Steel procurer Supply Chain scorecard - Methodology

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1. Overview

The aim of this scorecard is to assess the steel supply chains of major companies operating in Finland. Steel production accounts for 7% of global man-made emissions and steel demand is expected to rise by 30% by 2050[1]. The decarbonisation of steel manufacturing is therefore crucial for limiting global warming below 1.5°C.

Unlocking demand is crucial in order to incentivise investment in and production of fossil free and environmentally sustainable steel at scale. Companies can do so by influencing their supply chain through supplier engagement, procurement policies and choices and product and service design. In addition to supply chain levers, companies need to report the environmental impacts of their supply chain, set ambitious and science-based targets and publish progress towards their targets.

Scope 3 emissions often represent the largest portion of companies' GHG inventories, but companies tend to focus on their own operations when implementing their climate plans. However, it's crucial to reduce GHG and toxic emissions throughout the supply chain, while at the same time reducing damaging impacts on human health, biodiversity and resource depletion and ecosystem resilience. In addition, a sustainable supply chain ensures justice for Indigenous people, workers and local and conflict-affected communities.

This scorecard assesses companies' progress towards a fossil-free and environmentally sustainable steel supply chain. It also analyses the general environmental and climate performance of supply chains to provide a baseline score for comparison.

The following parts of the methodology are written by Pensions & Investment Research Consultants (PIRC), unless otherwise mentioned. PIRC is Europe's largest independent corporate governance and shareholder advisory consultancy with over 25 years' experience in providing research services to institutional investors on governance and other ESG issues. PIRC developed the scorecard methodology and scorecard indicators at the request of Lead the Charge network.

2. Scorecard Design and Structure

Friends of the Earth Finland (FoEF) presents the scorecard in two parts:

1. A summary scorecard consisting of a bar chart and a more detailed table with points for each indicator group, to be published on the website and used as a campaign tool; and
2. A downloadable format with the full set of indicators and more detailed scoring assessment for partners and consumers seeking more background on how scores were derived.

The Friends of the Earth Finland's scorecard is divided into the following themes:

Fossil-free and Environmentally Sustainable supply chains (climate and environment):

- Fossil-Free and Environmentally Sustainable Supply Chains (General)
- Fossil-Free and Environmentally Sustainable Steel

[1] Net-Zero Industry Tracker 2022 Edition | Weforum

The “general” indicator measures commonalities across the other indicator themes[2], and is used to provide a baseline score.

The grouping of the indicators under the Climate and Environment themes is derived from the SBTi report *Value Chain in the Value Chain: Best Practices in Scope 3 Greenhouse Gas Management,* namely:

- Disclosure
- Target setting and progress
- Use of supply chain levers

Note: Although the SBTi report is exclusively focused on GHG emissions, their approach to how companies can achieve change in their supply chain is relevant to other environmental impacts. For this reason, PIRC is adopting their structure to include “other significant air emissions”, water management, biodiversity and resource depletion.

The full set of indicators is provided in appendix 1.

As provided in appendix 2, scoring has been weighted towards “implementation” indicators over “commitment” and “disclosure” indicators.

2.1. Exclusions **from Version 1**

As this is the first year for the scorecard FoEF elected to focus on the environmental issues in the steel supply chain, where there has been existing engagement, research and/or focus, with a view to extending the scope of the scorecard in subsequent iterations.

Land use, resource depletion and biodiversity are included as emergent supply chain indicators but are not considered in isolation. PIRC has addressed these issues by developing indicators that encourage reductions in the use of primary materials and increased use of secondary materials. Where possible, PIRC also looked for third party certification models for materials that include more than GHG emissions and also take into account environmental and human rights metrics (e.g. ResponsibleSteel certification).

FoEF aims to extend the scope of the scorecard to include Human Rights & Responsible Sourcing in subsequent iterations.

3. Indicator Development

PIRC conducted a review of existing benchmarking initiatives, reporting standards and best practice supply chain initiatives to develop these indicators.

Where possible, climate indicators were aligned with advice from:

- Science Based Targets Initiative (SBTi)
- Task Force on Climate-Related Financial Disclosures (TCFD)
- Carbon Disclosure Project (CDP)

[2] In Version 1, we only have one indicator theme (steel) in addition to the general indicator theme.

- International Energy Agency (IEA)
- Global Reporting Initiative (GRI)
- Industry specific indicators or targets, as discussed below.

Environmental indicators were aligned with the following:

- Global Reporting Initiative
- CEO Water Mandate
- CDP Water Survey
- EU Taxonomy
- UK Government's Environmental Reporting Guidelines[3]

3.1. Third-party certifications

It is common in various industries to use third-party certifications or similar to set standards for industry actors. However, certifications can vary in multiple ways. A recent report from Germanwatch[4] criticised existing voluntary standards, for being "marked by a series of systematic, content-related and methodological shortcomings." Their study concludes that "industry initiatives contribute to very different extents towards implementing due diligence obligations, and … they can never be applied as a sole instrument to this end."

Thus, the use of third-party certifications in indicators' scoring criteria does not constitute an endorsement of that certification, but a recognition of existing certifications in use and their potential role in improving supply chains. Similarly, the inclusion of certifications does not constitute an endorsement of certifications over regulation.

However, in order to account for this variability across certification schemes, in some instances PIRC has adjusted the proportion of points awarded to participation in certain certification schemes so as to capture valid civil society criticisms of their shortcomings.

Finally, while some certifications may currently lack broad civil society endorsement, it is also recognized that companies can and should use their influence and participation to continually raise the standards of such initiatives.

4. Analysis of Company Reporting

Companies have been scored solely on publicly available official reporting which has received board level sign-off. Company documents reviewed included (at a minimum):

- Annual Reports
- Sustainability Reports
- TCFD reports
- Supplier Codes of Conduct

[3] Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance
[4] AN EXAMINATION OF INDUSTRY STANDARDS IN THE RAW MATERIALS SECTOR

The cut-off date for information to be included in our analysis was 2nd of May 2023. Press releases and similar announcements do not qualify as official board-approved reporting.

The companies evaluated were provided with an opportunity to comment on the analysis of their documentation. They were able to provide additional information to challenge FoEF's assessment of their policies and/or practices. However, this information was only used to revise a company's score if it was in the public domain by the above cut-off date and qualified as official board-approved reporting.

5. Climate and Environment

5.1. Fossil-Free and Environmentally Sustainable Supply Chains: Background

It is crucial that companies decarbonise and reduce toxic pollution and environmental impacts in their entire supply chain, from the point of extraction through to final production.

Recognising that Scope 3 emissions often represent the largest portion of companies' GHG inventories, SBTi produced best practice guidance for downstream companies on how they can reduce indirect emissions throughout their value chain.[5] They identify a number of levers whereby buyers can influence their supply chain, we have identified the following as relevant to this scorecard:

- Supplier Engagement
- Procurement Policies and Choices
- Product and Service Design

These levers are also very relevant to how companies can reduce the broader environmental footprint of their supply chain, including achieving improvements in water management, reductions in toxic pollutants, and reducing biodiversity and land use impacts in their supply chain.

5.2. Fossil-Free and Environmentally Sustainable Supply Chain

Building on SBTi value chain guidance, PIRC has grouped indicators into three groups:

- Disclosure of GHG emissions, "other significant air emissions", and water management.[6] Note: this establishes the status quo of a companies' emissions. This is not comparable between companies due to differences in how each company structures its operations and supply chain, and how they are disclosed or not.
- Target setting and progress towards fossil-free and environmentally sustainable supply chains: this measures ambition and a company's progress towards that ambition
- Use of supply chain levers to achieve fossil-free and environmentally sustainable supply chains: this measures the policies and practices that companies have put in place to achieve that ambition, for example through tendering practices and supplier engagement through to extraction.

[5] BEST PRACTICES IN SCOPE 3 GREENHOUSE GAS MANAGEMENT

[6] The definition of "other significant air emissions" has been taken from the GRI 305: Emissions Standard.

In measuring company ambition and progress, PIRC recognises that it is not enough to simply decarbonise mineral and metal production. A fossil-free and environmentally sustainable supply chain would also need to reduce the use of primary materials in order to reduce (in addition to the impacts noted above) biodiversity and land use impacts. This is measured through attention to:

- Recycling and increased use of secondary materials, in order to create more closed loop supply chains and reduce continual extraction.
- R&D and scaling to improve the recyclability of particular materials.

5.3. Themes: Background, Overview of Indicators and Scoring Methodology

The following is a high level discussion of decisions underpinning the indicators and scoring methodology for each focus area or theme.

5.3.1. Fossil-free and Environmentally Sustainable Supply Chains (General)

These are baseline indicators that apply across all supply chains. They look for aggregate emissions (GHG and other significant air emissions) and water management data and targets. This section also establishes generic tendering practices that companies may adopt to engage and incentivise suppliers to improve their performance on climate and environment indicators. However, supply chain levers are predominantly addressed under the steel supply chain

5.3.2. Fossil Free and Environmentally Sustainable Steel

The bulk of GHG associated with the production of steel occurs during smelting. As such, the decarbonisation of the electricity used during this process is critical in creating sustainable steel supply chains for the companies. The extent to which companies are supporting the investment of steel suppliers in clean and stable energy sources, such as hydro electricity generation, is critical. This could include long-term purchasing commitments for steel smelted using wholly renewable energy. In addition to the decarbonisation of electricity, the scorecard recognises the importance of shifting away from the use of metallurgical coal in the smelting process and moving towards fossil-free alternatives.

These indicators recognise that it is not enough to set targets; companies must work together with upstream suppliers to encourage them to invest in fossil-free and environmentally sustainable steel.[7] Companies may do this individually (e.g. through purchase agreements) or together with other downstream buyers (e.g. participating in multi-stakeholder initiatives).

ResponsibleSteel is the primary multi-stakeholder initiative that covers the steel sector. ResponsibleSteel has in turn partnered with the Climate Group's SteelZero, an initiative with the aim of accelerating the industry's transition towards fossil-free steel. PIRC has used targets established by ResponsibleSteel to determine the procurement targets for scoring. Significantly, ResponsibleSteel is the only initiative that includes other environmental factors in addition to GHG emissions in their steel certification.[8] In addition to alignment with ResponsibleSteel companies will receive additional

[7] Steeling Demand: Mobilising buyers to bring net-zero steel to market before 2030
[8] SteelZero: Driving the Collective Change for Net Zero Emissions | ResponsibleSteel

credit for membership of SteelZero[9]. Companies that comply with IEA targets will receive partial scores.[10]

Implementing effective means through which to recover and recycle scrap steel is an important consideration for companies in the decarbonisation of steel supply chains. Increasing the amount of secondary relative to primary steel used in the manufacturing process reduces the embodied carbon of the products. The IEA Guidance for Heavy Industry has recycling, re-use: scrap as a share of input in steel production as 54% by 2030. As such, the scorecard measures company target setting with regards to recycling. Additionally, the score card assesses the extent to which companies are integrating improved recyclability of steel into the design and manufacturing process.

Indicator details provided in appendix 1.

6. Company Selection

Steel is used in every important industry; energy, construction, automotive and transportation, infrastructure, packaging and machinery.[11] FoEF used a mixed methodology to select the companies in order to identify the players that had the most potential to drive change in the steel sector. FoEF also wanted to get an overview of steel supply chains across sectors and chose 11 companies headquartered or operating in Finland from machinery, construction, energy, consumer goods and transport sectors. We selected the eleven companies based on the following criterias:

Four largest Finnish companies in machinery by net revenues in 2022[12]:

- KONE
- Wärtsilä
- Metso Outotec
- Valmet

Two largest construction companies by net revenues in 2022[13]:

- YIT
- Skanska

Two largest consumer goods companies listed in Nasdaq Helsinki by net revenues that use steel in their products[14]:

- Fiskars
- Harvia

[9] Building demand for net zero steel | Climate Group
[10] Driving Energy Efficiency in Heavy Industries – Analysis - IEA
[11] Steel industry facts - worldsteel.org
[12] TE500 | Talouselämä
[13] ibid
[14] ibid

Two companies listed on the Stock Exchange that own largest amounts of wind power projects by cumulative power (MW) and that are in the final stages of project planning (Land Use Plan Done - Under Construction)[15]:

- OX2
- Megatuuli Oy (Enersense acquired Megatuuli on 1 February 2022 so we are assessing Enersense)

The largest shipbuilding company in Finland by net revenue, because the other players were not relevant due to their small size:

- Meyer Turku

[15] Projects under planning - Suomen Tuulivoimayhdistys

Appendices

Appendix 1: Full list of indicators and score attributions

Theme	Indicator Category	Indicators	Score Attribution (Scores are cumulative unless otherwise specified)
Fossil Free and Environmentally Sustainable Supply Chains (General)	**Disclosure of emissions and water management**	The company discloses total scope 3 GHG emissions due to purchased goods and services.	**100%:** The company discloses scope 3 GHG emissions due to purchased goods and services. **25%:** The company includes scope 3 GHG emissions including purchased goods and services in overall disclosure, but does not disaggregate. Note: the company may achieve additional points under each of the supply chain areas below, if they provide disaggregated emissions against each supply chain.
		The company discloses "significant emissions" in its supply chain.	Based on GRI 3-5, significant emissions include: i. NOx ii. SOx iii. Persistent organic pollutants (POP) iv. Volatile organic compounds (VOC) v. Hazardous air pollutants (HAP) vi. Particulate matter (PM) vii. Other standard categories of air emissions identified in relevant regulations **100%:** the company discloses significant emissions in their supply chain against all of the above categories. **50%:** the company discloses significant emissions in their supply chain against some of the above categories. Note: the company may achieve additional points under each of the supply chain areas below, if they provide disaggregated emissions against each supply chain.
		The company discloses water usage by key suppliers in its supply chain.	According to GRI 303, water usage includes: - water withdrawn

Theme	Indicator Category	Indicators	Score Attribution (Scores are cumulative unless otherwise specified)
			- water consumed - water discharged Companies will need to define "key suppliers" and: **50%:** provide data against some of the above indicators **100%:** provide data against all of the above indicators
	Target-setting and progress towards fossil free and environmentally sustainable supply chains	The company has set and disclosed a scope 3 SBT (must include reference to upstream/purchased goods & not only 'Well to Wheel')	**100%:** the company discloses a validated science-based scope three target that includes upstream/purchased goods, including 2050 and interim year target(s). **75%:** the company discloses a validated science-based scope three interim target that includes upstream/purchased goods. **50%:** the company discloses a lifecycle target that includes upstream/purchased goods, including 2050 and interim year target(s) and/or does not indicate if it has been verified as science-based. **25%:** the company only discloses a 2050 zero emissions target with no interim target and/or it does not specify upstream/purchased goods.
		The company commits to having suppliers provide science-based targets for GHG emissions.	The following scores are absolute, not cumulative. **100%:** the company requires all its tier 1 suppliers, and their suppliers to set science-based targets. They also require tier 2 suppliers to set science-based targets. **75%:** the company requires all its tier 1 suppliers to set science-based targets. **50%:** the company commits to having at least 70% of its key suppliers by emissions setting science-based targets by 2023. **25%:** company commits to having suppliers setting science-based emissions targets, but does not provide a target date or target date is after 2023, or target is below 70 percent.

Theme	Indicator Category	Indicators	Score Attribution (Scores are cumulative unless otherwise specified)
			0%: Company does not have a commitment.
		The company discloses the current percentage of suppliers providing science-based targets.	**25%:** they disclose the current percentage of tier 1 suppliers providing science-based targets. **25%:** they disclose the current percentage of tier 2 suppliers providing science-based targets. **25%:** additional points for over 50% of tier 1 suppliers providing science-based targets **25%:** additional points for all tier 1 suppliers providing science-based targets.
		The company requires all significant suppliers to disclose their water management plan and water usage.	**50%:** the company requires tier 1 suppliers to have a water management plan in place **25%:** the company requires tier 1 suppliers to set water reduction targets **25%:** the company requires tier 1 suppliers to disclose their water usage. According to GRI 303, water usage includes: - water withdrawn - water consumed - water discharged
		The company has programs in place to monitor suppliers for compliance with GHG emissions targets and other environmental impacts.	**25%:** The company has a process that includes reducing GHGs and other environmental impacts, but lacks targets as a basis for compliance. or **50%:** The company has a process that includes reducing GHGs and other environmental impacts, and includes targets as a basis for compliance. plus **25%:** the company provides quantitative information of the number of suppliers audited and the tiers that are audited. **25%:** the company provides qualitative case studies of how they have engaged suppliers on their targets.

Theme	Indicator Category	Indicators	Score Attribution (Scores are cumulative unless otherwise specified)
	Use of supply chain levers to achieve fossil free and environmentally sustainable supply chains	The company incentivises suppliers to reduce GHG and other significant air emissions.	**50%:** the company specifies that cost is not the only factor in choosing a preferred supplier. **25%:** the company specifies that GHG targets are included in the tender and contracting process. **25%:** the company specifies that "other significant air emissions" targets are included in the tender and contracting process. As companies are unlikely to publish their contract information, references may be found in sustainability reports, procurement policies, etc.
		The company incentivises suppliers to improve water management	**100%:** water management is explicitly taken into account in the tendering and contract process, and is a factor in choosing preferred suppliers.
Fossil Free and Environmentally Sustainable Steel	**Disclosure of scope 3 GHG emissions due to steel supply chains**	The company discloses disaggregated GHG emissions for their steel supply chains.	100%: The company discloses scope 3 GHG emissions for purchased goods and services, disaggregated for their steel supply chains.
	Target setting and progress towards fossil free and environmentally sustainable steel supply chains	The company has set targets for the use of fossil free and environmentally sustainable steel.	The scores below are not additive. They indicate specific thresholds for getting that percentage of points: **100%:** the company has a commitment to source 100% fossil free steel by 2050 and 50% fossil free steel by 2030. **90%:** the company has a commitment to source 100% Responsible Steel Level 4 certified steel by 2040 and 50% steel that is Responsible Steel level 3 or 4 by 2030. **75%:** Alignment with SteelZero Commitment to source 100% net zero steel by 2050, with an interim commitment of using 50% responsibly produced steel by 2030. **50%:** Alignment with IEA Heavy Industry Guidance (27% emissions reduction by 2030 and 95% by 2050) **25%:** Commitment to net zero steel by 2050 and/or any commitment below IEA Heavy Industry Guidance.

Theme	Indicator Category	Indicators	Score Attribution (Scores are cumulative unless otherwise specified)
		The company publishes progress towards their target by disclosing the current percentage of fossil free steel in their annual production cycle.	**50%:** The company discloses the current percentage of "low-C02 steel", namely "primary steel which emits less than at least 0.5 tonne of CO2 per tonne of crude steel" in their supply chain. **50%:** the company discloses the current percentage of Responsible Steel certified steel in their supply chain. Note: depending on the level of certification, companies may score points under the first category.
		The company has a target for the use of secondary/scrap steel by 2030.	**100%:** the company discloses a target for the use of recycled steel that is aligned with IEA Guidance for Heavy Industry on recycling, re-use: scrap as share of input in steel production as 54% by 2030 **50%:** the company discloses a target for the use of recycled steel.
		The company publishes progress towards their target by disclosing the current percentage of recycled steel used in its annual production cycle.	**100%:** the company discloses the percentage of recycled steel in their annual production cycle (total recycled/scrap steel volume is sufficient if total steel volume is disclosed). **50%:** The company partially discloses the percentage of recycled steel for some elements with their annual production cycle.
	Use of supply chain levers to achieve fossil free and environmentally sustainable steel supply chains	The company participates in multi-stakeholder initiatives to collaborate with other buyers to incentivise investment in and production of fossil free and environmentally sustainable steel at scale.	**25%:** the company is a member of ResponsibleSteel **25%:** the company is a member of SteelZero **50%:** the company has disclosed purchasing commitments with members of ResponsibleSteel.

Theme	Indicator Category	Indicators	Score Attribution (Scores are cumulative unless otherwise specified)
		Company has entered into formal arrangements with suppliers to incentivise investment in and greater production of fossil free steel.	**50%:** the company states that it has entered into a contractual relationship with steel suppliers to invest in and scale production of low-C02 steel. or **25%:** the company states that it has entered into a contractual relationship with secondary steel suppliers to invest in and scale production of fossil-free steel, namely "secondary steel which is produced with fossil-free electricity". **50%:** the company discloses timelines/targets for the development of and purchase of low-C02 steel.
		The company integrates improved recyclability of steel into automobile design and manufacture.	**25%:** the company discloses that it is implementing a closed loop process for steel **50%:** the company provides detail on its closed loop process for steel **25%:** the company provides detail of how it considers the recyclability in product and/or component design.

Appendix 2: Weighting methodology

Indicator category	% weighting	Normalized weighting
Disclose	100%	1.0
Target setting & progress	150%	1.5
Supply chain levers	200%	2.0

Note: Companies' total scores across both themes were calculated as averages of the two percentages scored for each one