Responsible Sourcing Working Group
Session 2 - Understanding the Issues

Thursday 25th January 2024

Agenda

- Antitrust & Housekeeping
- Working group schedule and quick recap on last meeting
- Exercise 1 - Understanding the issues
- Exercise 2 - Defining guiding questions to RS (breakout rooms)
- Next steps

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.

https://www.responsiblesteel.org/wp-content/uploads/2018/09/ResponsibleSteelAntitrustPolicy2018-09-20.pdf

Housekeeping

Chatham House Rule:
"[…]participants are free to use the information received, but either the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed."

- Inclusive, participative and open dialogue
- This meeting is being recorded
- We are eager to receive any feedback after this call
- Minutes will be shared with participants

Working group schedule

4 meetings in total

WS 1: 11 January: Introduction to working group – 11 January (done)

WS 2: 25 January: Understanding the issues – today

WS 3: 15 February: Discussion of solutions/possible approaches – 15 Feb (invites sent)

WS 4: 29 February: Outstanding issues, wrap-up – 29 Feb (invites sent)

Exercise 1 - Understanding the issues

Introduction to the issues

1. Are Level 1 and 2 in relation to **knowing the upstream supply chain** (Criterion 3.2) achievable with reasonable effort? If yes, why? If no, why not?

2. Are Level 1 and 2 in relation to **strengthening and accounting for responsible sourcing** (Criterion 3.4) achievable with reasonable effort? If you don't think so, why is that?

3. Does the categorisation of input materials lead to **disadvantages for specific types of steel makers**? If yes, why and for which types of steel makers? If no, why not? Does the standard disadvantage mini mills/EAF vs integrated steelmakers? If so, why?

4. Do the reporting requirements in Criteria 3.5 and 3.10. ask for **information that is commercially too sensitive** to put it on the ResponsibleSteel website? If so, why and which information? If not, why not?

1. Are Level 1 and 2 in relation to **knowing the upstream supply chain** (Criterion 3.2) achievable with reasonable effort? If yes, why? If no, why not?

Of the total tonnes of key input materials received, at least the percentage specified is from upstream input material supply chains where all sites of origin and processing are known. For scrap, it is only the country of origin and direct suppliers that must be known.

	Level 1	Level 2
Iron	≥ 80%	≥ 90%
Coal	≥ 80%	≥ 90%
Other	≥ 60%	≥ 70%

Auditable mechanism:

- In case input material suppliers are not willing to share the identity of their own suppliers with the steel site, they may be willing to cooperate through an 'auditable mechanism'

Feedback received:

- Challenging where materials are bought from traders/brokers.
- Challenging for processed iron materials.
- Difficult for small suppliers

2. Are Level 1 and 2 in relation to **strengthening and accounting for responsible sourcing** (Criterion 3.4) achievable with reasonable effort? If you don't think so, why is that?

At level 1, by tonnes of supplied material, suppliers must be committed to a recognized programme. Levels 2 – 4 require a defined minimum ESG performance level under a recognized programme.

Currently recognized programmes:

- IRMA
- TSM
- Bettercoal

	Level 1	Level 2
	Suppliers committed	Min. ESG performance
Iron	≥ 60%	≥ 80%
Coal	≥ 60%	≥ 80%
Other	≥ 40%	≥ 60%

- Feedback received:
- Limited number of existing mines committed to recognized programmes.
- Challenging in relation lime and non-ferrous additives.
- Chain of Custody requirements challenging.

Participation in recognised programmes

- From publicly available information, data can be further analysed
- Concerns about lack of participation were raised during development and test phase

	TSM	IRMA	Bettercoal
Level 1	34 companies (with many more mines) including iron ore (20 mines), copper, zinc, nickel, met coal (6 mines)	10 iron ore mines (Canada, Mexico, Brazil, Liberia, Ukraine), 10 nickel mines, 3 copper mines, 1 limestone	6 producers (met and thermal coal): Colombia, Germany, Indonesia, USA
Level 2	Not known for sure, potentially 3 iron ore mines	5 iron ore mines, 4 copper, 4 nickel, 1 zinc mine	3 mines, Colombia, USA
Geographical scope	Currently Canada, Australia likely, other potential countries: Argentina, Botswana, Brazil, Finland, Norway, Philippines, Spain	Global	Global

Introduction to the issues

3. Does the categorisation of input materials lead to **disadvantages for specific types of steel makers**? If yes, why and for which types of steel makers? If no, why not?
Does the standard disadvantage mini mills/EAF vs integrated steelmakers?

Reporting Requirements

4. Do the reporting requirements in Criteria 3.5 and 3.10. ask for **information that is commercially too sensitive** to put it on the ResponsibleSteel website? If so, why and which information? If not, why not?

Relevant criteria 3.5 and 3.10(s):
“Information regarding responsible sourcing is regularly reported to ResponsibleSteel for publication on the website”

Aggregated data is requested, and no names or sensitive data of suppliers will be shared.

Feedback received:

- Concerns in relation to antitrust and competitive sensitivity of the information required to be published to the RS website.
- Highlighted in particular were requirements to describe the criteria used to prioritise ESG risks found at suppliers and requirements to provide description of the ESG risks associated with scrap suppliers.
- It has also been requested that website hyperlinks to already published documents be allowed rather than direct publication on the RS website, for version control reasons.

Are these substantive and systematic issues? Do they require revision?

Issues discussion

Issues	Discussion notes so far
1. Are Level 1 and 2 in relation to **knowing the upstream supply chain** (Criterion 3.2) achievable with reasonable effort? If yes, why? If no, why not?	Steel company perspective: • Requirements are difficult for niche products where there is a limited number of suppliers globally. Competitors might easily find out the origin • They might have 4 supply chain stages: mine, processing, trader, steel company (potentially also broker in-between) They don't know these stages for all supply chains, but they do know which country the material is from Trading company perspective: • It is not difficult to provide traceability and they are working hard to produce geolocation and ESG info, but esp. for smaller miners there is not always enough clarity on what information is needed • Concerns are mostly in relation to mine sites with traders not feeling comfortable sharing the information since they are worried that they might be bypassed. They are interested in the auditable mechanism • Big volumes of iron are easy to track based on chemical specification. Pig iron is challenging because there are multiple levels of processing Steel company perspective: • Iron ore is relatively traceable, the concern has always been with processed materials as processors often use multiple sources that change throughout the year. Coking coal, coke are problematic. They do not buy enough materials for that to be a problem. Others buy more processed materials • The “Other” category is also an issue. They have the chemical and physical analysis, but that does not give them the country. They sometimes get certificates of origin, but they only state the country, not the mine site. Civil society perspective: • They want 100% of tracing since you might miss high risk sites if 20% are lacking. Knowing the country of origin at least is necessary for due diligence, but specific mines are more of a concern than the country of origin regarding risk. It should be considered high risk if the site not known. Suppliers have the deciding power (pig iron) Steel company perspective: • Pig iron is very competitive, can source from many little mines. Large mineS will not be interested in dealing with smaller volumes

Issues discussion

Issues	Discussion notes so far
2. Are Level 1 and 2 in relation to **strengthening and accounting for responsible sourcing** (Criterion 3.4) achievable with reasonable effort? If you don't think so, why is that?	Steel company perspective: • Requiring all mines to be certified is challenging (RS clarified that we are looking for a commitment, not certification) • Only few mines are affiliated with recognised programmes and most are not interested • Lime: the programmes do not intersect with lime production (RS clarified that 2 recognised programmes cover lime) Mining company prespective: • What are we trying to achieve? Upsteam transparency, continuous improvement. Majority of scale is ICMM, Copper mark, TSM. TSM Australia will bring in more volume in terms of iron ore and coking coal • Would you rather have individual mines assessed more broadly now, or more stringent but not for 3-5 years? What time frame are we looking at? Feels comfortable on the traction but we need to consider other programmes. Performance levels should be revisited as well • Extra guidance for mines is helpful to understand what they need to do (RS clarified that guidance for miners has been prepared and will be shared) Mining programme perspective: • Buyers are looking for transparency, the audit scores do not matter, they want to know where the mines currently are, what ESG risks they have and that they are moving forward. The uptake of their programme is there, due diligence regulations push a lot here. They are seeing iron ore growth in their system Steel company perspective: • Mines might be on the right path, but not there yet, might not feel ready to participate in one of the recognised programmes, so we should consider this as well. We should make a connection when they are already making the journey, but just have not reached the goal yet. • We should provide clarity on what responsible mining means and what the ESG expectations are. Even if you have 5 recognised programmes, you are narrowing their options. Is there an alternative to participating in an audit programme? We need to help them be more educated in this space Trading company perspective: • They appreciate the 3 frameworks. They help miners get organised. The challenge will be the clear ask, sustainability and procurement teams at steel companies often do not communicate well. Negotiating price and ESG requirements together is challenging. For procurement teams. We need education for the procurement team Audit company perspective: Availability of competent auditors for these programmes is challenging, especially in certain areas, there exist bottlenecks Steel company perspective: Can RS develop a checklist of what are the key requirements suppliers have to hit? From the 3 standards, what is it that we are looking for in particular? Mining company perspective: Chain of custody needs to be discussed

Issues discussion

Issues	Discussion
3. Does the categorisation of input materials lead to **disadvantages for specific types of steel makers**? If yes, why and for which types of steel makers? If no, why not?	Steel company perspective: • Obscurity of pig iron supply chains is a big challenge • Scrap requirements much less demanding. They would meet the scrap requirements at level 1, the problem is the iron side. Standard to reflect share of scrap in production?

Issues discussion

Issues	Discussion
4. Do the reporting requirements in Criteria 3.5 and 3.10. ask for **information that is commercially too sensitive** to put it on the ResponsibleSteel website? If so, why and which information? If not, why not?	Stel company perspective: • Pig iron universe of suppliers is very small. If they were to publish information, it would be clear who they are sourcing from. • Also, they have NDAs with suppliers Mining programme perspective: • Responsible sourcing is pro-competitive so it is not crossing anti trust lines • What their programme provides in terms of transparency is what OECD expects • Suppliers also need this information to meet their regulatory obligations • Mining company perspective: • If a steel mill does OECD reporting, would that be enough or would there be a second report needed? Can we align more with OECD / CSDDD? We could rely on the due diligence-related assurance statements Steel company perspective: • Largely, the data that is requested is fine, except 3.5.2 b) and c), which are probably challenging. The main concern here is that the supply site can potentially be identified Civil society perspective: • We should make sure that voluntary due diligence frameworks are followed. OECD, CSDDD are key reporting frameworks • What are suppliers' risks and what are they doing to address the risks? Investments in nature and tackling climate change? • Traceability within supply chains. If key supply sites are not known, it is difficult to understand on-the-ground occurrence of impacts • Ensuring that non-certified suppliers are doing something to mitigate impacts and knowing what they are doing and reporting on it would be of value to them

Exercise 2 - Defining Guiding Questions

This exercise was not conducted since the working group had run out of time.

However, the rich discussion pointed to some questions that ResponsibleSteel should look into

Guiding questions

Issues	Guiding questions for consideration by Secretariat and Working Group
1. Are Level 1 and 2 in relation to **knowing the upstream supply chain** (Criterion 3.2) achievable with reasonable effort? If yes, why? If no, why not?	• How can we overcome the trader and niche product issue? Apply a cap on volume or percentage they provide? • What about the country of origin. Would this be enough for 3.2 but be considered high risk if only the country and not the mine site is known? (Note that 3.3 is about risk management)
2. Are Level 1 and 2 in relation to **strengthening and accounting for responsible sourcing** (Criterion 3.4) achievable with reasonable effort? If you don't think so, why is that?	• What percentage of the mining sector is currently reflected in recognised programmes? • Are there alternatives for recognised programmes for level 1? • Can RS develop a checklist of what are the key requirements suppliers have to hit? From the 3 standards, what is it that we are looking for in particular? • Would it help if we recognised a programme for small scale mining such as ARM (currently covering gold but wanting to move into other materials too)

Guiding questions

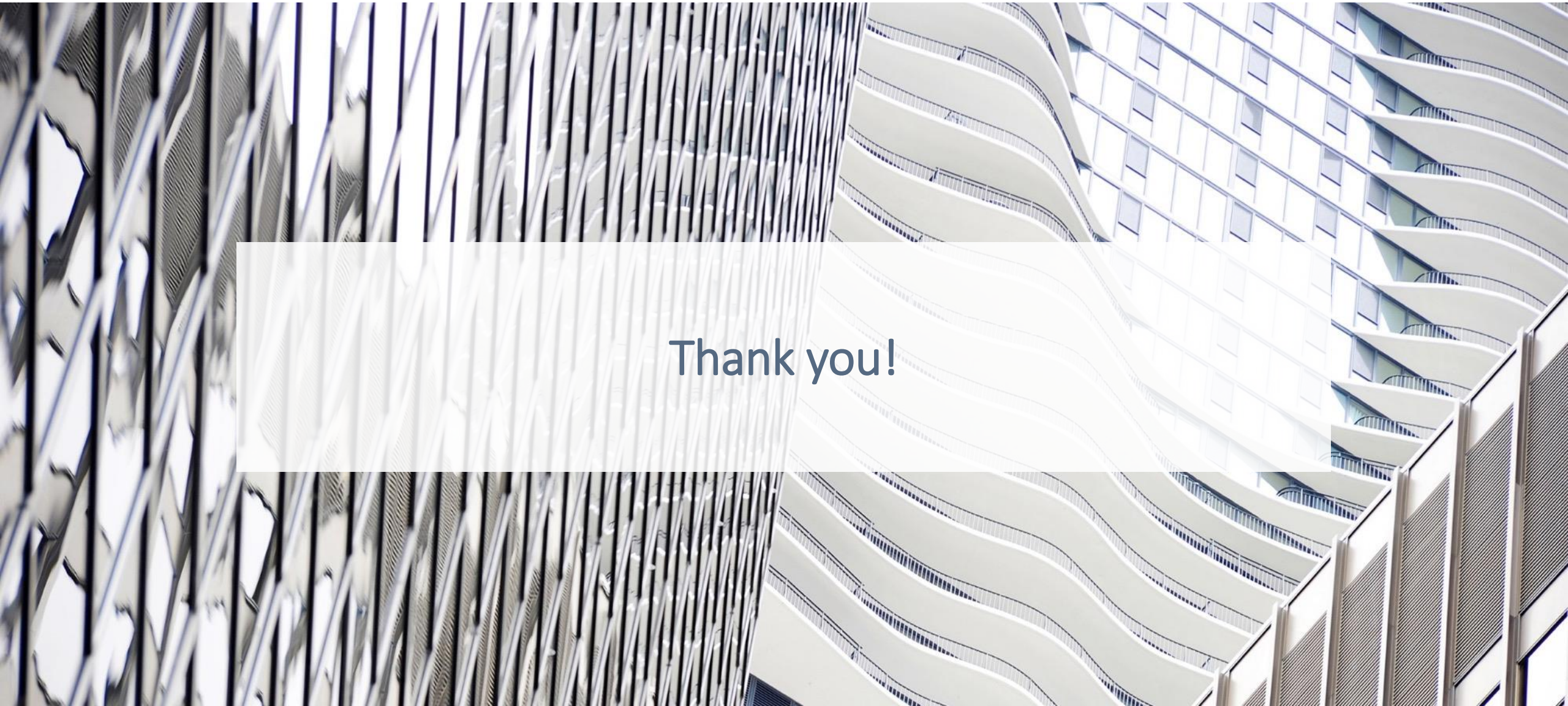
Issues	Guiding questions
3. Does the categorisation of input materials lead to **disadvantages for specific types of steel makers**? If yes, why and for which types of steel makers? If no, why not?	N/a
4. Do the reporting requirements in Criteria 3.5 and 3.10. ask for **information that is commercially too sensitive** to put it on the ResponsibleSteel website? If so, why and which information? If not, why not?	• Should the reporting requirements align closely more with OECD and CSDDD? • Can RS provide examples of the type of information that is expected to be published?

Next Steps

Next Steps

- Please submit any other comments or insights from today's meeting by 8th February
- Minutes, the recording, slides and guiding questions will be shared following this meeting
- Please reflect on and consider answers to the questions before the next meeting on the 15th February

Responsible™ Steel | standards & certification



Thank you!

Annex 1: Summary of the Roundtable on the Responsible Recycling of Metals

The Roundtable on the Responsible Recycling of Metals (RRRM)

Summary for ResponsibleSteel p3 Working Group

January 2024

The Roundtable

- Its objectives are to take stock of and assess how we can move towards the responsible recycling of metals that do not harm people or the environment
- Based on multi-stakeholder engagement and learning with brands and manufacturers, industry, recyclers, smelters, refiners, academia, civil society and voluntary sustainability standards setters
- Independent secretariat - not aiming to create a new standard, no in-built conflicts of interest. Funded by multi-stakeholder Steering Group (except academia and civil society - no cost)
- Multi-metal – focused on carrier metals, aiming for common learning, recognising the many metal specific nuances and complex value chains which are beyond the scope of the Roundtable
- Informed by research, engagement, and non-ferrous and shipbreaking and steel working groups
- Time limited – 2023/H1 2024 - recommendations for development and adoption by existing actors

Context

- Metals are ubiquitous, held as stocks in society – in products, buildings and infrastructure everywhere, the types of which determine their life-cycle and when available for recycling
- Demand for metals and critical minerals will remain strong driven by population, economic growth and the energy transition. Primary production still needed for quality and to meet demand, with recycling an ever more important part of overall metals production
- Supply of recyclate and recycled metals will grow. There are opportunities to increase it, but this is less the case for steel, which has high recycling rates and dominates recycling volumes at ~600mtpa
- Demand for recycled metals is ahead of supply due to the need to secure metallic inputs, decarbonisation objectives and moves towards resource circularity
- The ‘Green halo’ effect of recycling means responsible recycling has been a blind spot in corporate actions, VSS and policy making. This is now changing and solutions are needed

Recycled Content is not all the same

- There are many smaller scale actors and recycling value chains are distributed and diverse
- We recommend recycled metals value chains and definitions are broken down into 4 categories to better enable ESG risk profiles to be understood and acted on
    1. Pre-consumer closed loop recycling between metal producers/remelters and manufacturing companies with typically lower ESG risk that can be tracked and traced through due diligence processes
    2. Pre-consumer open loop recycling, through a market, where cleaner grades are traded but sources of the material and associated risks may not be known
    3. Post-consumer, well managed sources, such as identifiable municipal schemes, or corporate take back schemes, which can have lower ESG risk profiles
    4. Post-consumer mixed grades, typically lower quality and potentially from sources which may have significant associated ESG risks.
- Implications on ESG risk and also embodied steel product emissions claims, noting use of recycled will not impact global steel decarbonisation opportunities

Metals recycling ESG risks are not properly acknowledged

- The formal recycling sector is estimated to employ over 2 million people worldwide and legitimate operators deliver significant socio-economic and environmental value
- Data is very poor, however, ILO estimate 22 million people collect and sort waste, at a subsistence level or informally
- These recyclers increase recovery rates and avoid resource losses while collecting and sorting an estimated 80% of the world's waste and we recommend they are acknowledged and more highly valued for their role
- Risks include to health and safety, exposure to hazardous materials, pollution impacting air, land and water, theft, corruption and fraud
- While steel recycling is mature, still many ESG risks in formal and informal operations, e.g. steel coming from shipbreaking (will be identifiable by local mills using it), post-consumer steel items aggregated by subsistence and small-scale collectors

Selected findings and recommendations relevant to steel

- Include scrap in due diligence/responsible sourcing process: improve management systems, risk assessment, remediation, monitoring and communication, assurance
  - Environmental, labour rights, ethical business practices as well as human rights and community impacts should be in scope of the due diligence process
  - Key pinch points to collect and share info are first aggregators with shredders and steel mills
- Improve traceability, noting limitations to it, therefore also enable direct investment by downstream actors in high-risk metals recycling locations and actors which DD may miss
  - Use 4 definitions as proposed and aim for key source locations rather than country of origin
  - Downstream companies and VSS's should develop, recognise and use 'book and claim' ESG credits to help scale better practices and create impact
- Companies, traders, and markets should share metals ESG risk profiles and information, and build ESG requirements into recycling and metals contracts

Selected findings and recommendations relevant to steel

- We recommend that responsibility and costs are shared across the value chain. Good ESG is not always priced in now. Extended Producer Responsibility legislation offers a route to some financing
- Larger producers and downstream companies including brand owners wishing to make product related claims should take greater responsibility and pay a higher proportion of costs
- This includes costs related to smaller operators at the top of the value chain who should not be expected to pay for significant ESG risk reduction improvements
- VSS standards and chain of custody schemes can support coordination, develop and require broader forms of monitoring and assurance, including worker and community inputs and through technology
- VSS should introduce more clauses relating to impact and outcomes, rather than only on policy and process

Selected findings and recommendations relevant to steel

- Develop and create new business models, such as metals and products leasing and service delivery rather than product sales
- Recyclers can:
  - Share technology and knowhow to improve high-risk collection and processing especially with actors in lower income countries
  - Scale best ethical business and KYC practices to reduce theft and fraud risk
  - Build labour and human rights into industry guidance and common practices
  - Help enable CO2e and other impacts to be understood, monitored, evaluated and verified
- Collaboration across value chain creates impact

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