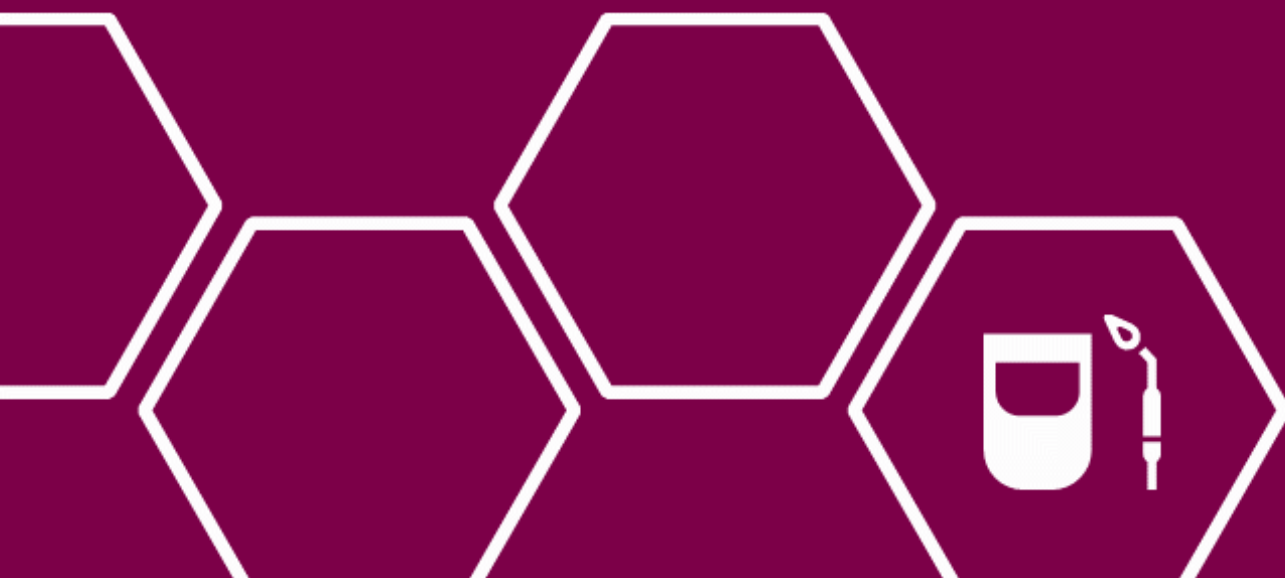


ACT

**ROADTEST
LAYMAN REPORT**

Assessing low- Carbon Transition

Iron & Steel



December 2021

1. CONTEXT OF THE ROAD TEST

IRON AND STEEL SECTOR

Among heavy industries, the iron and steel sector ranks first when it comes to CO₂ emissions, and second when it comes to energy consumption. Steel production is highly energy- and emissions-intensive, accounting for around 8% of global energy demand and 7% (2.6 Gt CO₂) of total emissions from the energy system. The use of steel is associated with economic growth. In 2019, the amount of steel used in the world reached 1768 Mt with the four main markets being building and infrastructure (52%), mechanical equipment (16%), automotive (12%) and metal products (10%). Global demand for Steel is projected to increase by more than a third through to 2050 according to IEA.

ACT IRON & STEEL METHODOLOGY

For the past six years, ADEME and CDP have been working together on developing the ‘Assessing low-Carbon Transition’ (ACT) initiative, a mechanism for assessing companies that have set climate commitments and want to take climate action in line with the Paris Agreement. The ACT methodologies use a holistic approach to assess a company’s climate strategy and determine its readiness to transition to a low-carbon economy.

The ACT Iron & Steel Methodology is designed to assess a company’s climate actions and strategy across its value chain. In practice, not all companies have activities in all stages of the value chain, and, as a result, the ACT methodology categorises companies as steel-making, steel-shaping or integrated, according to the type of activities they engage in (see **Erreur ! Source du renvoi introuvable.**). This classification influences the overall ACT performance results through score weightings, which adapt raw scores according to the relevance of each indicator to a company’s activities.

GOALS OF THE ROAD TEST

The project’s objectives were:

- to road test the ACT Iron & Steel draft methodology and accompanying tools
- to provide recommendations to refine the methodology
- to ensure that ACT Iron & Steel is relevant and robust for the sector
- to engage companies and other stakeholders in the low-carbon transition

The road test for the ACT Iron & Steel Methodology has been carried out, on behalf of ACT, by I Care and Deloitte.

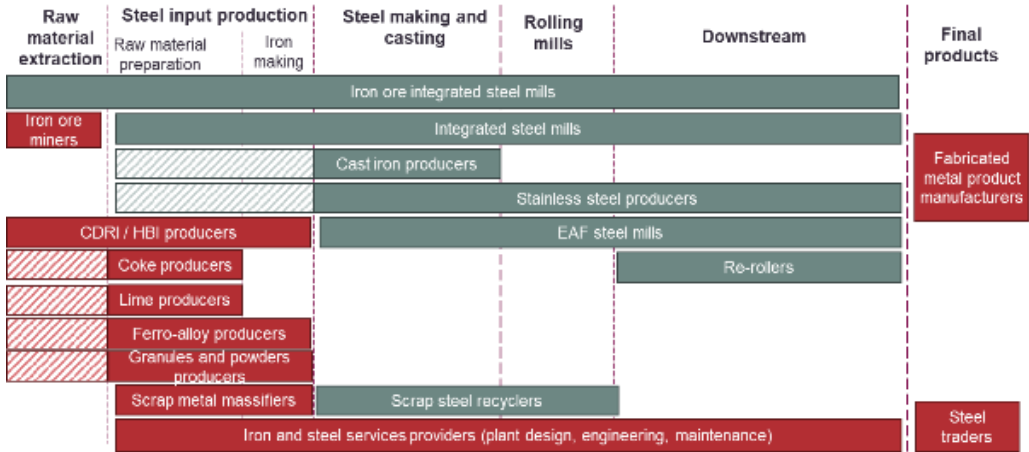


FIGURE 1: COMPANIES THAT CAN BE ASSESSED BY THE ACT IRON AND STEEL METHODOLOGY

ASSESSED COMPANIES



+

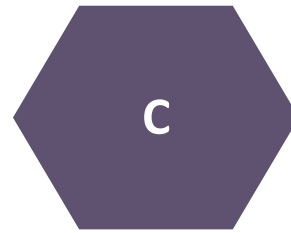
7 companies assessed using publicly available data

2. RESULTS OF THE COMPANY ASSESSMENTS

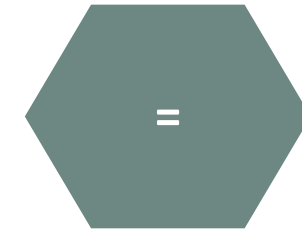
OVERALL RESULTS



The average performance score was 7.5 where 10.4 was the highest and 3.9 the lowest score. The top performer's score is driven by its effective strategy aimed at implementing new business models around low-carbon energy (production of hydrogen) and steel circularity (using domestic scraps). The best scores are also a result of more transparency in companies' disclosure, as they provided detailed information at asset level (performance and CAPEX plan). Conversely, most companies struggled to achieve a good score in these sections because of non-disclosure.



The average narrative score was C, indicating an overall medium alignment with a low-carbon scenario. In general, companies received lower narrative scores for the Consistency and Credibility dimension, where analysts noted issues with data availability and consistency between Module 1 and Module 2. Risk was another dimension that received lower scores, as many business risks have been identified, regarding upcoming regulations, technology transition, demand for low-carbon energy and scrap, for example). Reputation analysis relied on online news research only, which may be affected by the analysts' location and therefore not be comprehensive.



The average trend score was rated equal (=) for the iron and steel sector. This indicates that companies are not completely on the pathway to a low-carbon scenario. This indicates that most of the companies will receive a similar score if they take the assessment in a few years. Also, it suggests that companies need to make additional efforts to switch to a positive trend score in the near future.

FIGURE 2: PERFORMANCE SCORE - ROADTEST AVERAGE SCORE PER MODULE

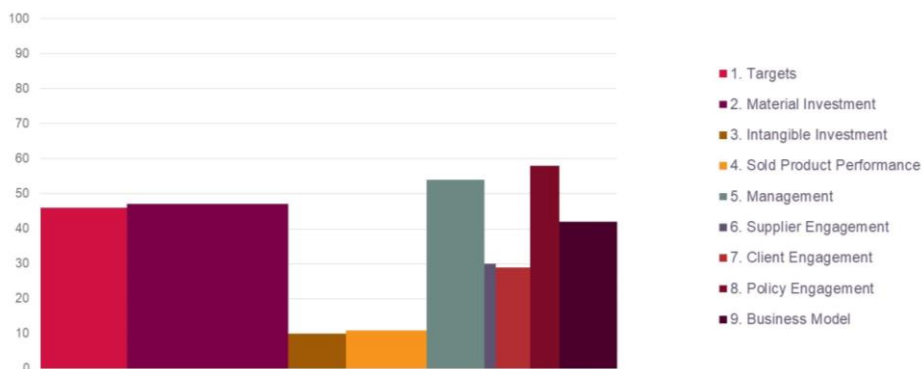
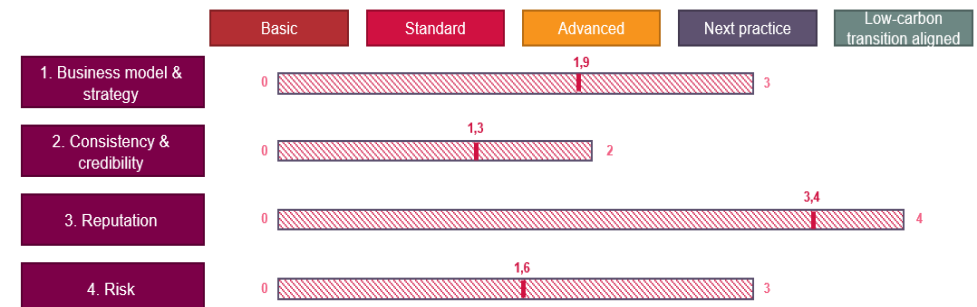
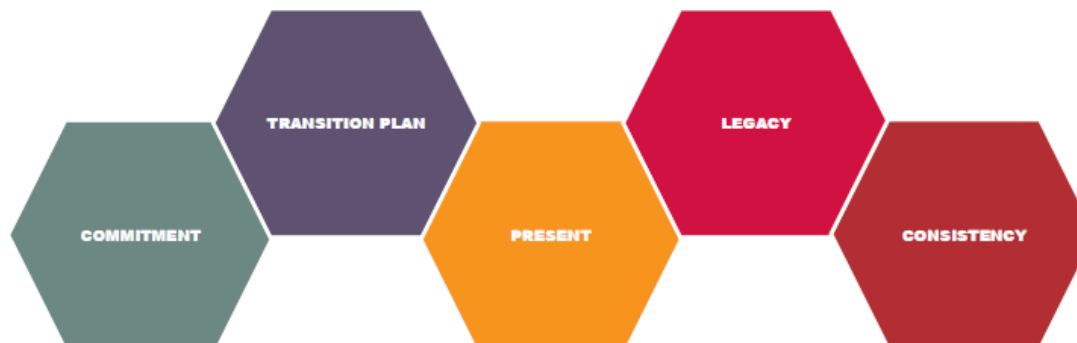


FIGURE 3: NARRATIVE SCORE - ROADTEST AVERAGE SCORE



OVERALL PROFILE OF THE 5 ACT DIMENSIONS

While each ACT methodology is sector-specific, they are all based on the ACT Framework, and as such there are fundamental commonalities among all of them. The Framework's main goal is to evaluate past, present and (anticipated) future company performance to determine a company's maturity level with respect to its transition to a low-carbon economy. The ACT initiative focuses on five guiding principles to determine company performance. With respect to these principles, the road test found:



1

Most of the companies in the iron and steel sector have set emissions reduction targets. There are some companies that have yet to make these commitments public. The notion of “Inclusive Scope 1+2 emissions”, which was developed in the ACT Iron & Steel Methodology to capture the main emissions within the value chain and tested during the road test, is challenging for companies. Companies must also commit to reducing upstream emissions considering their importance for the sector.

2

Companies in the iron and steel sector reported exploring low-carbon business activities. However, the level of maturity varies considerably between companies. Participants rarely disclosed information on profitability and effectiveness, limiting the analysts' ability to understand progress in the implementation of transition plans. From a strategic planning perspective, some companies in the sector have developed schemes to implement low-carbon technologies. However, some gaps have been identified between targets set by companies and the ambition of transition plans in aligning with a low-carbon economy.

3

Most companies have developed sustainability strategies and report current targets to tackle their climate impacts. Current levels of data availability are still below ACT's standard and this is an overall challenge for most companies in the sector.

4

Past performance varies between companies. Some companies in the road test have not yet made their low-carbon strategies public and are just starting their sustainability journey. Overall, while some companies are implementing sustainability strategies, the sector is not widely recognised for previous achievements in tackling its climate impact, and this is consistent with the ACT assessment results.

5

Overall, assessments have shown that climate strategies were consistent for each company and fairly reflected the level of maturity of the company. However, some incoherencies and gaps have been identified between companies' commitments and their transition plans. This has been reflected in the narrative score.

This report concludes that the companies in this sector must strengthen their decarbonisation ambitions and efforts and increase their transparency to better allow stakeholders to understand their impacts and the extent of their future ambitions and action on climate change. Current activities and expected future performance are not aligned with a low carbon pathway, exposing companies in this sector to climate and market risks

SUCCESS OF THE ROAD TEST



- 14 assessments were completed.
- Most volunteering companies were committed and active during the road test.
- The **ACT Iron & Steel Methodology is robust** and provides a fair reflection of a company's readiness to transition to a low-carbon economy.
- **Other initiatives for the iron and steel sector (for example, World Steel, Responsible Steel, and SBTi) have actively contributed to the improvements of the ACT Iron & Steel Methodology.**
- The current assessment methodology **illustrates clearly to companies where the main gaps / areas for improvement** can be found.
- The methodology encourages much greater **transparency on climate performance, strategies and transition plans** and will help to raise the bar for the sector.
- **Clear process and good coordination with key actors.**

LIMITS OF THE ROAD TEST



- **Companies found the usability of the tool to be a challenge during the data collection stage.**
- Companies involved in the road test were engaged and took the necessary time to understand the methodology. **This strong involvement led to them spending more time on the project than they expected.**
- **No steel-shaping companies were assessed** during this road test. Therefore, the weighting system for these companies as well as one specific indicator were not tested (4.1)

MAIN CHANGES & RECOMMENDATIONS TO IMPROVE THE IRON AND STEEL METHODOLOGY

All inconsistencies or issues experienced by the analysts and companies during the road test have been gathered and integrated at the end of the road test after discussion with the Steering Committee and the Technical Working Group that helps developing the methodology. The following points summarise the key recommendations that have been addressed before releasing the 2.0 version of the ACT iron and steel methodology:

- **Provide a more user-friendly tool:** The most common feedback theme from companies and analysts participating in the road test was that more guidelines would be appreciated to support the data collection phase. This was the case for both the quantitative and qualitative Modules. The tool needed clearer instructions and more explanation of what information is required (Inclusive Scope 1+2, scrap generation or maturity matrices). This will improve companies' ability to engage with the assessment and the quality of their submission. Some amendments have been made to simplify the data collection process (past trend emissions at asset level, for example).
- **Continue the coordination with other initiatives from the sector** to improve the robustness and the completeness of the methodology for future updates.
- **Other technical points have been addressed:**
 - Definition of the exhaustive list of inclusion for "Inclusive Scope 1+2" thanks to the discussion with IEA
 - Change in the calculation of the locked-in emissions score
 - Update in the wording for indicator 2.6 (Scrap reduction strategy)
 - Inclusion of indicator 4.1 (Trend in past emissions intensity of purchased crude Steel) for integrated companies
 - Change in the activities considered to be business models that increase the use of low-carbon energy (energy efficiency and green electricity purchase have been removed)