



Responsible Sourcing Working Group

Session 3 - Possible solutions

Thursday 15th February 2024

Antitrust statement

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<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 neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.”

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



Working group schedule

4 meetings in total

- **11 January:** Introduction to working group – done
- **25 January:** Understanding the issues – done
- **15 February: Discussion of possible solutions – today**
- **29 February:** Outstanding issues, wrap-up – invites sent



Today's agenda

Time	Agenda item
5 minutes	Welcome and housekeeping
10 minutes	Recap of last WG meeting and work done since then
40 minutes	Knowing upstream supply chains (Criterion 3.2): Discussion on potential changes to the requirements
40 minutes	Strengthening and accounting for responsible sourcing (Criterion 3.4): Discussion on potential changes to the requirements
15 minutes	Public reporting on responsible sourcing (Criteria 3.5 and 3.10): Legal analysis and comparison with other reporting requirements
If time	Chain of Custody requirements (Criterion 3.4)
10 minutes	Next steps and wrap-up

**Recap of last Working Group meeting
and work done since then**



Recap of last Working Group meeting and work done since then

Issues	Guiding questions for consideration by Secretariat and Working Group
3.2: Are Level 1 and 2 in relation to knowing upstream supply chains achievable with reasonable effort?	<ul style="list-style-type: none">• How can we overcome the trader and niche product issue? Apply a cap on volume or percentage they provide?• Would country of origin be enough rather than the mine site? (Note the link to 3.3 which is about risk management)
3.4: Are Level 1 and 2 in relation to strengthening and accounting for responsible sourcing achievable with reasonable effort?	<ul style="list-style-type: none">• What percentage of the mining sector is currently reflected in recognised programmes?• Are there alternatives for recognised programmes for Level 1? For example, a checklist of the key ESG requirements that suppliers have to commit to?• 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)
3.5 and 3.10: Do the public reporting requirements ask for information that is commercially too sensitive ?	<ul style="list-style-type: none">• Should the reporting requirements align more closely with OECD and CSDDD?• Can RS provide examples of the type of information that is expected to be published?

Recap of last Working Group meeting and work done since then

- Approached the recognised programmes for numbers
- Researched mine production volumes
- Difficult to quickly make sense of the numbers due to differences in how mines report their volumes
- We expect low share, but other sector programmes started low too (ASI, FSC, MSC, RSPO)
- Spoke to a few members from business, civil society, recognised programmes
- Held internal discussions
- Worked out a few proposals based on this (to be discussed)

What we have learned :

- The transparency landscape is changing
- The mining sector is opening up to third-party ESG audits
- Awareness and demand for RS and for ESG audits have to be strengthened



Discussion on potential changes to the requirements of 3.2



3.2 Potential way forward for Level 1 and 2

- Knowing all links in the upstream supply chain is very challenging when buying from traders, from small suppliers and when buying processed materials
- But, countries of origin for ore and processed material is feasible due to:
 - Chemical analysis
 - Certificates of Origin or
 - 3TG conflict minerals, CSDDD reporting
- For some origins with big volumes, you might even know the mine sites, but often there is no way of knowing the mines or the region within a country
- Some input materials, e.g. lime, limestone, dolomite, are sourced locally since the transport cost is high in comparison to the production cost. The mine/quarrying sites will often be in the same country as the steel site
- Additional supply chain mapping tools will be added to the guidance in Annex 4 (thanks to FFI!)



3.2 Potential way forward for Level 1 and 2

- Remember: 3.2.1. and 3.2.2. ask that specific information on upstream sites of processing and origin is collected on an annual basis and that the steel site describes what it has done to try and get information on upstream suppliers
 - Current 3.2.3.: Asks that all upstream sites of processing and origin are known for a certain percentage of the supplied volume of a material
 - Proposal: Build-in a transition phase that gives steel sites 3 years from now on to move from knowing the countries of origin to knowing the sites of processing and origin
 - This has been done in the GHG principle as well with the adoption of the TCFD recommendations (10.2.2.)
- Would allow certification to be issued now but keep steel companies on their toes and continue working on supply chain visibility



3.2 Potential way forward for Level 1 and 2

Suggested 3.2.3. (changes in **bold**):

Of the total tonnes received by the site in the last calendar or financial year, at least the following percentage is from upstream input material supply chains **where all countries of origin and processing are known.**

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

By the end of 2027, the site knows all upstream sites of origin and processing for the percentages shown in the table.



Discussion on 3.2 Potential way forward for Level 1 and 2

Suggested solution for 3.2.3.	Discussion
<p>Build-in a transition phase that gives steel sites 3 years from now on to move from knowing the countries of origin to knowing the sites of processing and origin</p>	<p>3 years makes sense and will align with regulations on traceability that will occur. Seems sensible even for complex supply chains, addresses timing issues. I.e Secretariat to state "3 years" rather than "end of 2027"?</p>
<p>Of the total tonnes received by the site in the last calendar or financial year, at least the following percentage is from upstream input material supply chains where all countries of origin and processing are known.</p> <p>By the end of 2027, the site knows all upstream sites of origin and processing for the percentages shown in the table (see slide above).</p>	<p>Steelmaker perspective:</p> <ul style="list-style-type: none"> • Would this be required also for scrap, which would be challenging? Secretariat clarified that scrap is not part of the scope and this refers to mined materials only. <p>Service provider perspective:</p> <ul style="list-style-type: none"> • For EAF, steel companies should be able to achieve the requirements, at least for large quantity items this should be achievable, but specialist materials that add value, not high volume, but might be harder. <p>Civil society perspective:</p> <ul style="list-style-type: none"> • There needs to be integration of this with the due diligence requirements, addressing highest risk percentages (which are often hardest to trace, paperwork, corruption, etc.). Specific regions within a country can be derived from export data. This should be triangulated with due diligence information. There is a possibility that low-volume material comes from a high risk area, so companies need to take action and engage, even if there is not full traceability. Secretariat clarified that criterion 3.3 is based on OECD due diligence approach. Secretariat to explore whether 3.3. should be rephrased to better reflect this. Also to check whether export data indeed provides the region since there seemed to be some disagreement about this • For biodiversity risks, for example, regional information is more important than country • Traders might provide more information when there are no economic consequences <p>Steelmaker perspective:</p> <ul style="list-style-type: none"> • Brazil pig iron: no issues with iron ore, but coal can be difficult, with 1000s of suppliers, potentially. However, other materials will be harder as it really depends on the material and it will get harder the more we look into Level 3 and 4 requirements. Be stricter on iron and coal, but different approach for other materials? More difficult for small and mid-sized companies. State (i.e. region) information should be achievable in Brazil due to legislation. • Consider other programmes that will pave the way to achieving P3

Discussion on 3.2 Potential way forward for Level 1 and 2

Suggested solution for 3.2.3. (contd.)	Discussion (contd.)
<p>Of the total tonnes received by the site in the last calendar or financial year, at least the following percentage is from upstream input material supply chains where all countries of origin and processing are known.</p> <p>By the end of 2027, the site knows all upstream sites of origin and processing for the percentages shown in the table.</p>	<p>Steelmaker perspective:</p> <ul style="list-style-type: none"> Up to the broker to share the information of where the suppliers are, esp. for pig iron. <p>Steel procurement perspective:</p> <ul style="list-style-type: none"> Manganese metal = 95% produced in China, bought on a DDP basis, up to the trader to see what information they provide. Secretariat highlighted the 'auditable mechanism' to provide provenance (and other) information to RS auditors rather than to steel site. Tungsten and other conflict minerals: it is law to provide information on smelters and smelter ID, so can apply stricter requirements But, if trader only shows you the port of loading, e.g. Shanghai, and not the full documents, it can come from anywhere in China <p>Civil society perspective:</p> <ul style="list-style-type: none"> Challenge: RS cannot act even when we / the steel sites know that the material comes from a high risk area, Secretariat confirmed this and added that auditable mechanism meant to ease traders (and potentially other suppliers) into being more transparent <p>Mining company perspective:</p> <ul style="list-style-type: none"> 2027 makes sense as it does take time to make these changes, because you need the transit route up to the mine. It took them 6 – 8 months, but when pushing hard they got the information needed. If you individually do not have leverage, the steel industry could work together to exert pressure. RS to make a call to action from members Separate line for problematic materials <p>Civil society perspective:</p> <ul style="list-style-type: none"> If the requirement is 100%, if there is an area you can't trace, is the solution then to divest? Accept that some supply chains are difficult to trace, but will even these be expected to be at 100% at one point? Secretariat clarified that we do not ask for 100% to leave producers with some flexibility for e.g. sourcing on the spot market. Traceability means different things to different people, needs to be clarified. <p>Steelmaker perspective:</p> <ul style="list-style-type: none"> If there are only 2 or 3 suppliers worldwide for a certain material it is difficult to divest.

Discussion on potential changes to the requirements of 3.4



3.4 Potential way forward for Level 1 and 2

- Participation in recognised programmes:

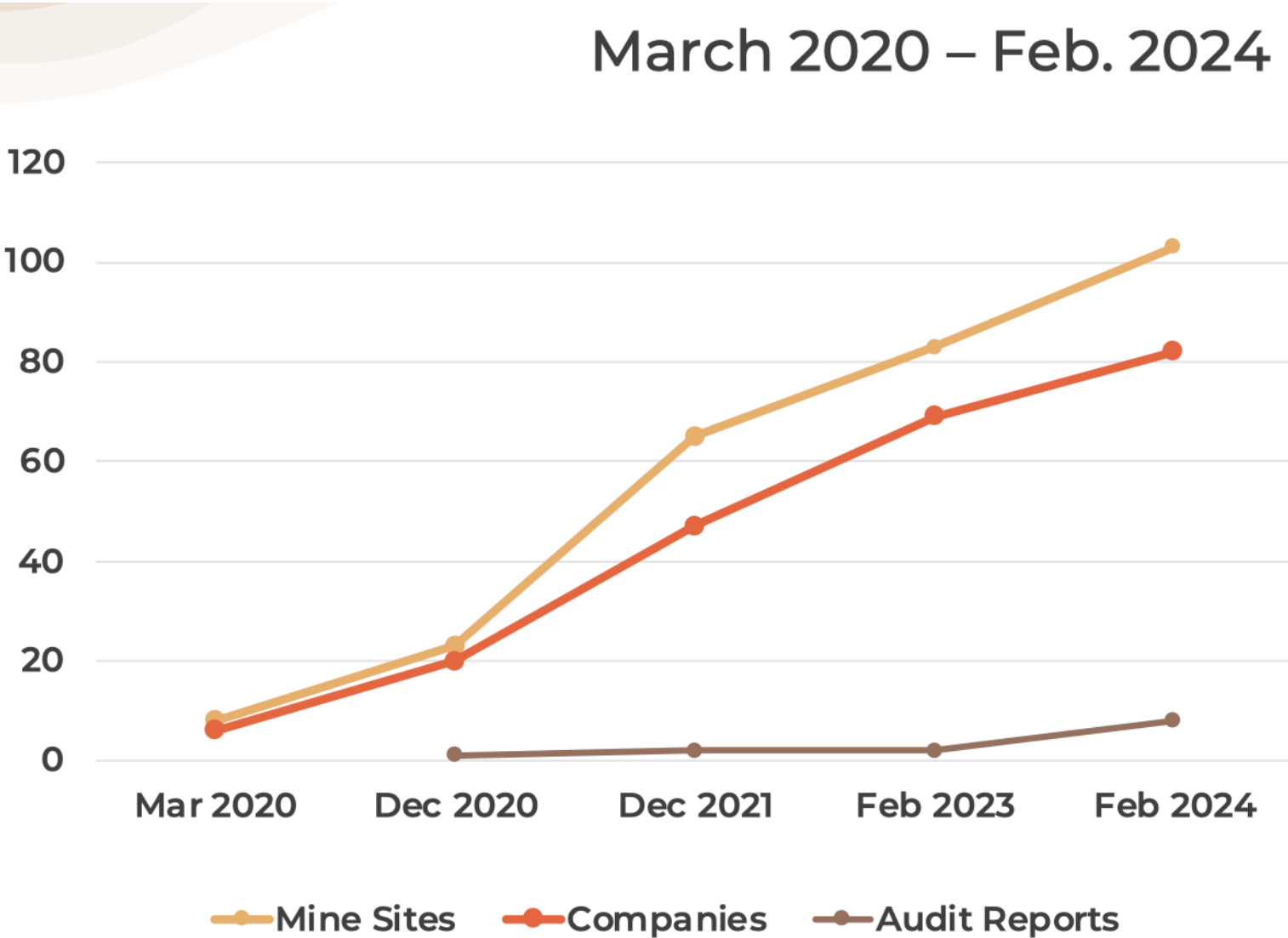
Bettercoal	IRMA	TSM
3 thermal and met coal 1 met coal 2 bituminous coal	15 iron ore 14 nickel 7 copper 1 limestone	5 iron ore 1 copper 1 limestone 4 nickel 4 steelmaking coal 4 zinc

- We have heard the following:
 - The mining sector is opening up to third-party ESG audits
 - Do not define your own ESG requirements and do not accept anything less than third party



3.4 Potential way forward for Level 1 and 2

Participation in IRMA over time:



3.4 Potential way forward for Level 1 and 2

- Current 3.4.1.: In the last calendar or financial year, suppliers accounting for the below percentages of input material compared to the total tonnes of the respective input material met the following:

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

- ‘Committed’ means:
 - Bettercoal: Letter of Commitment signed and conducting self-assessment
 - IRMA: Using the ‘Mine Measure’ self-assessment tool
 - TSM: Conducting a self-assessment
 - ResponsibleSteel: Conducting a self-assessment



3.4 Potential way forward for Level 1 and 2

- Mining sector is opening up to third-party ESG audits
 - But still too early for many mines to commit to a recognised programme
 - Awareness and market demand need to be strengthened
 - Focus Level 1 on these issues and require that steel sites make a public ask for participation in recognised programmes
 - Similar to 3.2 build-in a transition phase that gives steel sites 3 years from now on to secure commitments
- Would allow certification to be issued now but keep steel companies on their toes and continue working on getting their supply chains engaged



3.4 Potential way forward for Level 1 and 2

Suggested 3.4.1.:

The steel site has published a prominent call for mines sites to commit to a recognised responsible mining programme and undergo third-party auditing.

By the end of 2027, the site has secured documented commitments from suppliers accounting for the below percentages of input material compared to the total tonnes of the respective input material received.

	Level 1 Suppliers are committed to a recognised programme
Iron	≥ 60%
Coal	≥ 60%
Other	≥ 40%



Discussion on 3.4 Potential way forward for Level 1 and 2

Suggested solution for 3.4.1.	Discussion
<p>Build-in a transition phase that gives steel sites 3 years from now on to secure commitments</p>	<p>Steelmaker perspective:</p> <ul style="list-style-type: none"> • Agree, grace period is needed, willing to reach out to mines, this cannot be achieved in a matter of months.
<p>The steel site has published a prominent call for mines sites to commit to a recognised responsible mining programme and undergo third-party auditing.</p> <p>By the end of 2027, the site has secured documented commitments from suppliers accounting for the below percentages of input material compared to the total tonnes of the respective input material received.</p>	<p>Mining company perspective:</p> <ul style="list-style-type: none"> • Momentum is there, the expectation for mine sites to go through 3rd party assurance is growing, also from a legal perspective • Self-assessment should not be the only evidence for progress certification, because it can be biased. Focus on 3rd party verification, self-assessment is only for Level 1 <p>Steelmaker perspective:</p> <ul style="list-style-type: none"> • How do we address the gap for small artisanal mines and convince them to join once we know the mine of origin? Do mine sites even hear that we want this information? Secretariat highlighted need to increase awareness. Will be talking to Alliance for Responsible Mining (ARM) to potentially recognise them and thus cover small-scale mining. <p>Service provider perspective:</p> <ul style="list-style-type: none"> • Target does not feel ambitious enough, we need to determine what we want, the intent to have a responsible supply chain, or do we actually want to achieve it. We need to show engagement and that we are trying to influence supply chains. How do we continue to move the market to get there? Secretariat: Shorten time of transition phase and define "commitment" more strongly, e.g. you show you are committed when you have started the 3rd party audit <p>Mining company perspective:</p> <ul style="list-style-type: none"> • The low percentage reflects the recognised programmes, and this does not fully reflect the programmes in the mining industry, and that restricts the percentage you can put in. • There are not enough recognised programmes right now, and it does also tie in with the lead time needed. • Steel sector requests for responsible mining are currently not happening. Secretariat agreed that we need calls for action, set up something like 'Drive Sustainability' (group of 11 car makers making joint asks to their supply chains)

Discussion on 3.4 Potential way forward for Level 1 and 2

Suggested solution for 3.4.1. (contd.)	Discussion (contd.)
<p>The steel site has published a prominent call for mines sites to commit to a recognised responsible mining programme and undergo third-party auditing.</p> <p>By the end of 2027, the site has secured documented commitments from suppliers accounting for the below percentages of input material compared to the total tonnes of the respective input material received.</p>	<p>Steelmaker perspective:</p> <ul style="list-style-type: none"> • Tricky to convince lime suppliers to get audited, because there is not much that applies to their field. Secretariat: There needs to be more transparent reporting on 3rd party audits that have been conducted. <p>Civil society perspective:</p> <ul style="list-style-type: none"> • The speed of the companies being able to meet these requirements varies, some might actually be faster than expected. Could take the best of both worlds, recognising more programmes, and supplement with auditing and oversight from RS. • If talking about responsible products, then we need to consider that certain ESG requirements have to be met, with the current requirements, there is not enough confidence to say that the product is responsibly produced based on the Level 1 requirements. Secretariat highlighted this is not a standalone certification, steel companies need to also conform to the other 12 principles of the standard. RS to show claims and logos in session 4. • Re list of potential ESG commitments from mines: Does not seem holistic enough. Ultimately, we want mine sites who are affectively addressing impacts, integrating sustainability in their sites, as well as design decisions, which the list doesn't cover. We should focus on where they need to start their journey to be recognised under the RS requirements. <p>Mining company perspective:</p> <ul style="list-style-type: none"> • Consider ICMM for recognition <p>Question: In terms of auditing this, are these numbers/percentages going to be self-declared by the site trying to become certified with a sample verified by the auditor? Secretariat responded that there is a self-assessment done by the sites as part of the audit process, like for core certification. Auditors will verify that the data is reliable by understanding how the data has been produced and by checking evidence that underpins the data</p>

Legal analysis and comparison with other reporting requirements (3.5 and 3.10)



3.5 and 3.10 Legal analysis and reporting comparison

Potential issues

3.5.1.

The following is regularly reported for publication on the RS website:

- c) A summary of the site's strategy to help strengthen ESG performance in upstream input material supply chains, including any time-bound targets
- e) The criteria used to prioritise ESG risks found at suppliers

3.10.2. (related to scrap)

- d) and e) Description of high and medium ESG risks that scrap suppliers and countries of scrap origin are linked to
- f) Description of key measures taken to help reduce high and medium ESG risks in scrap supply chains and outcomes of those measures
- i) For levels 2 to 4: Percentage of scrap from direct suppliers that have been subject to a third-party audit and percentage of those direct suppliers that have achieved at least the minimum ESG performance in a third-party audit under a recognised input material programme



3.5 and 3.10 Legal analysis and reporting comparison

- Analysed OECD due diligence guidelines and guidance -> we are in alignment
- CSDDD not very specific, but EU will define reporting content, e.g. description of due diligence, potential and actual adverse impacts and actions taken on those
- RS to amend guidance in the audit report template to address concerns
- For scrap: Minimum ESG performance to be defined in collaborative process with recycling industry ([Roundtable on the Responsible Recycling of Metals](#) (RRRM), see slides attached to WG2 meeting notes)
- Will commission legal analysis to be safe that we are not violating anti-trust rules



Discussion on 3.5 and 3.10 Public reporting

Suggested solution	Discussion
RS to amend guidance in the audit report template to address concerns	No comments
RS to commission legal analysis to be safe that we are not violating anti-trust rules	No comments
Analysis of OECD due diligence guidelines and guidance	Mining company perspective: Take account of the environmental handbook relating to the OECD guidelines. Secretariat will take this suggestion on board

Next Steps



Next Steps

- Slides with minutes and recording will be shared with you
- Conversation with ARM (Alliance for Responsible Mining) on small-scale mining
- Technical Advisory Panel meeting (next week)
- **Please share thoughts on the presented solutions or suggest alternative solutions by 23 February**
- Next WG meeting on 29 February will be dedicated to agreeing on solutions
- After that, we will go to public consultation





Thank you!

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