



**SUSTAINABLE
STEEL
PRINCIPLES**

Sustainable STEEL Principles

To make climate considerations a part of every steel loan transaction

October 5th, 2022

**Center for Climate
Aligned Finance**



RMI
ENERGY. TRANSFORMED.



**SUSTAINABLE
STEEL
PRINCIPLES**

Founding Signatories



Partners & Endorsers



Ambition has increased but implementation is difficult

100+ banks have joined NZBA, representing 40% of global banking assets

Challenges banks face to implementation of net-zero goals:

Sector-specific methodologies are essential

To reflect the **complexities of the steel sector** to properly incentivize decarbonization, and meet NZBA requirements for **measuring and reporting sector-specific emissions intensity**

Uncertainty as to appropriate roadmap

A range of net-zero roadmaps, but many **lack granularity** needed to support decarbonization, and others **may be unrealistic**

Lack of access to data and measurement guidelines

Acting on climate goals requires clear guidelines to support **data reporting** to **inform target setting** and indicate **climate progress**

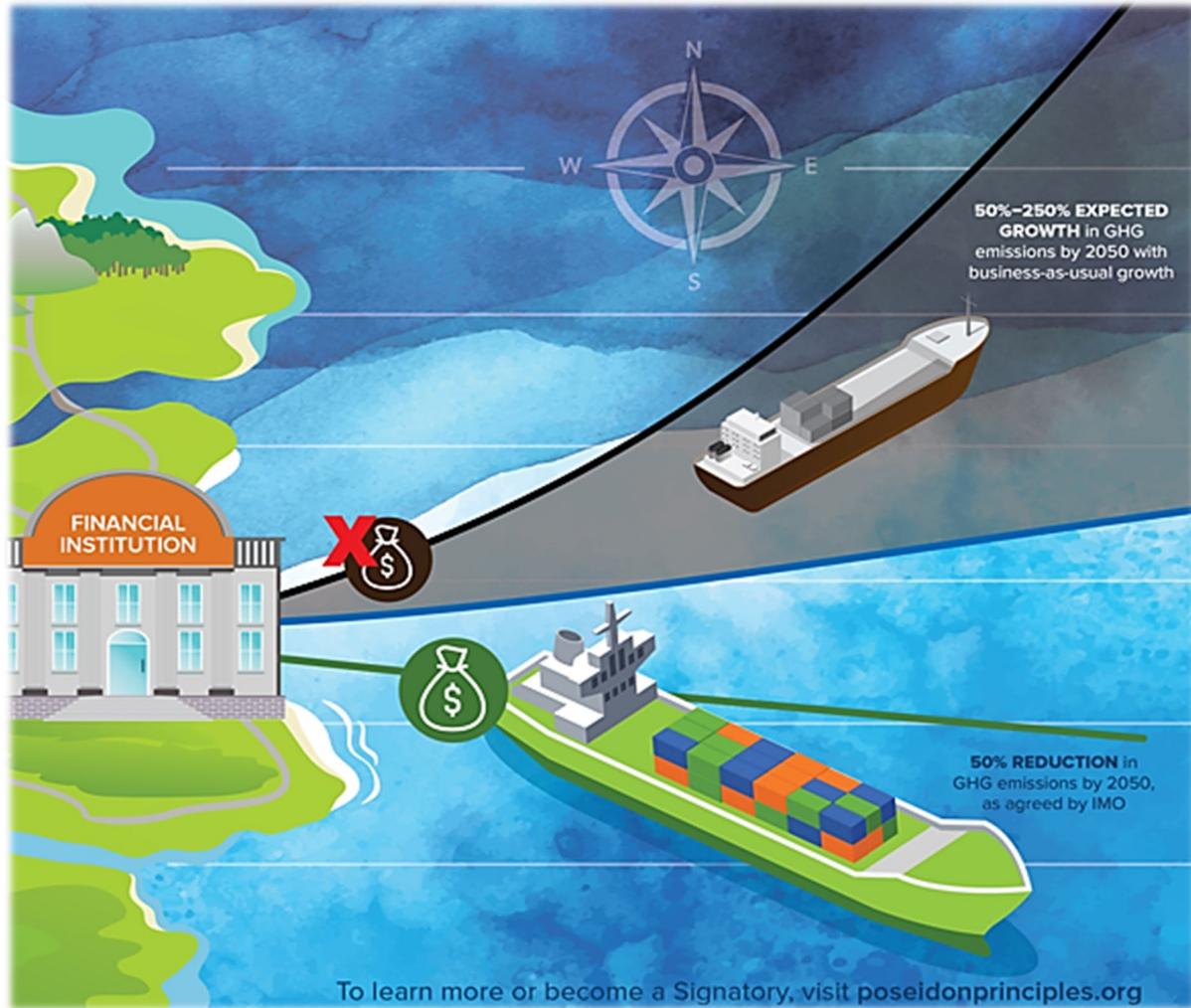
Need for harmonization

Conflicting guidance exists, introducing confusion for industry, finance, and civil society

First-mover disadvantage

A **collective framework** that creates a level-playing field mitigates **regulatory and market challenges** of being a first mover on 1.5°C alignment in a world on track for 4°C

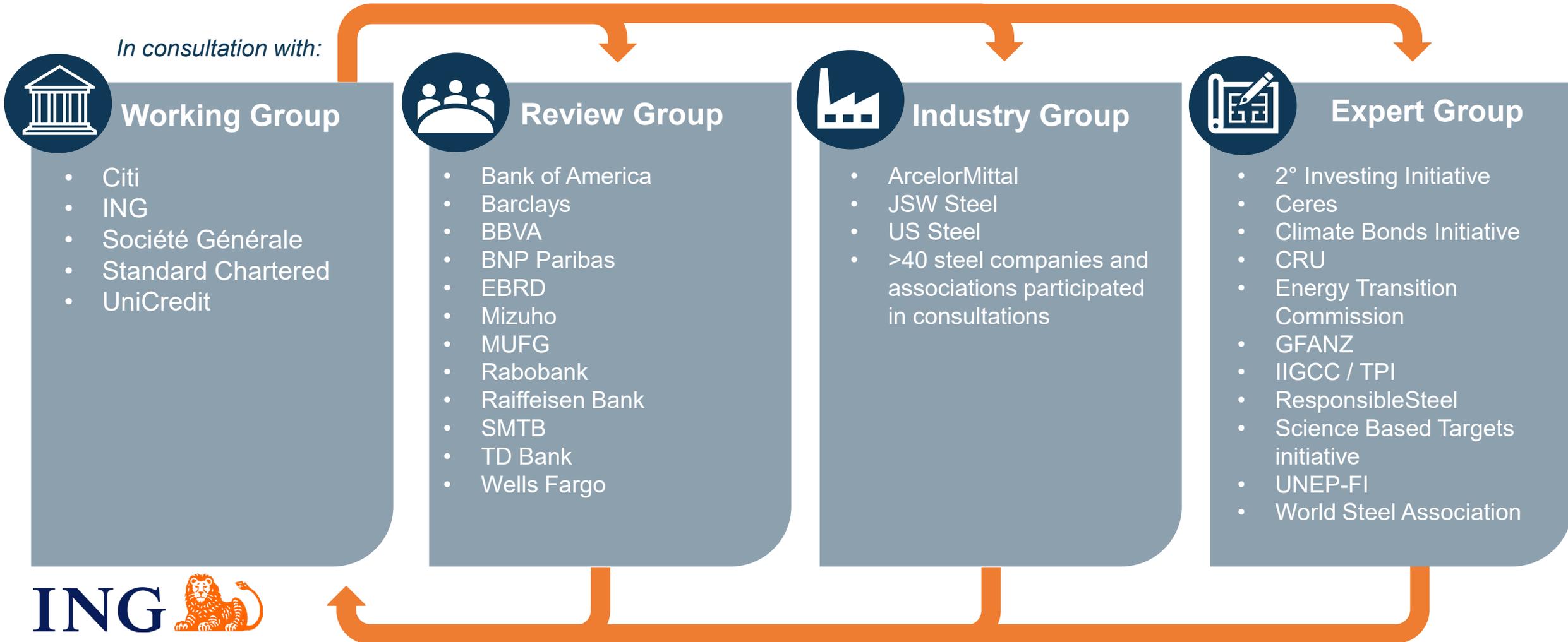
Following the Lead in Shipping: The Poseidon Principles



- The Sustainable STEEL Principles are modeled after the Poseidon Principles, the first **climate-alignment agreement for ship finance**.
- The Poseidon Principles launched with 11 banks and now includes 28, representing **~half of senior shipping debt globally**.
- Created a **\$2.2 billion** sustainability-linked finance market in the shipping sector within its first 18 months.
- Supported by industry and advocates, it has resulted in an **ecosystem of service providers and sister agreements**.
- In 2022, the Poseidon Principles have increased their ambition to align with **1.5°C**.

Sustainable STEEL Principles Working Group

The Sustainable STEEL Principles Working Group (“WG”) developed proposals, which were vetted with stakeholders including a Review Group, Industry Group, and Expert Group through webinars and written consultations to gather non-binding feedback. RMI’s Center for Climate-Aligned Finance facilitated this process.



The Sustainable STEEL Principles

Under the 5 principles, Signatories commit to:

A sector-specific framework that includes:

1. A methodology for steel sector companies to report on the carbon intensity of their production
2. A methodology for banks to measure and disclose the carbon intensity of their lending portfolios



Standardized Assessment

To annually assess their climate alignment according to the guidance and methodology of the Principles



Transparent Reporting

To publicly acknowledge participation and to disclose progress annually



Enactment

To source data first from clients, and from a third-party provider as an alternative



Engagement

To engage clients on net-zero transition plans, available financial products that support the transition, and expectations for emissions reductions



Leadership

To utilize the Principles for advocacy, in the interest of the decarbonization of the steel industry

The Sustainable STEEL Principles contain a science-based methodology that caters to the complexities of the steel sector to incentivize a sector-wide transition to net-zero emissions.

1

A fixed system boundary for emissions accounting

Corrects for inconsistencies in reported emissions due to variation in vertical integration across producers

2

Separate emissions benchmarks for primary (iron ore) and secondary (scrap) based steel

Sharpens the focus on primary production leading to the adoption of clean end-state technologies

3

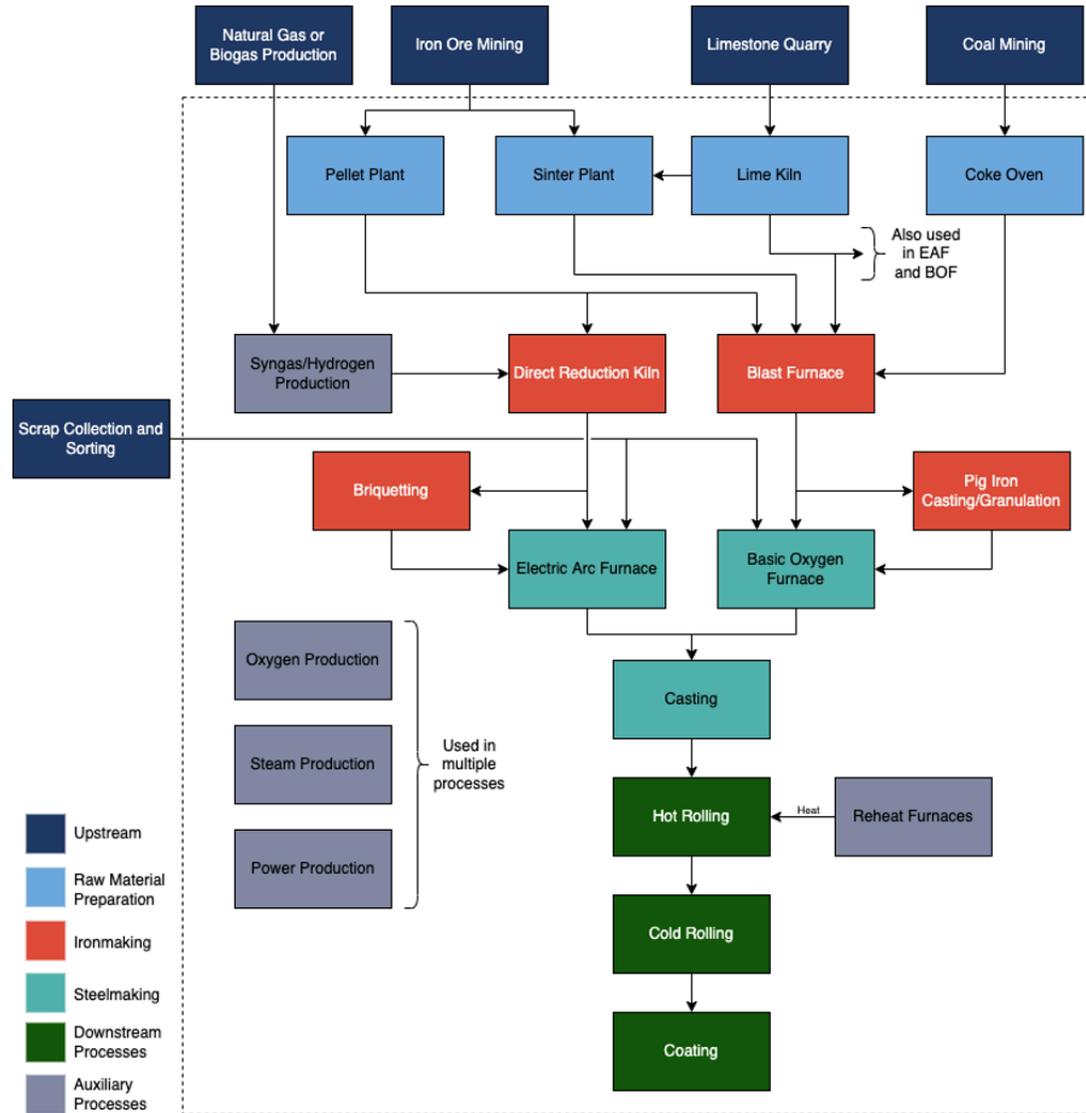
An Alignment Zone of two net-zero scenarios

An envelope of net-zero scenarios supports target-setting and client engagement

4

Forward-looking indicators

Reporting on the emissions targets of clients reveals ambition and enables client engagement



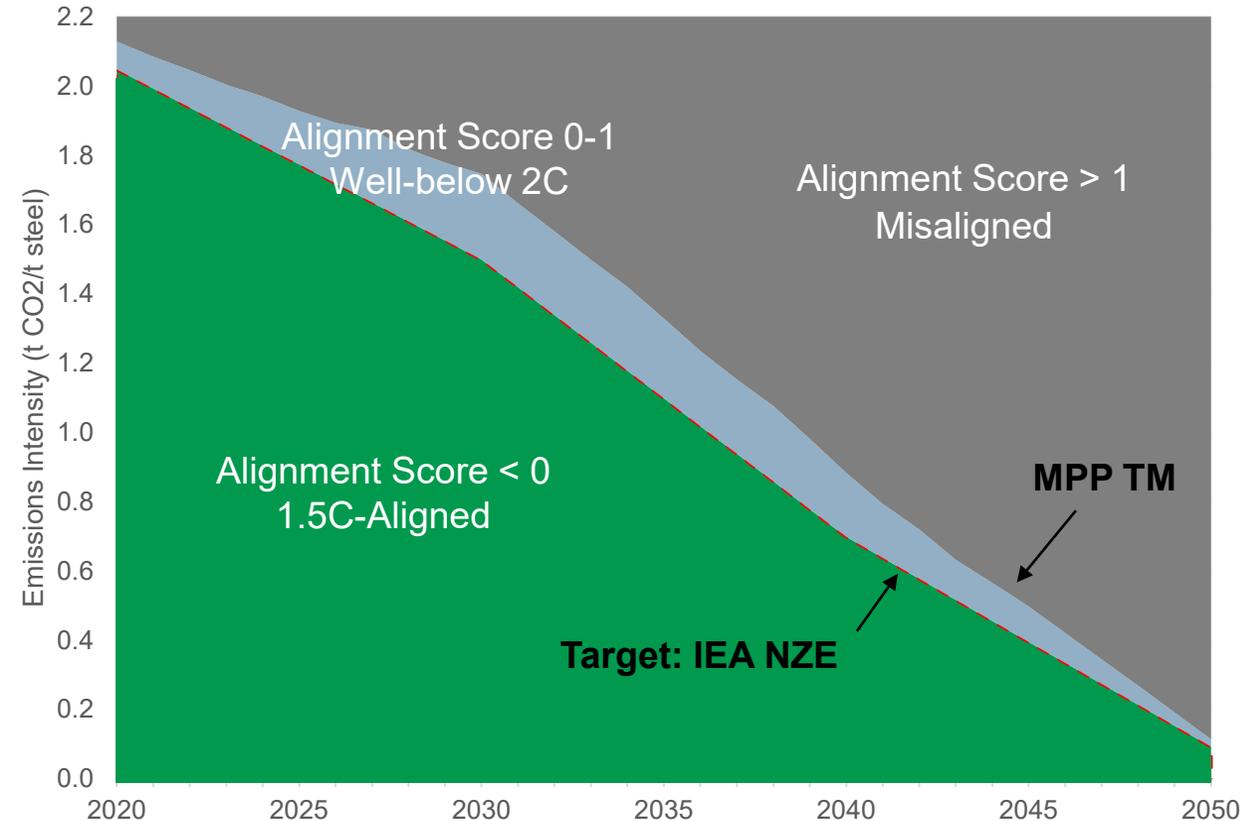
FIXED BOUNDARY FOR EMISSIONS REPORTING

OBJECTIVE: A fixed system boundary requires steelmakers to report on all emissions within the boundary, irrespective of ownership of various processes. This reduces variability in reporting and accounts for the probability that emissions will move more upstream in future.

Rationale for the Alignment Zone

1. Reflects **existing uncertainty** as to an acceptable trajectory for the sector
2. IEA NZE supports **target-setting**; MPP TM supports **real economy impact**
3. MPP TM provides an upper boundary “guardrail,” reflecting the **current regulatory framework**, and presents a net-zero strategy considered technically and economically feasible

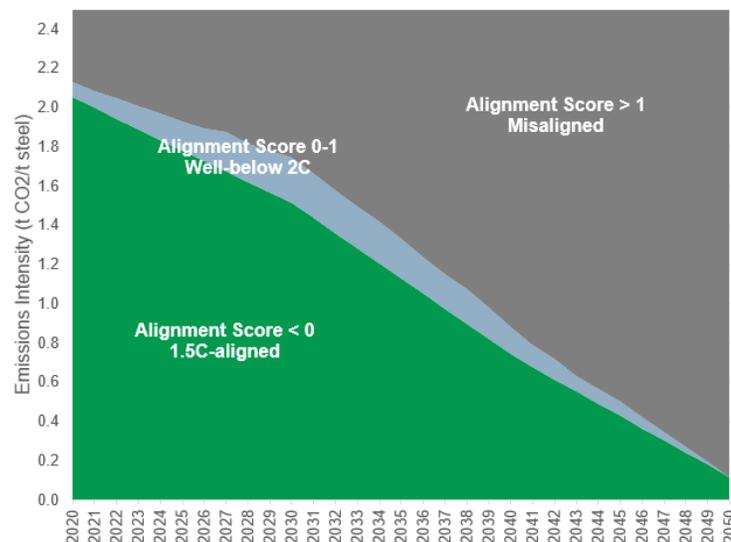
Alignment zone for a sample steelmaker*



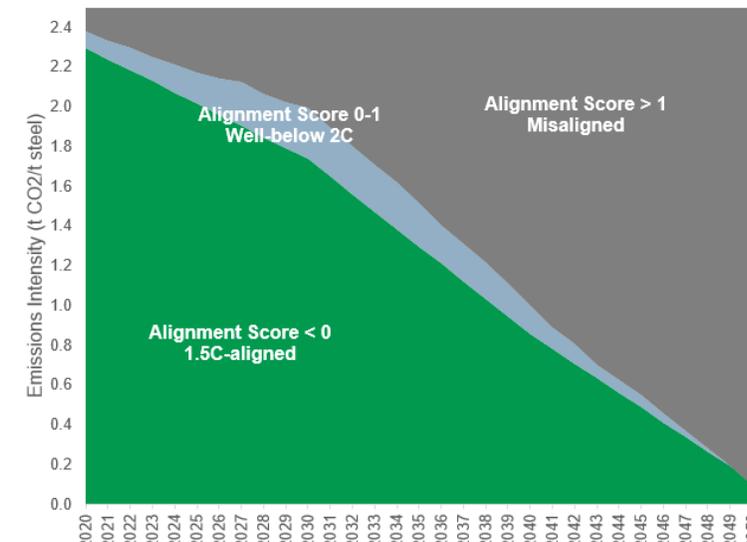
*An Alignment Zone would be generated for each steelmaker based on their fraction of scrap. This sample trajectory is based on 20% scrap.

Steelmaker Scrap Fraction		
Scrap	20%	%w/w
Year	MPP Target	IEA Target
2020	2.13	2.05
2021	2.08	2.00
2022	2.05	1.94
2023	2.00	1.89
2024	1.97	1.84
2025	1.93	1.78
2026	1.89	1.73
2027	1.87	1.67
2028	1.82	1.62
2029	1.78	1.57
2030	1.75	1.51
2031	1.66	1.44
2032	1.58	1.36
2033	1.50	1.28
2034	1.42	1.20
2035	1.33	1.13
2036	1.24	1.05
2037	1.15	0.97
2038	1.08	0.90
2039	0.98	0.82
2040	0.88	0.74
2041	0.79	0.68
2042	0.72	0.62
2043	0.63	0.55
2044	0.57	0.49
2045	0.50	0.43
2046	0.42	0.37
2047	0.34	0.30
2048	0.27	0.24
2049	0.19	0.18
2050	0.11	0.12

20% scrap fraction



5% scrap fraction



		Steelmaker A		Steelmaker B	
		Primary	Secondary	Primary	Secondary
Step 1 Reporting	Scrap Charge 2022	0.90	0.10	0.10	0.90
	Emissions 2022 (t CO2/t steel)	2.40		0.35	
	IEA NZE Benchmark 2022 (t CO2/t steel)	2.26	0.67	2.26	0.67
	MPP TM Benchmark 2022 (t CO2/t steel)	2.38	0.73	2.38	0.73
Step 2 Borrower-level calculations	Borrower Lower Target (t CO2/t steel)	$(0.9 * 2.26) + (0.1 * 0.67) = 2.10$		$(0.1 * 2.26) + (0.9 * 0.67) = 0.83$	
	Borrower Upper Target (t CO2/t steel)	$(0.9 * 2.38) + (0.1 * 0.73) = 2.22$		$(0.1 * 2.38) + (0.9 * 0.73) = 0.90$	
	Zone Delta (t CO2/t steel)	$2.22 - 2.10 = 0.12$		$0.90 - 0.83 = 0.07$	
	Emissions Delta (t CO2/t steel)	$2.40 - 2.10 = 0.30$		$0.35 - 0.83 = -0.48$	
	Borrower Alignment Score	$0.30 / 0.12 = 2.50$		$-0.48 / 0.07 = -6.86$	
Step 3 Portfolio-level calculations	Steel-related Revenues (% of total)	100%		25%	
	Debt Outstanding 2022 (USD)	\$100mn		\$400mn	
	In-Scope Exposure 2022 (USD)	$100% * \$100mn = \$100mn$		$25% * \$400mn = \$100mn$	
	Exposure Weight	$\$100mn / \$200mn = 0.50$		$\$100mn / \$200mn = 0.50$	
	Portfolio Alignment Score	$(2.50 * 0.50) + (-6.86 * 0.50) = -2.18$			



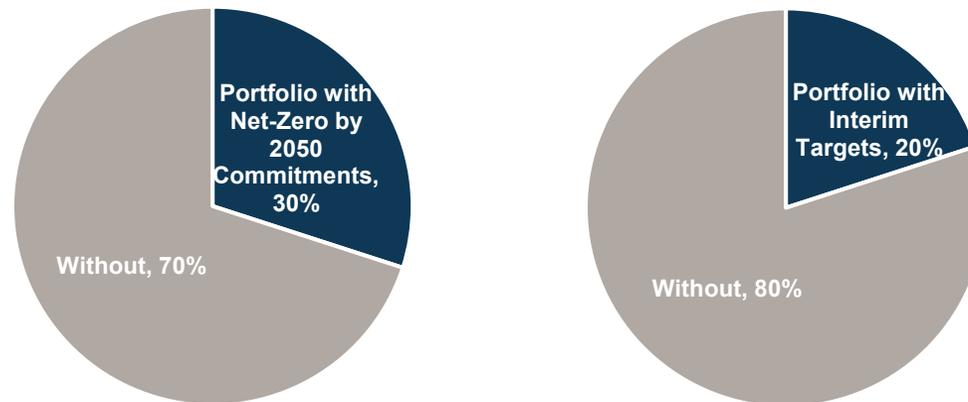
During consultation, members of the Review Group and Expert Committee recommended the inclusion of a forward-looking indicator. Based on this, the WG has adopted the following indicator as an optional reporting requirement:

Target Portfolio Coverage

Lenders disclose:

1. The percentage of the exposure in their portfolio with publicly-committed **net-zero targets by 2050 or before**
2. The percentage of the exposure in their portfolio with publicly-committed **interim emissions reduction targets before 2030**

Example Reporting 2023



Rationale

- ✓ **Implementation:** It is the simplest to implement
- ✓ **Transparency:** It is transparent for stakeholders to interpret, since it doesn't rely on any assumptions
- ✓ **Participation:** It does not place an additional reporting burden on clients, helping minimize the barrier to entry for bank participation
- ✓ **Supports client engagement:** Reveals level of ambition and enables lenders to engage clients in discussion on target setting



In-scope Signatories

Applicable initially only to banks.



In-scope Clients

Entities that:

- Produce a minimum of 250kt p.a. of crude steel at the group-level*, and
- Generate 20% or more of total revenue through Crude Steelmaking Activities at the group-level.



In-scope Financings

- Provided to an in-scope client.
- Provided to a financial company or trading company and covered by the Parent Guarantee** of an in-scope client.

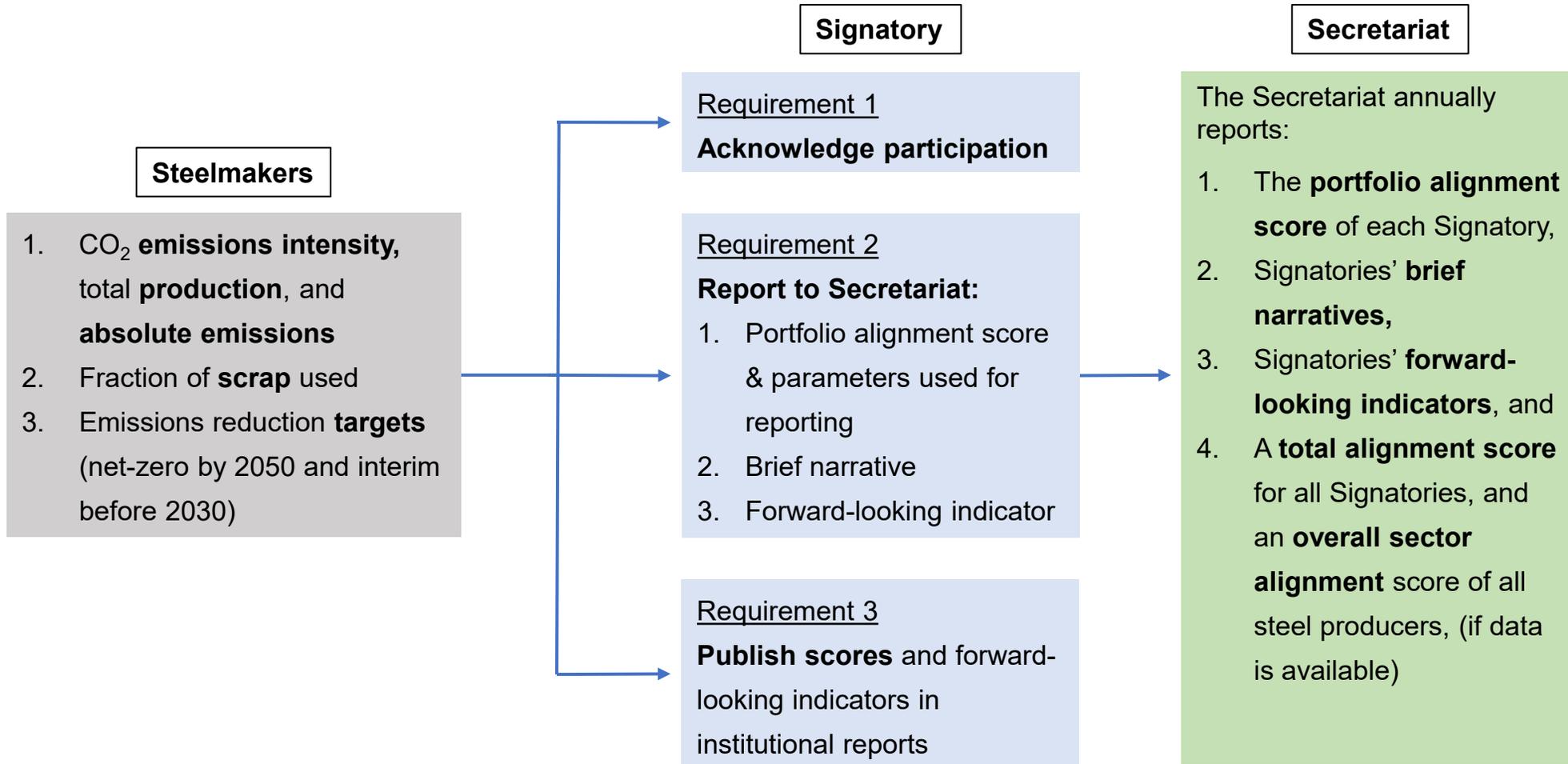


In-scope Products

- **Credit products** including bilateral loans, syndicated loans, and club deals.
- Does NOT include investment activities (equities and corporate bonds held for investment purposes).
- Wait to **align with NZBA's** capital markets framework in 2024

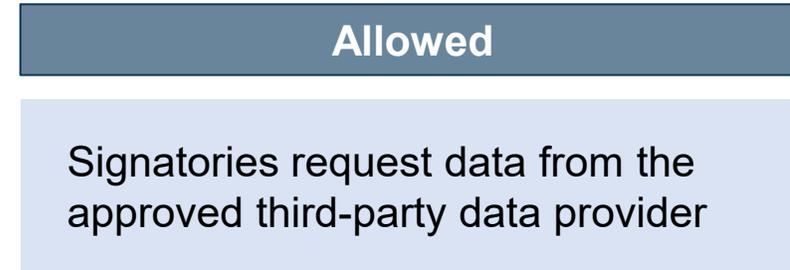
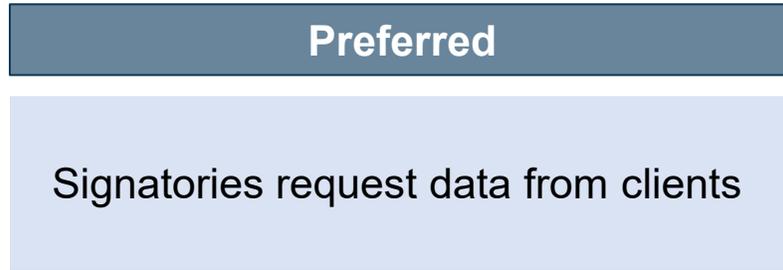
*Defined as inclusive of the entity and all subsidiaries on an aggregate basis, but not any parent entity.

**Defined as a guarantee of payment and performance to the Lender of the Obligations, monetary or otherwise, incurred by a subsidiary under the agreement for the Financing if the subsidiary fails to perform on those Obligations.

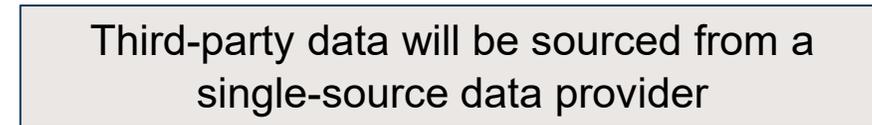
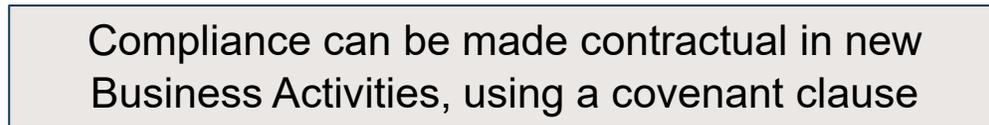


Under the Enactment Principle, Signatories agree to the following:

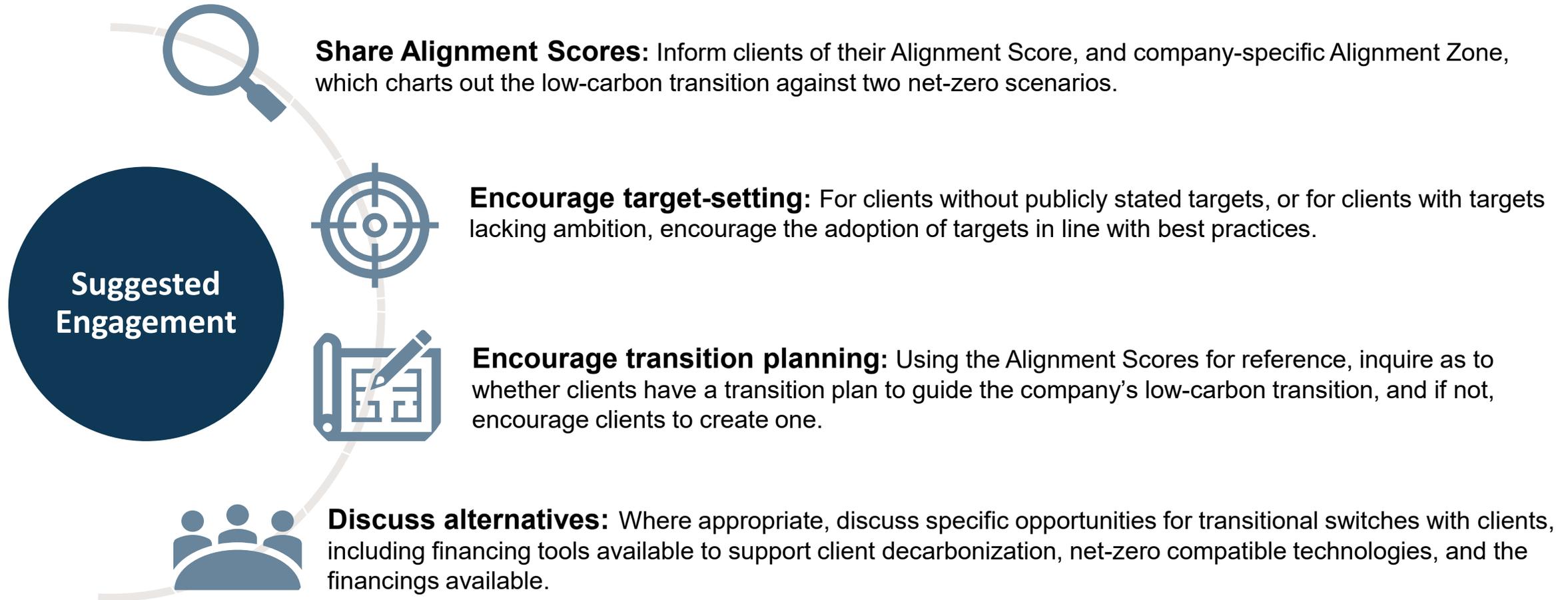
1 *Where to source data:*



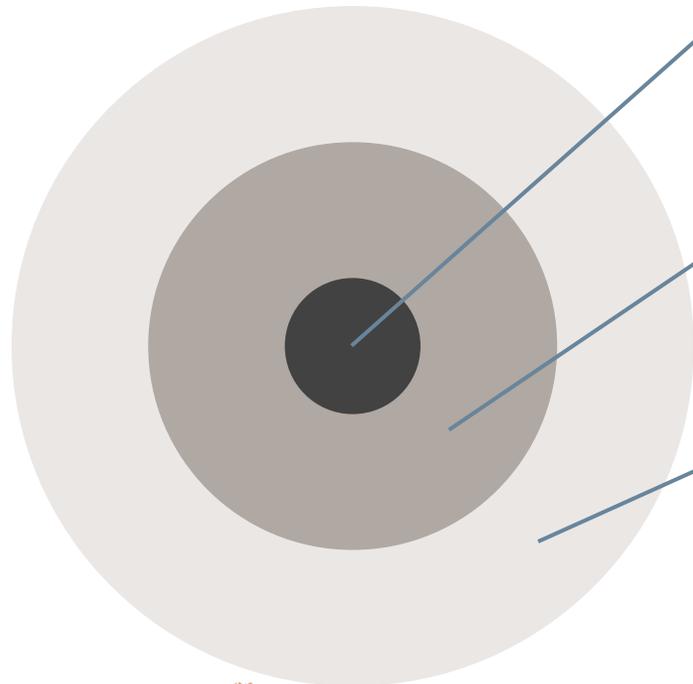
2 *How to source data:*



Engagement Principle: Signatories commit to engage with clients at their discretion to discuss their transition plans, the financial products available to support their transition, and the bank's expectations for emissions reductions.



Under the Leadership Commitment, all Signatories are encouraged to demonstrate leadership with regards to steel decarbonization, within their own institutions and to advance industry-wide change.



At their individual financial institutions, Signatories are encouraged to set steel portfolio targets informed by the Sustainable STEEL Principles.

At the financial sector level, Signatories commit to updating the framework of the Principles whenever appropriate, as data evolves, and available information improves.

Across the steel sector, Signatories can utilize the Sustainable STEEL Principles framework for advocacy, at their discretion and where appropriate, in the interest of the decarbonization of the steel industry.

Net-Zero Banking Alliance



- The Principles have been informed by an ongoing collaboration with NZBA and are designed to align with NZBA guidance
- WG members are participating on the NZBA Steel Working Group



- RMI is on the SBTi Expert Advisory Group for steel
- The new steel sector guidance under consideration aligns with the Sustainable STEEL principles methodology



- RMI is a participant on the CBI Technical Working Group on steel. The guidance is in line with the Sustainable STEEL principles methodology
- Several WG members have participated on the Industry Group on steel to ensure consistency between methodologies

How can the SSP help the sector?

1

Improved comparability of climate performance

2

Alignment score can be used for target setting for Sustainability Linked Loans

3

Enables support for companies with decarbonization plans and projects

4

Incentivizes companies to set emissions reduction targets