ResponsibleSteel members Q&A on the requirements for responsible sourcing and GHG emissions

28 April 2022

Alison Lucas, Acting CEO
Marnie Bammert, Technical and Assurance Director
Matthew Wenban-Smith, GHG Lead
Housekeeping

- Observe antitrust issues
- Slides and recording of webinar will be shared with members
- Please keep microphone on mute
- During Q&A, unmute for questions and comments or use chat box
- Chatham House rule: You can talk outside the meeting about issues raised, but please do not attribute any comments to individual speakers or organisations
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.
Agenda

• Reminder of process steps (Ali)
• Overview of responsible sourcing requirements, Q&A, initial feedback (Marnie)
• Overview of GHG requirements, Q&A, initial feedback (Matthew)
• Close

One session in the European morning, repeated in the European evening
Process and timeline for approval of requirements

30 March – 27 May
- Members do final review and provide final feedback

28 May – 19 June
- ResponsibleSteel Team takes account of feedback and finalises requirements, consults with members as needed
- Standards, Assurance and Claims Committee and full Board agree that requirements are ready to go to membership vote

20 June – 01 July
- All full members are asked to vote
- Simple majority from both business and civil society needed

By 05 July
- Board ratifies requirements
Standards, Assurance and Claims Committee and Board assessment

1. Has there been sufficient consultation and stakeholder input?
2. Has the ResponsibleSteel Standard Development Procedure been followed?
3. Have the Terms of Reference been met?

If so, we are ready to seek member approval
General notes

1. Level 1 has to be achieved at a minimum for both responsible sourcing and GHG. Beyond that progress can be quicker on one or the other issue.
2. There is a 12-month ‘test phase’
3. Existing procedures for clarification, interpretation and, if necessary, urgent revision
4. Formal review of whole Standard expected to be initiated in 2023
Draft Requirements for Responsible Sourcing

28 April 2022

Marnie Bammert, Technical and Assurance Director
5 Criteria for Responsible Sourcing

- Extracted material and scrap requirements defined separately, but same headings
- Address ESG risk but also reward good practice
- Criteria 2 and 4 have 4 Levels each: Provide roadmap, break down complexity, account for reliance on suppliers, allow certification when milestones are achieved, recognise front runners
- Level 1 is meant to get the steel sector and suppliers moving, but is intended to be removed when the requirements come up for revision
- No fixed timeline to move from one Level to the next. Incentives from customers, finance sector, NGOs. Peer pressure, competitive edge
5 Criteria for responsible sourcing

<table>
<thead>
<tr>
<th>#</th>
<th>Criteria</th>
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<tbody>
<tr>
<td>1</td>
<td>Commit to responsible sourcing</td>
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<tr>
<td>2</td>
<td>Know your upstream supply chains</td>
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<tr>
<td>3</td>
<td>Understand supplier ESG performance</td>
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<tr>
<td>4</td>
<td>Strengthen and account for responsible sourcing</td>
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<tr>
<td>5</td>
<td>Report publicly on responsible sourcing</td>
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- Commitment to recognised input material programmes and to working with scrap sector to develop ESG ‘solution’. Commitment must be anchored in key functions and processes.
- Recognised input material programmes:
  - Initially proposed to be Bettercoal, IRMA, TSM and FSC or equivalent
  - Also, ResponsibleSteel, where relevant
  - Additional programmes will be assessed and must meet our benchmark to be recognised (see Annex)
5 Criteria for responsible sourcing

1. Commit to responsible sourcing
2. Know your upstream supply chains
3. Understand supplier ESG performance
4. Strengthen and account for responsible sourcing
5. Report publicly on responsible sourcing

Extracted material:
- Sites of extraction and processing known for an increasing share of input material
- Starting with 80% at Level 1 for iron and coal-based inputs and 60% for other input materials (see Annex)
- Wood: 100% FSC certification of plantations, forests and chain of custody, or equivalent

Scrap:
- Countries of scrap origin known for an increasing share of received scrap, starting with 40% at Level 1
5 Criteria for responsible sourcing

1. Commit to responsible sourcing
2. Know your upstream supply chains
3. Understand supplier ESG performance
4. Strengthen and account for responsible sourcing
5. Report publicly on responsible sourcing

Extracted material and scrap:
- Assess ESG risks in supply chains
- Analyse and evolve own sourcing practices
- Promote recognised ESG programmes to suppliers
- Implement strategy to close information gaps, support suppliers and increase participation in recognised programmes
5 Criteria for responsible sourcing

1. Commit to responsible sourcing
2. Know your upstream supply chains
3. Understand supplier ESG performance
4. Strengthen and account for responsible sourcing
5. Report publicly on responsible sourcing

Levels

Extracted material:

- For Level 1: Input material from suppliers that are committed to a recognised input material programme: At least 60% of iron and coal-based material, at least 40% of other input material
- For Level 2 and higher:
  - At least 80% (iron and coal) and 60% (other input material) from suppliers that meet pre-defined ESG performance levels under a recognised programme
  - A chain of custody must be established, using ‘mass balance’ to allow mixing and blending of material
- Wood, all Levels: 100% FSC certification
Pre-defined ESG performance levels under a recognised programme

<table>
<thead>
<tr>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Bettercoal: Substantially met</td>
<td>IRMA 50 or equivalent or ResponsibleSteel ‘Certified Steel’</td>
<td>IRMA 75 or equivalent or ResponsibleSteel ‘Certified Steel’</td>
</tr>
<tr>
<td>• IRMA: Transparency, with action plan to meet the 40 critical requirements within 3-year audit cycle</td>
<td>Or ResponsibleSteel ‘Certified Steel’</td>
<td>Or ResponsibleSteel ‘Certified Steel’</td>
</tr>
<tr>
<td>• TSM: Level A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• ResponsibleSteel: Certified Steel</td>
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<td></td>
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</table>

The pre-defined ESG performance must be met by the mine sites and processing sites of the suppliers.
5 Criteria for responsible sourcing

1. Commit to responsible sourcing
2. Know your upstream supply chains
3. Understand supplier ESG performance
4. Strengthen and account for responsible sourcing
5. Report publicly on responsible sourcing

Scrap:
- For Level 1: No additional requirements
- For Level 2 and higher: Scrap must come from direct suppliers that have undergone relevant third-party audit, starting at 30%
- For Level 3 and higher: Scrap must come from direct suppliers that have achieved the minimum ESG performance under a recognised programme, starting at 30%
- No chain of custody requirements for now
5 Criteria for responsible sourcing

| 1 | Commit to responsible sourcing |
| 2 | Know your upstream supply chains |
| 3 | Understand supplier ESG performance |
| 4 | Strengthen and account for responsible sourcing |
| 5 | Report publicly on responsible sourcing |

Levels

Extracted material and scrap: Report on, for example,
- Percentage of input material from high, medium and low risk suppliers
- Description of ESG risks that have been identified in supply chains
- Actions taken to promote good ESG practices and to help reduce ESG risks, and outcomes thereof
- Percentage of input material from suppliers that meet pre-defined ESG performance
Key issues identified for 12 month test phase

- Ensure that ‘auditable mechanism’ works in practice
- Wood: FSC is currently consulting on certification for plantations that replaced natural forests. Watch that process
- Ensure that conditions for TSM recognition are appropriately implemented
- Ensure that Chain of Custody requirements work in practice

Certificates will be issued during the test phase, but test phase highlights that revisions can be made quickly if need be
Questions on responsible sourcing?

Please review not only the requirements but also the guidance and the Annexes. They help clarify intent and provide advice and recommendations.

We look forward to your feedback!
Draft Requirements for
GHG emissions

28 April 2022

Matthew Wenban-Smith, GHG Lead
# GHG requirements: overview

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Summary of Requirements</th>
<th>Must be met for ‘certified sites’</th>
<th>Must be met to sell ‘certified steel’</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1</td>
<td>• The corporate owner has published a science-based target to reduce the company’s GHG emissions in line with the achievement of the goals of the Paris Agreement</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>8.2</td>
<td>• The corporate owner is implementing the recommendations of the Taskforce for Climate-Related Financial Disclosures (TCFD)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>8.3</td>
<td>• GHG emissions are measured at the site level using a recognised international or regional standard</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>8.4</td>
<td>• Site level GHG emissions are measured from ‘cradle to crude steel’ following internationally consistent scope boundaries and GHG accounting rules</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>8.5</td>
<td>• GHG emissions reduction targets are in place and are being implemented at the site level</td>
<td>✓</td>
<td>✓</td>
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</tbody>
</table>
| 8.6       | • The site has achieved at least the ResponsibleSteel threshold level of performance for the GHG emissions intensity of its production of crude steel  
• The GHG emissions intensity performance for the site is disclosed, tracking progress towards ‘near zero’ GHG emissions  
• The product carbon footprint for all ResponsibleSteel certified products is determined and disclosed in line with a recognised international or regional standard | ✓ | |
| 8.7       | • Key site level information published on the ResponsibleSteel website, including:  
  • Site level GHG emissions data and decarbonisation target (may be averaged)  
  • Site level GHG emissions intensity performance data and performance level (may be averaged)  
  • Product level carbon footprint data available to customers | Site level emissions & reduction targets only | ✓ |
• Variable threshold approach
• Additional carbon footprint data provided
• 4 performance levels: basic threshold is initially ‘better than current global average’, but will become more demanding over time
• Performance level 4 = ‘near zero’
Key issues identified for 12 month test phase

- Review and if necessary revise the default embodied GHG emission factors for determination of upstream Scope 3 emissions
- Review methodology for accounting for process gases and process gas utilisation
- Review the overall ‘basic threshold’ and ‘near zero’ threshold in the light of the above

Certificates will be issued during the test phase, but test phase highlights that revisions can be made quickly if need be
Questions on GHG emissions?

Please review not only the requirements but also the guidance and the Annexes. They help clarify intent and provide advice and recommendations.

We look forward to your feedback!
We welcome your feedback!

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Matthew Wenban-Smith, mwenbansmith@responsiblesteel.org