

# ResponsibleSteel Downstream Chain of Custody Consultation – Issues Paper

15 March 2024

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## Background

From December 2022 to July 2023, ResponsibleSteel ran a downstream claims and chain of custody (CoC) working group with the objective:

“To define the overall framework for claims by steelmakers, downstream manufacturers and steel end users, in relation to their conformity with ResponsibleSteel standards, and their production, sourcing and/or use of ‘ResponsibleSteel certified steel’.”

The project concluded with the following two recommendations:

1. ResponsibleSteel should provide a downstream chain of custody standard based on physical traceability with full segregation (i.e all ResponsibleSteel certified steel products would consist of/ be made with 100% RS-certified steel).
2. The ResponsibleSteel chain of custody standard would be accompanied by a complementary ‘Book & Claim’ system that would create value for ResponsibleSteel certified steelmakers and downstream steel users, based on claims that do not require the physical tracking of ResponsibleSteel certified steel through the supply chain – It will be developed in future.

As a first priority, the ResponsibleSteel Board of Directors has approved the Secretariat to implement recommendation 1 and draft and publicly consult on a downstream chain of custody standard based on physical traceability with full segregation. Prior to the implementation of recommendation 2, the secretariat will undertake additional research and consultation.

This document ‘ResponsibleSteel Downstream Chain of Custody Consultation – Issues Paper’ presents 4 specific issues for consultation relating to the draft. Alongside the draft Standard itself, this document is published for a 60-day public consultation in the period from 15 March 2024 – 14 May 2024.

This consultation is the first of a minimum of two public consultations in which stakeholders will be invited to share their feedback on the draft Standard. The Standard will be developed over 2024 and accompanied by pilot testing from the second consultation period. Once the development process is complete, the Standard will be finalised by an approval decision from the ResponsibleSteel Board of Directors.

## About this Document

This document presents four highlighted topics that ResponsibleSteel wishes to discuss and consult with stakeholders.

Background information, the proposed approach taken in the draft standard, and specific consultation questions are presented for each of the highlighted topics. The **issues** are:

- A. Whether the CoC Standard should specify Environmental, Social and Governance (ESG) requirements for downstream steel manufacturers, or just chain of custody requirements.
- B. Whether the CoC Standard should specify requirements for the responsible sourcing of materials other than steel.
- C. The preferred approach to the determination of the ResponsibleSteel Progress Levels for product categories made with steel inputs having different progress levels.
- D. Whether it should be obligatory for CoC certificate holders to label or sell qualifying products as ResponsibleSteel certified.

The draft Standard is published in full separately. We invite stakeholders to consider the appropriateness of the contents, the feasibility of the requirements, and the precision of the wording throughout the standard. This document has been drafted by the ResponsibleSteel taking account of discussions with our Board, Members, and stakeholders. It is released for public consultation.

**We are keen to hear from stakeholders what their opinions are on the consultation questions posed and feedback on the draft Standard. If stakeholders feel that there are other approaches not outlined here that would be better placed to achieve ResponsibleSteel's objectives, we very much appreciate hearing them. Stakeholders are asked to submit their responses to the consultation questions and feedback to the draft Standard to ResponsibleSteel by the 14<sup>th</sup> of May 2024 via the Microsoft Form or via the Excel version of the Form provided: <https://forms.office.com/e/s4PbecqhDy> Please only respond once per organisation.**

Following the consultation, the secretariat will collate and review the received feedback and prepare a revised draft taking account of those comments.

**If you have any questions on the consultation issues or the draft Standard, please contact: [standards@responsiblesteel.org](mailto:standards@responsiblesteel.org)**

## Issue A: ESG Requirements for Downstream Manufacturing

### Background

ResponsibleSteel's mission is to be a driving force in the socially and environmentally responsible production of net-zero steel, globally. The ResponsibleSteel International Standard, covering the ESG impacts of steelmaking and the responsible sourcing of its input materials is a fundamental tool to achieve this mission. However, there are also ESG impacts associated with the processing, manufacture, use and recycling of steel products. To what extent, and how, should the ResponsibleSteel chain of custody standard try to address these issues?

Four broad options were considered in relation to ESG requirements in the draft chain of custody standard:

- **Option 1: Do not specify any ESG requirements – focus exclusively on chain of custody**
- **Option 2: Apply the ResponsibleSteel International Standard to downstream sites, in addition to chain of custody requirements**
- **Option 3: Require downstream sites to address ESG issues through ISO 14001 and ISO 45001 standards or other similar systems, in addition to chain of custody requirements**
- **Option 4: Require downstream sites to address ESG issues through one of the following choices:**
  - **EITHER: application of the ResponsibleSteel International Standard, in addition to chain of custody requirements**
  - **OR: application of ISO 14001 and ISO 45001 standards or other similar systems, in addition to chain of custody requirements**

Under all options it is proposed that chain of custody certificate holders would be required to determine the carbon footprint for any products that are to be sold or marketed as ResponsibleSteel certified, in line with the same requirements that are applicable to steelmakers themselves. The intent of this is to ensure that carbon footprint information is available to end users, but also to protect the ResponsibleSteel system against potential accusations of 'greenwashing' or misleading stakeholders by allowing this information not to be made publicly available in addition to the ResponsibleSteel decarbonisation progress levels.

### **Option 1. No ESG requirements – focus exclusively on chain of custody**

This option is aligned with the wording of the ResponsibleSteel mission, which is focussed on the socially and environmentally responsible *production* of net-zero steel. The mission does not speak to manufacturing or use of such steel. The option would be consistent with the view that



the objectives of the ResponsibleSteel chain of custody standard will be achieved most effectively by focussing on the identification and promotion of steel products that are certified as being made out of ResponsibleSteel certified steel.

Under this approach, the inclusion of additional ESG requirements in a chain of custody standard increases the cost and complexity of implementation and discourages steel users and manufacturers from seeking chain of custody certification, reducing and/or delaying the market availability of ResponsibleSteel certified steel products. This would reduce the effectiveness of the ResponsibleSteel system in driving improvements in ESG performance of the steel sector where the potential impacts are greatest: in relation to the supply of input materials (in particular, in relation to the mining and processing of raw materials used for steel making), in relation to the ESG impacts of steelmaking sites, and especially in relation to the decarbonisation of steelmaking.

However, the approach would potentially allow steel products made at manufacturing sites that have significant negative social or environmental practises to be marketed as ResponsibleSteel certified, with potential negative consequences for the value of the ResponsibleSteel brand, or in relation to customer expectations. This has the potential to decrease the value of certification and so reduce uptake, even if the system is more accessible.

## **Option 2. Application of the ResponsibleSteel International Standard to downstream sites, in addition to chain of custody requirements**

Option 2 would be consistent with the view that ResponsibleSteel's mission will be achieved most effectively by specifying ESG requirements that apply equally anywhere in the value chain from mine through to final product.

Under this approach any increase in cost and complexity of implementation and assurance is more than made up for by the additional value that the resulting ResponsibleSteel certified products have for steel end users and their customers. This value not only drives uptake despite any additional costs of implementation and assurance, but also has an additional direct positive environmental/ social impact on the manufacturers who are required to meet the standard's ESG requirements. Moreover, the requirement for manufacturers to implement ESG requirements protects the ResponsibleSteel brand from the risk that steel products made at manufacturing sites that have significant negative social or environmental practises are marketed as ResponsibleSteel certified. To implement the approach, ResponsibleSteel would develop guidance on the application of the ResponsibleSteel International Standard to steel manufacturing sites and related activities.

Under this approach ResponsibleSteel could aim to meet an expectation of downstream users that by specifying ResponsibleSteel certified steel they can be assured that ResponsibleSteel's environmental and social requirements are met all the way from 'cradle' to their own factory gate. By meeting this expectation ResponsibleSteel will maximise the value of its brand, and have the greatest overall impact.

The risk is that by taking on the responsibility for ESG issues in the downstream supply chain ResponsibleSteel will actually have less overall impact, and be less effective in achieving its mission.

### **Option 3. Requirement to meet ISO 14001 and ISO 45001 or other similar systems in addition to chain of custody requirements**

Option 3 is intermediate to options 1 and 2. The logic of the approach is that ResponsibleSteel should not turn a blind eye to the possibility of negative ESG practises in the downstream manufacturing chain for steel products, but nor should it devote major resources to providing guarantees in this area, where the potential positive ESG impacts are likely to be markedly less than the impacts from the implementation of ResponsibleSteel requirements for the sourcing of input materials for steelmaking, and in relation to steel making itself.

The approach would be aligned with the ResponsibleSteel International Standard, in that Criterion 2.1 of the standard requires that ResponsibleSteel certified sites must meet the requirements of ISO 14001, and in that Criterion 5.2 of the standard requires that a site 'establishes, implements, maintains and continually improves a OH&S management system' that '...Aligns with a recognised national or international OH&S management system standard or recognised guidelines'.

Under this approach ResponsibleSteel would recognise conformity with ISO 14001 and ISO 45001 (or equivalent) as basic obligations for all users of the ResponsibleSteel system. ResponsibleSteel would not take on additional responsibility for defining more specific ESG requirements that would be applicable to downstream manufacturing and use of steel products, or for interpreting the ResponsibleSteel International Standard for these kinds of sites and activities, nor for overseeing the assurance system for ensuring that such requirements are implemented.

This option can be extended to include recognition of other evidence of ESG management systems, rather than being limited only to the aforementioned ISO standards.

### **Option 4. Application of EITHER the ResponsibleSteel International Standard to downstream sites (Option 2.) OR requirement to meet ISO 14001 and ISO 45001 or other similar systems, in addition to chain of custody requirements (Option 3.)**

A fourth option would be to allow downstream sites the choice of applying for certification against the requirements of the ResponsibleSteel International Standard OR, if this has not been applied, to require them to be certified against the requirements of ISO 14001 and ISO 45001, in addition to the chain of custody requirements.

This approach recognises that some downstream sites have already achieved certification to the requirements of the ResponsibleSteel International Standard, which already requires these sites to be certified against the requirements of ISO 14001 and to operate an OH&S system such as ISO 45001. Where sites consider there is value added in applying for certification against the ResponsibleSteel International Standard ResponsibleSteel should permit this option, but



where sites believe this would be inappropriate or onerous ISO 14401 and OH&S system certification should be considered an acceptable alternative.

## Proposal

The draft standard has adopted **Option 4**. Require downstream sites to address ESG issues through either ISO 14001 and ISO 45001 standards and/or ResponsibleSteel Core certification or other similar systems, in addition to chain of custody requirements.

## Consultation questions

- Do you agree or disagree with the proposed approach?
- If you disagree, what approach would you prefer?
- In case you think other systems should be considered, please share with us social as well as environmental management frameworks that you would propose to use.
- Do you have any further comments?

## Issue B: Responsible Sourcing of Non-Steel Input Materials

### Background

ResponsibleSteel's mission is to be a driving force in the socially and environmentally responsible production of net-zero steel, globally. The ResponsibleSteel Standard, covering the ESG impacts of steelmaking and its upstream supply chain is a fundamental tool to achieve this mission. However, there are also ESG impacts associated with downstream manufacturers' sourcing of materials other than steel.

To what extent, and how, should the ResponsibleSteel chain of custody standard try to address these issues?

Four broad options were considered in relation to ESG requirements in the draft chain of custody standard:

- **Option 1: No requirements around the sourcing of materials other than steel.**
- **Option 2: Downstream organisations must meet the 'core' sourcing requirements as specified in RS Standard V2-0**
- **Option 3: Downstream organisations must meet additional responsible sourcing requirements, analogous to Principle 3, to cover non-steel materials.**
- **Option 4: Downstream organisations must meet additional responsible sourcing requirements, comparable to at least progress level 1 of the Principle 3 requirements<sup>1</sup>, to cover input materials into steel products identified as high risk.**

### Discussion

The issues are somewhat similar to those already discussed in relation to the inclusion of ESG requirements that would have to be met by downstream organisations. IF downstream organisations are expected to address ESG impacts in order to sell their products as ResponsibleSteel certified, then should they not also address the impacts of their own upstream supply chains as well?

However, in this case the range of issues that would need to be considered is potentially much wider. Manufacturing organisations are likely to be sourcing a wide variety of materials, including other metals, wood, cement, glass, plastics, chemicals, etc. Defining standards for the responsible sourcing of all these materials would be a significant burden on ResponsibleSteel's already highly limited resources, and go well beyond ResponsibleSteel's areas of expertise. A generic 'responsible sourcing' commitment without specificity would imply accepting responsibility for the relevant issues while not specifying

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<sup>1</sup> Revisions to the progress level 1 requirements are undergoing consultation 15 March – 14 April 2024 following our V2.0 Test Phase.



requirements that are likely to have much real impact. 'Due diligence' requirements, as specified by the OECD, are very hard to implement effectively, and only apply to the largest organisations.

As the current focus of the draft chain of custody standard is 'steel products', and in future will be applied to co-products and by-products from certified steelmaking sites, arguably the inputs to those products should be covered by responsible sourcing requirements even where downstream of the steelmaking site. Covering high risk input materials to ResponsibleSteel certified products could ensure that the key sustainability risks to the certified products are attended to as well as mitigate reputational risk.

## Proposal

The secretariat is minded to require that 'input materials into steel products' identified as high risk meet additional responsible sourcing requirements comparable to at least level 1 of Principle 3 requirements. Existing programmes should be reviewed to determine to determine a rough comparability of requirements.

## Consultation questions

- Do you agree or disagree with the proposed approach?
- What would be the ingredients we should be looking for and which schemes should we be promoting?
- If you disagree, what approach would you prefer?
- Do you have any further comments?

## Issue C: Determination of Claimed Progress Levels for Steel Products

### Background

During 2023 the ResponsibleSteel Downstream Chain of Custody and Claims Working Group met regularly to review and develop the options for downstream chain of custody and claims. The work included circulation of a questionnaire to understand the current ability of steel manufacturers to maintain the traceability of steel through their manufacturing processes, and to understand the preferences of steelmakers, manufacturers, end users and civil society in relation to a range of different claims options.

The work concluded that a high level of traceability is generally already standard practice for most steelmakers and manufacturers, but that some steelmakers and manufacturers considered that an approach similar to the 'mass balance' approach for chain of custody would provide an essential level of flexibility in relation to the control of stock to meet customer orders when steel inputs are coming from a number of different sites (or, potentially, from a number of different furnaces within a larger steelmaking site). It was agreed to continue the discussion of the different options in the context of the development of the ResponsibleSteel chain of custody standard.

Four options are presented in the draft standard:

- **Option A, referred to as the 'Batch-Specific Progress Level Model'**
- **Option B, referred to as the 'Production Period Minimum Progress Level Model'**
- **Option C, referred to as the 'Production Period Average Progress Level Model'**
- **Option D, referred to as the 'Progress Level Balance Model'**

For all four options a number of variations are possible, and in principle a different approach could be applied to the decarbonisation progress level as would be applied to the material sourcing progress level. The options should be considered to be illustrative of the range of possible approaches, for the purpose of initial consultation, rather than definitive in terms of the detail of their application.

### **Option A, the 'Batch-Specific Progress Level Model'**

Option A would require that the steel in a steel product must specify the progress level that has been achieved by the specific steelmaking site that produced the steel in that product. If a product batch is made with steel from a site achieved ResponsibleSteel Progress Level 1, then each product in the batch would itself be labelled or sold as having achieved ResponsibleSteel Progress Level 1.

Example: if ten (10) different batches of product were made with steel inputs that have progress levels of: 1, 1, 1, 2, 1, 1, 1, 2, 2, 3, then the manufacturer would label and sell the six (6) units that were made with steel at Progress Level 1 as having achieved Progress Level 1, the three (3)

units made with steel at Progress Level 2 as having achieved Progress Level 2, and the single unit made with steel at Progress Level 3 as having achieved Progress Level 3.

Batch-Specific Progress Levels would be assigned for both decarbonisation and material sourcing, so in principle a manufacturer might need to apply up to 16 different labelling options for a given product category at the same time, depending on its sourcing of steel input material.

### **Option B, the ‘Production Period Minimum Progress Level Model’**

Option B would require that the steel in a product must specify the *minimum* progress level that has been achieved by the steelmaking sites that produced the steel used to make the product over a period of time.

Example: if ten (10) different batches of product were made with steel inputs that have progress levels of: 1, 1, 1, 2, 1, 1, 1, 2, 2, 3, then the determined progress level claimed for all batches would be the lowest achieved for any batch, i.e. Progress Level 1.

The minimum Progress Level for decarbonisation and the minimum Progress Level for material sourcing would apply.

### **Option C: the ‘Production Period Average Progress Level Model’**

Option C would require that the steel in a product must specify the *average* progress level that has been achieved by the steelmaking sites that produced the steel used to make the product over a period of time.

Example: if ten (10) different batches of product were made with steel inputs that have progress levels of: 1, 1, 1, 2, 1, 1, 1, 2, 2, 3, then the average progress level would be  $15/10 = 1.5$ , and the determined progress level rounded down to a whole number would be Progress Level 1.

The average Progress Level for decarbonisation and the average Progress Level for material sourcing would apply.

### **Option D: the ‘Progress Level Balance Model’**

Option D would apply a variation of the ‘mass balance’ approach to chain of custody, but applied to progress level claims. It would require that the manufacturer records the progress level of the steel inputs used to make a product over a period of time. If ten tonnes of the steel used as an input over a period of time achieves Progress Level 3, then the manufacturer can label and sell ten tonnes of the steel products it manufactures with a Progress Level 3 claim. There would be no requirement that the steel in the labelled products came from steelmaking sites that themselves achieved Progress Level 3.

Example: if ten (10) different batches of product were made with steel inputs that have progress levels of: 1, 1, 1, 2, 1, 1, 1, 2, 2, 3, then the manufacturer would maintain ‘progress

level balance accounts' permitting six (6) units to be sold as having achieved Progress Level 1, three (3) units to be sold as having achieved Progress Level 2, and one (1) unit to be sold as having achieved Progress Level 3.

Separate progress level balance accounts could be applicable to decarbonisation Progress Levels and to material sourcing Progress Levels. As for the batch-specific approach, in principle there could be up to 16 different labelling options applied by the manufacturer to a given product category at the same time, although manufacturers might choose to limit their choice to a smaller set. To this end it could be agreed that manufacturers are permitted to assign production to a lower mass balance account to simplify their accounting, for example selling nine (9) units as having achieved (at least) Progress Level 1, and one (1) unit as having achieved Progress Level 3.

## Discussion

**Option A, the 'Batch-Specific Progress Level Model'**, maintains the closest relationship between the progress level that is claimed for a steel product, and the progress level of specific steel the product is made with. Other than possible variation within the steel inputs used to make a single batch, the claimed progress level would be exactly the same as the progress level for the steel the product is made with.

However, the product manufacturer would need to label, market and sell products separately, depending on each specific progress level. For manufacturers sourcing steel from several ResponsibleSteel certified sites this is likely to create severe challenges for product labelling, marketing, and for stock control.

**Options B and C** are more flexible, allowing claims to be made on the basis of the *minimum* (option B), or the *average* (option C) progress levels that have been achieved for material sourced from a number of different ResponsibleSteel certified sites over a period of time.

Either of these options would simplify the challenges of marketing, labelling and stock control. However they also weaken the linkage between the claimed progress level, and the actual progress level of the steel in a given product. This weakening is, however, no different to that for product carbon footprint and other epd-based claims, which are also averages measured over a period of time.

Option B is more conservative, in that it ensures that no product is sold with a claimed progress level that is better than the actual progress level of the steel in the product. However, if 90% of the input material were at Progress Level 4, and just 10% at Progress Level 1, all the production would be sold as Progress Level 1, which would be likely to reduce the potential value for the steelmaker that has achieved Progress Level 4. Under Option C, the manufacturer and steelmaker have the potential to benefit more. Some steel products will be sold with a claimed progress level that is higher than that of the steel the product is made from, but this is counterbalanced by products sold with a claimed progress level that is lower than that of the steel the product is made from. The model is conservative as it specifies that average progress level values are rounded down, so if the average progress level were 1.5, the steel products would be sold with a claimed progress level of 1. Option C is aligned with the

approach currently adopted in the ResponsibleSteel International Standard V2-0 for groups of sites (see Criterion 10.7.2.b).

**Option D, the ‘progress level balance’ model**, is the most flexible, in terms of stock control. It should be emphasised that under this option, as for all the other options, all the steel in a product must be ResponsibleSteel certified steel. In that respect it differs from the ‘mass balance’ chain of custody model in which a product could be sold with a certification brand logo, but contain no material that was produced to the certification standard.

However, the progress level that is claimed for a product would be allocated by the manufacturer based on the quantity of steel purchased or produced to date at that progress level. This allows the manufacturer to sell products with the same range of progress level claims as has been achieved for its steel inputs (as for Option A) but frees the manufacturer from the obligation to sort and separate production depending on the actual input for a specific product batch. The manufacturer can build up a bank of ‘progress level 4 credits’, and then allocate those credits to the products sold to a selected customer at any point in time, without having to ensure that those particular products contain steel that itself achieved the claimed progress level.

Rules would need to be specified in regard to the relationship between decarbonisation progress level claims and responsible sourcing progress level claims. In principle, though, a manufacture that sources some steel inputs that have achieved progress level 4 for responsible sourcing, and some steel inputs that have achieved progress level 4 for decarbonisation, could market a proportion of its production as having achieved progress level for *both* responsible sourcing *and* production, even if none of the inputs themselves achieved progress level 4 for both attributes.

A disadvantage of the ‘progress level balance’ model is that there is no longer any relationship between the progress level that is claimed for a product batch, and the progress level of the steel that the batch is made from. This raises concerns in relation to ‘green claims’ regulations, in particular in relation to product labelling. For that reason it is proposed that if the ‘progress level balance’ model is adopted, then on-product labelling using the ResponsibleSteel Certified Steel Mark with Progress Levels would not be permitted. It might still be permissible to apply generic ResponsibleSteel Certified Steel labels which do not specify a particular progress level, though that would be likely to reduce the value of labelling and claims from the point of view of the customer.

### Consultation Questions

- Which option do you currently favour?
- Why do you favour that option over the others?
- Do you have any further comments on this?

## Issue D: Obligations to Label or Sell Qualifying Products as ResponsibleSteel Certified

### Background

Chain of custody certification is based on the ability of a steel manufacturer to demonstrate that its products meet the specified requirements. The manufacturer may then label, or make other kinds of claims, about complying products. Such labelling and claims are typically voluntary. The certificate holder is free to label its products, but is not obliged to.

Experience from other programmes shows that producers may wish to reserve the sale of labelled products to customers who are willing to pay a premium, thereby adding value and recouping costs that have been incurred in achieving chain of custody certification and sourcing ResponsibleSteel certified inputs.

The disadvantage of this approach, from the perspective of ResponsibleSteel, is that there could be considerable volumes of material in the market that meets the requirements for ResponsibleSteel certification and labelling, but which is nonetheless not labelled, and so limits the speed of uptake of the programme.

### Discussion

In principle, the chain of custody standard could include a requirement that a manufacturer is obliged to label all qualifying production as ResponsibleSteel certified, once a chain of custody certificate has been issued and the certificate holder has been licensed to use the ResponsibleSteel trademarks.

By definition, however, this limits the manufacturer's ability to manage the labelling of its products to maximise value, rather than necessarily to maximise the volume of supply. Uptake of chain of custody certification is likely to be driven by its contribution to value to manufacturers. Over time, allowing manufacturers to limit supply to maximise value should increase the overall level of uptake.

### Proposal

It is proposed to allow chain of custody certificate holders to choose whether or not they label and sell qualifying steel products as ResponsibleSteel certified, rather than requiring them to do so.

### Consultation questions

- Do you agree or disagree with the proposed approach?
- If you disagree, what approach would you prefer?
- Do you have any further comments on this?