation of scrap from many different places, almost impossible to trace back. Suppliers willing to open up and be audited? Quality widely variable, is their main concern. If even that cannot be solved, how can traceability?

Independent: Different risk profiling elements that could be applied. RS role to put pressure on scrap industry, e.g. via BIR. Sector is more open now maybe since they hear ESG expectations more clearly. Chain of auditing might not be the best way to have impact. Use the steel sector support to lobby scrap industry. Project team? 3rd party cert in scrap supply chain generally very limited

Consultancy: Geographic boundaries (good / bad countries): consider trade issues arising from that, also from preferential treatment for some suppliers. How are we using the information, how is it disclosed not to run into trade-related issues? Worst cases (e.g. radioactivity, human rights violations in shipbreaking): are they geographically limited?

Independent: Steel recycling institute in the US. Seek input from them and other relevant orgs, need involvement from them. Steel has already been made, its real origin will never be known (its beginning of life). Focus should be on the people processing and supplying the respective scrap. Seaborne trade in scrap -> geographical boundaries concept ends here
What to expect from “smaller” sectors

• Currently not treated any different from “larger” sectors
• Received requests from smaller sectors to apply different set of requirements
• E.g. should be sufficient if suppliers are certified to ISO 14001, ISO 45001 and, potentially, provide some sort of evidence that social issues are managed well

Guiding questions:
• What are “smaller” sectors?
• Why should they be treated differently?
• What are the risks for ResponsibleSteel and its participants if requirements are less comprehensive?
What to expect from “smaller” sectors

Afternoon session

Certification body: Audit fatigue, recognition is common now, no self-assessment but internationally recognised standards should be accepted. Social and ethical issues not picked up by the ISO standards mentioned. ISO 14001 asks you to identify all env aspects and address those that are material. Does drive environmental improvement. Public transparency not required. Accreditation an important quality factor though

Consultancy: there are at least 2 mining standards that are agnostic, it is large mines for moly and nickel even though delivered volumes are small

Consultancy: Most moly is by-product in mining. For tier 1 and 2 suppliers of steelmakers, there are no standards, this is the issue. Middle of chain is where there the gap is. IRMA minerals processing standard under development and relevant. Where ISO covers RS requirements, this should be recognised by RS system. Progressive and continuous improvement element the ISOs have. Assurance process needed? Social aspects in addition?
Afternoon session (contd.)

Standard-setter: Could RS do a recognition assessment of ISO standards?

Academia: Management system standards, not performance are ISO. ISO 50001 could be added too. Processes to enable performance is what they ask for. RS is more industry-specific, more performance-driven, although lots of process still. Other materials than molly and nickel that want to be treated differently?

Certification body: Accreditation quality differs from country to country

Standard-setter: Sampling rate of accreditation bodies is low, they don’t look at each audit report or witness each auditor for a certain programme/standard. Oversight can be done well in other ways. RS sampling rate is certainly higher. ISO audit reports often not understandable if you have not been at the audit, they are for internal audiences. Not sure it would help clients to see audit reports of suppliers. Hesitant to blindly trust certification results where you have no control at all over the underlying process
What to expect from “smaller” sectors

Morning session

Consultancy: No comprehensive ESG standard beyond mining available. Roasters, producers cannot revert to a recognised standard. Survey within IMOA on ISO 14001, ISO 45001 certifications: Widely implemented, so responsible practices are being adopted. Developing a moly standard or linking to existing standards takes time and is costly. RS assurance process not open to moly? Yes it is

Independent: Moly sites could seek to apply the RS Standard

Steel company: Moly and other small input materials: The impact they have on the RS claims is small. Steel companies could easily pass on them. Risk associated with small inputs can be high but this is not reflected in any of the RS calculations of the scores. Moly and the like would probably not be the first “targets” of the steel sector
Thank you for your contributions!

I look forward to our conversations tomorrow

Marnie Bammert, mbammert@responsiblesteel.org
Responsible sourcing draft requirements – Discussion session with members

09 July 2021
09:00-11:00 CET and repeated at
17:00-19:00 CET

Marnie Bammert, Technical and Assurance Director
# Agenda today

<table>
<thead>
<tr>
<th>Time</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 mins</td>
<td>Welcome, housekeeping, antitrust</td>
</tr>
<tr>
<td>5 mins</td>
<td>Aim and format of the discussion sessions on 07, 08 and 09 July</td>
</tr>
</tbody>
</table>
| Ca. 110 mins| • Continued: Chain of Custody and under what circumstances can steel be sold as certified?  
• Creating or linking up with a platform for collecting and (confidentially) sharing supplier information  
• Contents of a “baseline” supplier code of conduct |
| 19:00 CET  | Wrap-up and close                                                     |
Chain of Custody / circumstances for selling ‘certified steel’

Discussions so far with industry

No levels
• if not achievable
• complex to communicate, provide actual figures instead
• customers will compare (apples with pears, will do so with levels and figures)
• customers want simplicity: Is this piece of steel responsible? (RS: Bar would have to be set quite high to answer this with yes)

Levels
• allow broad participation (if levels achievable)
• roadmap for future expectations
• incentive to improve beyond status quo
• reward mines with good ESG performance
Chain of Custody / circumstances for selling ‘certified steel’

What do others do?
- 4 standard setters on 07 July call: All 4 have levels (CARES, IRMA, ITA, TSM)
- Important downstream schemes GBCA, BES 6001, LEED all have levels

Transitional category and 1 level?
- EU Taxonomy for green finance
- Organic agriculture (3 years)

Stakeholder views needed
- Impression so far: Downstream and NGOs might support if there is clear pathway for strong ESG performance and if appropriate mining programmes are recognised
Chain of Custody / circumstances for selling ‘certified steel’

Chain of Custody (CoC, chain of responsibility for custodianship of materials)

- Differentiate between upstream and downstream
- Currently only thinking about upstream (mine to steelmaker)
- Downstream has different needs (steelmaker to end user, e.g. construction)
- Steel companies want to sell all steel as certified
- Separation of material not possible. Too many suppliers, blending and mixing
- 5 CoC models exist. None workable for steel (require separation or % in = % out)
- Need to develop our own system to provide comfort about (soon-to-be-proven) responsible origin. No traceability to origin
- Upstream CoC can be verified remotely since not requiring separation, can be part of audits against recognised standards
Chain of Custody / circumstances for selling ‘certified steel’

What **CoC documentation** has to be kept at each stage of the supply chain to ensure the eligible origin of mined material?

Documentation usually required by a Chain of Custody system: For example,

- Order slips
- Invoices
- Delivery notes
- Bills of lading

The **Mined Material Score** must be shown on the documentation to allow calculation of one’s own Score.

Also need a system to capture the Mined Material Scores of all suppliers and calculate own Score.
Chain of Custody / circumstances for selling ‘certified steel’

The ‘Mined Material Score’

All mining programmes considered for recognition use different rating scales
(Note ICMM and ITA still under assessment)

<table>
<thead>
<tr>
<th>TSM</th>
<th>IRMA</th>
<th>Bettercoal</th>
</tr>
</thead>
<tbody>
<tr>
<td>A (Systems/processes developed and implemented)</td>
<td>40 critical requirements met (TBD)</td>
<td>Partially Meets</td>
</tr>
<tr>
<td>AA (Integration into management decisions and business functions)</td>
<td>50 (40 critical, plus 50% of all requirements met)</td>
<td>Substantially Meets</td>
</tr>
<tr>
<td>AAA (Excellence and leadership)</td>
<td>75 (40 critical, plus 75% of all requirements met)</td>
<td>Meets</td>
</tr>
<tr>
<td>--</td>
<td>100 (all requirements met)</td>
<td>--</td>
</tr>
</tbody>
</table>
Chain of Custody / circumstances for selling ‘certified steel’

Mechanism to convert different scales into a common parameter (= points)

Points depending on mine site performance to incentive improving performance

This is what it might look like:

<table>
<thead>
<tr>
<th>TSM</th>
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<th>Bettercoal</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>A (Systems/processes developed and implemented)</td>
<td>40 critical requirements met (TBD)</td>
<td>Partially Meets</td>
<td>1</td>
</tr>
<tr>
<td>AA (Integration into management decisions and business functions)</td>
<td>50 (40 critical, plus 50% of all requirements met)</td>
<td>Substantially Meets</td>
<td>2</td>
</tr>
<tr>
<td>AAA (Excellence and leadership)</td>
<td>75 (40 critical, plus 75% of all requirements met)</td>
<td>Meets</td>
<td>3</td>
</tr>
<tr>
<td>--</td>
<td>100 (all requirements met)</td>
<td>--</td>
<td>4</td>
</tr>
</tbody>
</table>

Score initially calculated at mine-site level (might buy minerals form other mines), then recalculated at each step of the supply chain.
Chain of Custody / circumstances for selling ‘certified steel’

IRMA status and outlook:
- New scheme, 2 audited mines so far, 1 did not meet the 40 criticals, the other achieved 75. 4 more mines over next months, iron ore, nickel
- Gone from a dozen to more than 50 mines that have interest and are starting to use the self-assessment tool. Not sure how many of those will be audited (25 different mined materials). “Meet IRMA 50 by 2025, and then improve further” is a downstream demand
- ITA status:
  - 73% of global tin production in their system, but tin is much smaller (in terms of volume)
  - Mandatory requirement for members to report against Tin Code. 10 Priority Standards which have to be achieved at the highest level within certain time period.

TSM status:
- Quite a few mines achieve A in Canada and other countries. 4 mines have AAA (all coal sites)
- All TSM members must commit to improvement. Steel sector has pull with TSM members
- Has been adopted by the national associations of Brazil, Australia, Canada, Botswana, Finland, Spain, Norway, Philippines, Colombia

RS to get info from Bettercoal and numbers from all programmes

Ask steelmakers for test calculation: Can it be done easily? What would be their current Score? Can inform where the (future?) bar should be set

Arch Resources: Is there a pathway for individual mining companies to participate in TSM?

TSM: Creating an option to adopt TSM outside of national associations. Community of Interest Panel has to be created usually in each country, is one of the challenges
### Chain of Custody / circumstances for selling ‘certified steel’

#### Example of a calculation

<table>
<thead>
<tr>
<th>Mined material</th>
<th>ESG achievement level</th>
<th>Mined Material Score</th>
<th>Tonnes purchased</th>
<th>Total Mined Material Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron</td>
<td>TSM AA</td>
<td>2</td>
<td>500.000</td>
<td>1.000.000</td>
</tr>
<tr>
<td>Limestone</td>
<td>IRMA 75</td>
<td>3</td>
<td>30.000</td>
<td>90.000</td>
</tr>
<tr>
<td>Chrome</td>
<td>IRMA 50</td>
<td>2</td>
<td>7.500</td>
<td>15.000</td>
</tr>
<tr>
<td>Coal</td>
<td>Bettercoal 1</td>
<td>1</td>
<td>400.000</td>
<td>400.000</td>
</tr>
<tr>
<td>Zinc</td>
<td>TSM AAA</td>
<td>3</td>
<td>7.000</td>
<td>21.000</td>
</tr>
<tr>
<td>Coal</td>
<td>Bettercoal 3</td>
<td>3</td>
<td>200.000</td>
<td>600.000</td>
</tr>
<tr>
<td>Different materials from different mines</td>
<td>None</td>
<td>0</td>
<td>1.200.000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>2.344.500</strong></td>
<td><strong>2.126.000</strong></td>
</tr>
</tbody>
</table>
Chain of Custody / circumstances for selling ‘certified steel’

Example of a calculation

RS could provide a simple Excel sheet to do the calculation at each step of the supply chain.
Chain of Custody / circumstances for selling ‘certified steel’

As a reminder, this is the future minimum performance we might expect from mines:

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</table>

Any thoughts?
Chain of Custody / circumstances for selling ‘certified steel’

Opinions on the ‘Mined Material Score’ or Chain of Custody (Afternoon session)

Steel company: 85-90% made up by the bulk materials. Not so inclined to focus on smaller-volume materials

Mining company: Are there any levels below the 40 criticals in IRMA that might be recognised? Currently not

Standard-setter: Risk point for RS if accepting “IRMA Transparency” which is not associated with any achievement level and might mean that there are bad things happening. “IRMA light” should not to become the standard though. 40 criticals could be interim step for RS. There is a reason why IRMA has created a high bar at level 100

Industry association: There is a need for an objective Score calculation. Steel sites require input from so many processes and just linking it to weight might skew the outcome. Eric can help

Academia: Table needs a rationale, what does a point of 1, 2, etc. mean. Re Score calculation: Additionally weight according to economic value? Would increase emphasis on higher value input. E.g. zinc vs iron units. Motivating smaller actors it would. Could also apply environmental science weightings or social factors. Nickel mining more difficult and has higher impact than iron ore mining, for example. Stephen can help
Opinions on the ‘Mined Material Score’ or Chain of Custody (Morning session)

Consultancy: Reputational risk to RS if there is risk that worse practices happen. Have to establish safeguards

Steel company: Work though the calculation. Mix of ingredients. Iron ore and coal supply chains at lowest level gets you close to 1. Incentive to work with other smaller suppliers much less once you have achieved the minimum score. Threshold of 0.5. Reputational risk. Balance between sites that have been audited. Reliance on media reports, rating type alerts, etc. should be considered. Relying on upstream certification, challenge of what is under our control and what is not. Programmes need to have mechanisms in place to have consequences for breaches

Standard-setter: Can put rules in place with clear timelines for consequences to ensure steel companies can still meet their materials demand
Chain of Custody / circumstances for selling ‘certified steel’

Opinions on the ‘Mined Material Score’ or Chain of Custody (Morning session)

Certification body: Reputational risks. Perspective from other sectors, e.g. electronics. Forced labour etc in supply chains. Make it work in a way that zoom in on those issues and ultimately get rid of these issues. Consequences and safeguards needed.

Steel company: Consequences needed if bad things happen under a recognised programme.

Mining company: Situation where a handful of mining programmes are approved, but further downstream opinions differ. Buy-in further downstream needed. Is a risk.

Standard-setter: Overlap of membership in e.g. RS and IRMA. If a programme goes rogue, downstream will let you know. If you put your eggs in a basket you want to be sure it is a good decision.

Standard-setter: Good to see that standards start looking at each other and work more closely together.
Platform for supplier information

• Collect information on ESG performance
• Share (confidentially) with supply chain partners
• Reduce effort for both suppliers and steel companies
• All work with the same information
• Collaborate with existing systems?
• Develop own system (with recognised programmes)?

Guiding questions:
• Which, if any, option is preferred?
• Which systems are out there and who has experience with them?
• What do we need to consider?
Platform for supplier information

Opinions on a shared platform (Afternoon session)

Consultancy: There are different platforms to connect and share information. Worldsteel / RMI “Material Insights”: 60 different materials, includes all risks associated with them. Saliency, public issues, association with ESG issues. Different certification initiatives. Could be an input into RS process. Gemstone and jewellery industry as well they work for. Can share audit information with customers and supply chain. APIs to connect the different things. Biggest question is always around confidentiality. Data on platform belongs to the organisation that generates it. No one else can see it, not even admins of platform. Only the parties that share it. Is secure, penetration tests to make sure this is indeed the case. Greatest business case is that it drastically reduces the compliance burden. Saliency analysis rather than risk they call it

Industry association: TDI considering risk platforms from many angles. Sponsoring sector is important. Prioritisation needs to be considered, different perspectives that will be brought in need to be considered when working with others
Platform for supplier information

Opinions on a shared platform (Morning session)
Consultancy: TDI Materials Insight, heatmaps, country and material level. RMI to fund development of platform. RMI has their own section, TDI/worldsteel has specific log in area. End of Q3 this year is intended launch. Could potentially have a RS access
Consultancy : Can facilitate presentation of the platform
Steel company: Any platform that helps credibly collect and share info is useful
Consultancy : Example of a platform for modern slavery in Australia. Worked well, 50 large orgs got together. Legal considerations on sharing info, permission levels, access has to be requested, makes sure that only the right people can see the info
Steel company: Hesitant about centralised platform that is potentially open to hacking etc. Making sure data cannot be gleaned if you are not directly involved with suppliers is important. Suppliers to hold info themselves and share (via email?) when needed?
Opinions on a shared platform (Morning session contd.)
Certification body: Works with different schemes such as aerospace who also have a platform. Suppliers give access to customers, manage their own data
Steel company: recommend considering the NQC Supplier Assurance platform by Drive Sustainability. Very user friendly, data secured and has the sharing request functionality that others have mentioned
Steel company: Drive Sustainability or NQC not very useful. Only allowed to upload one document which must be pfd and contain all the issues raised in the specific question, even if there are legal requirements in certain countries that cover the issues - no option to mention that. Also, apart from the chat function, contacting one of the analysts team is nearly impossible
“Baseline” supplier code of conduct

- Streamline asks to suppliers
- Ensuring minimum level of expectations
- Headlines/principles rather than specific Code of Conduct

Guiding questions:
- Do members agree that this would be helpful?
- Which headlines or principles should it cover?

Opinions?
Opinions on baseline code of conduct (Afternoon and morning session)

Consultancy: Risky to accept just any code of conduct, reaction to anything bad is limited if code of conduct does not cover the specific issue, headline level sufficient though. Everybody to send in their codes of conduct and RS derives baseline code of conduct from that.

Mining company: Creates a lot of governance complexity signing up to customer codes of conduct and being audited against them. Customers to share their codes and vice versa and sit down and compare to identify gaps and be able to close them. Promotes dialogues around risk. Code might be signed and sits on shelf.

Steel company: Will take a lot for suppliers to buy-in. Not the actual language, but principles to sign up to. E.g. anti bribery, conflict minerals, etc.
Thank you for your contributions!

Will share slides from all 3 days with notes

Conversations will continue