



## The Sustainable STEEL Principles

*Making climate a part of every steel debt transaction globally*

The Sustainable STEEL Principles provides a **sector-specific measurement and disclosure framework for banks**, enabling lenders to support the decarbonization of the steel sector, and assess climate progress, compatible with Net-Zero Banking Alliance (NZBA) guidance. Founding Signatories are invited to demonstrate leadership on the net-zero transition through signing up to this agreement, scheduled to **launch at Climate Week NYC in September 2022**.

The Sustainable STEEL Principles includes a fit-for-purpose methodology, crafted to harmonize across various standards and **optimize for emissions reductions in the steel sector**. The data collection and reporting guidance for steelmakers and lenders streamlines disclosure and increases transparency, and the inclusion of a corridor of net-zero scenarios informs target-setting and supports client engagement. The framework was developed over 12 months by RMI and five Working Group banks — ING, Societe Generale, Citi, UniCredit and Standard Chartered — in consultation with 20 additional banks. In total, it was **reviewed by over eighty institutions across finance, industry, and civil society**, including 30 steelmakers and industry associations.

### **Background**

Steel is an emissions-intensive sector, accounting for roughly **7% of global greenhouse gas emissions (GHGs)**,<sup>i</sup> with demand projected to grow 30% by 2050.<sup>ii</sup> In order to avoid carbon lock-in, the decarbonization of this hard-to-abate sector is both demanding and urgent. Financial institutions have a particularly important role to play, since lending is one of the largest sources of capital for the sector. This means **lenders are well-positioned to play a key role** in supporting clients in reaching net-zero.

For financial institutions, climate alignment means actively pursuing climate objectives by using lending and investment decisions, advisory services, capital markets activities, and advocacy to move the real economy toward net-zero decarbonization pathways. Now that nearly 40% of global banking assets are included under the net-zero commitments of the Net-Zero Banking Alliance,<sup>iii</sup> the world must move from target-setting toward implementation. Steering portfolios in line with climate targets will **require benchmarking progress and engaging clients, to facilitate the decarbonization of the real economy**.

### **The Sustainable STEEL Principles**

Signatories commit to the following five principles:

#### **1. Standardized assessment**

To report on the climate alignment of their steel lending portfolios, Signatories will annually assess their climate alignment according to the Sustainable STEEL Principles guidance and methodology.

#### **2. Transparent reporting**

Portfolio climate alignment scores, a brief narrative, and the percent of their portfolio represented by emissions reduction targets will be published on an annual basis.

#### **3. Enactment**

Signatories will source data from clients, or when not available, from an approved third-party data provider.

#### **4. Engagement**

Signatories recognize the importance of client engagement to maximize real economy impact. Using the information obtained from the alignment scores of steelmakers, Signatories are encouraged to engage with clients at their discretion to advance emissions reductions in line with 1.5°C.

#### **5. Leadership**

Signatories are encouraged to set steel portfolio targets informed by the Principles. Signatories commit to updating the Principles as data evolves, and are encouraged to utilize the Principles for advocacy purposes, in the interest of decarbonizing the steel industry.



### **Methodology**

The Sustainable STEEL Principles were developed in consultation with industry and technical experts to ensure that it caters to the complexities of the sector and can incentivize a sector-wide transition to net-zero emissions. The three key components of the Sustainable STEEL Principles are:

**1. A fixed system boundary of emissions**

Due to the high degree of variability in ownership structure and level of vertical integration in the steel sector, steelmakers are required to measure their emissions intensity within a fixed system boundary of activities to improve the comparability of steelmakers' emissions.

**2. A material-specific approach, differentiating between emissions from primary and secondary steel**

Separate emissions intensity benchmarks are utilized for primary steel (made from iron ore) and secondary steel (made from scrap) due to the significant variation in emissions intensity. This aims to prioritize the decarbonization of primary steel production, and equips the sector's lenders with the insights needed to transition their steel lending portfolios.

**3. The Alignment Zone: an envelope of net-zero scenarios to benchmark performance**

Due to the absence of a third-party regulator to identify an appropriate scenario for the steel industry, as well as the economic, regulatory, and technological uncertainty faced by the sector in pursuit of net-zero, the Sustainable STEEL Principles apply two decarbonization scenarios, which together form an Alignment Zone.

### **Governance**

The Sustainable STEEL Principles are governed by the Sustainable STEEL Principles Association, an independent, unincorporated association. It comprises Signatories as its members, and its administrative functions are managed by the Secretariat, a third-party entity.

All information banks collect on the climate alignment of their borrowers will be aggregated, anonymized, and reported consistent with applicable laws. No sharing of commercially sensitive information between competitors shall occur.

### **Consistency across initiatives**

The Sustainable STEEL Principles aim to achieve compatibility with the NZBA goals of achieving net-zero by 2050 and limiting the global temperature rise to 1.5°C with low-to-no overshoot. The Principles have been informed throughout the drafting process by an ongoing collaboration with NZBA and its convening body, the United Nations Environment Programme Financial Initiative (UNEP FI).

### **How to join**

To join as a Founding Signatory, banks should complete a standard declaration and application form by August 31, 2022. Founding Signatories will be prominently featured in the launch of the Sustainable STEEL Principles on September 23 at NYC Climate Week, including in top-tier media coverage, demonstrating their institution's climate leadership in decarbonizing a hard-to-abate sector.

For more, please contact Lucy Kessler, Sustainable STEEL Principles Working Group Facilitator at [Lkessler@rmi.org](mailto:Lkessler@rmi.org).

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<sup>i</sup> Mission Possible Partnership, "Net-Zero Steel Sector Transition Strategy," October 2021, <https://missionpossiblepartnership.org/wp-content/uploads/2021/10/MPP-Steel-Transition-Strategy-Oct19-2021.pdf>

<sup>ii</sup> International Energy Agency, "Iron and Steel Technology Roadmap," October 2020, <https://www.iea.org/reports/iron-and-steel-technology-roadmap>

<sup>iii</sup> Member banks, UNEP Finance Initiative, FSB Global Monitoring Report 2020 <https://www.fsb.org/2020/12/global-monitoring-report-on-non-bank-financial-intermediation-2020/>