

DEBUNKING 10 STEEL DECARBONIZATION MYTHS

**Insights for
financial institutions**

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TABLE OF CONTENTS

Glossary	4
Introduction	6
Myth #1 - The steel sector is “hard-to-abate”	8
Myth #2 - Metallurgical coal and thermal coal are fundamentally different	10
Myth #3 - Steel demand is projected to increase, so metallurgical coal demand will increase too	12
Myth #4 - Fossil-free steel is too expensive	14
Myth #5 - CCUS is needed to decarbonize the steel sector	16
Myth #6 - Technologies are not mature enough, so there is still plenty of time to decarbonize the steel sector	18
Myth #7 - CO2 emissions are the only relevant ESG issue in steel production	20
Myth #8 - Financial institutions cannot do anything without government support to the steel sector	22
Myth #9 - Current engagement strategies with steel companies are efficient	24
Myth #10 - Adopting steel decarbonization targets is enough to decarbonize the steel sector	26
Recommendations	28



Abbreviation	Definition
BF-BOF	Blast Furnace to Basic Oxygen Furnace. This is the production route that requires the use of metallurgical coal, which includes coking coal/coke. Blast furnaces are used to convert iron ore into liquid iron, and basic oxygen furnaces turn liquid iron into liquid steel.
DRI	Direct Reduction of Iron. DRI is an alternative to the blast furnace. In DRI, iron ore is converted into solid iron. Today, this involves fossil fuels such as coal, natural gas and fossil hydrogen. The DRI process can also be powered by green hydrogen made from sustainable sources of energy. DRI is paired with an Electric Arc Furnace to produce steel. H2-DRI stands for Hydrogen-based DRI.
EAF	Electric Arc Furnace. This facility is used to make steel by recycling steel scraps, or using iron produced from the DRI process.
CCS/CCUS	Carbon Capture and Storage/Carbon Capture, Utilization and Storage. This is the process of capturing CO2 emissions from fossil power generation and industrial processes and then storing or using it.
Fossil-free steel	Steel produced without using any fossil fuels. The terms "green steel" and "near-zero emission steel" are often used. However, it is important to note that there is no internationally accepted definition of what these terms entail. ¹

INTRODUCTION

For many years, the steel industry has been considered one of the more difficult sectors to decarbonize, earning the label “hard-to-abate.” Steel production is heavily reliant on fossil fuels, particularly metallurgical coal, which makes reducing its carbon emissions seem like a challenge. However, recent advancements in technology and innovations in industrial processes have opened the door to a faster transition. The steel sector now has the potential to become “fast-to-abate”, meaning it can be rid of coal and other fossil fuels more quickly than previously thought.

Despite this potential, the ambition and action of financial institutions remains insufficient. This lack of ambition is rooted in long-standing misconceptions about the feasibility of steel decarbonization. Many financial institutions continue to operate under the false belief that decarbonizing steel is either too costly, too technologically difficult, or would lead to significant disruptions in production. These misconceptions hinder meaningful investment and support for decarbonization efforts within the industry.

The urgency of steel decarbonization cannot be overstated. The steel sector is a major contributor to global carbon emissions, representing 11% of global CO₂ emissions.² Steel demand is growing and existing facilities are reaching the end of their lifetimes and require placement or refurbishing, making the next six years until 2030 crucial in determining how steel is produced for decades to come. The window for action is rapidly closing, and the consequences of delaying decarbonization could lock the industry into high-carbon pathways until 2050 and beyond.

Many financial institutions still fall for the myth that the steel sector is “hard-to-abate”. This is reflected in their policies: a very limited number of financial institutions include metallurgical coal, which represents almost 13% of total coal production,³ and only one has a policy on the steel sector.⁴ Indeed, as shown in Reclaim Finance’s Coal Policy Tracker,⁵ out of 161 financial institutions with a thermal coal policy, only nine include metallurgical coal in their commitments. Even then, these few commitments on metallurgical coal are far below what would be needed to trigger a sector-wide transformation.⁶ They mostly only cover direct project financing, when in fact most metallurgical coal and steel companies resort to general corporate funding to finance their projects.⁷

Worryingly, some banks are even moving in the wrong direction, such as Australian bank Macquarie, which backtracked on its metallurgical coal commitments in April 2024. Initially one of the first to adopt exclusion criteria, Macquarie revised its policy to allow advisory activities.⁸ In parallel, its commitments to thermal coal remain unchanged. This is symptomatic of the differential treatment given to thermal and metallurgical coal although, in reality, the split between thermal and metallurgical coal is not clear-cut: “metallurgical coal” is an industry term that covers all types of coal used for steelmaking purposes,⁹ including coals with traditionally “thermal qualities”. Ultimately, coal is coal and should be phased out regardless of its end use.

In order to stop funding steel made with coal and start funding fossil-free alternatives, financial institutions must abandon outdated beliefs and recognize the feasibility and necessity of transitioning the steel industry to a fossil-free future. The goal of this briefing is to dispel the common myths and misconceptions that financial institutions hold about steel decarbonization and the role of metallurgical coal. By addressing these misunderstandings, this briefing aims to encourage financial institutions to adopt more ambitious approaches and support the rapid decarbonization of the steel industry.



MYTH #1

THE STEEL SECTOR IS "HARD-TO-ABATE"

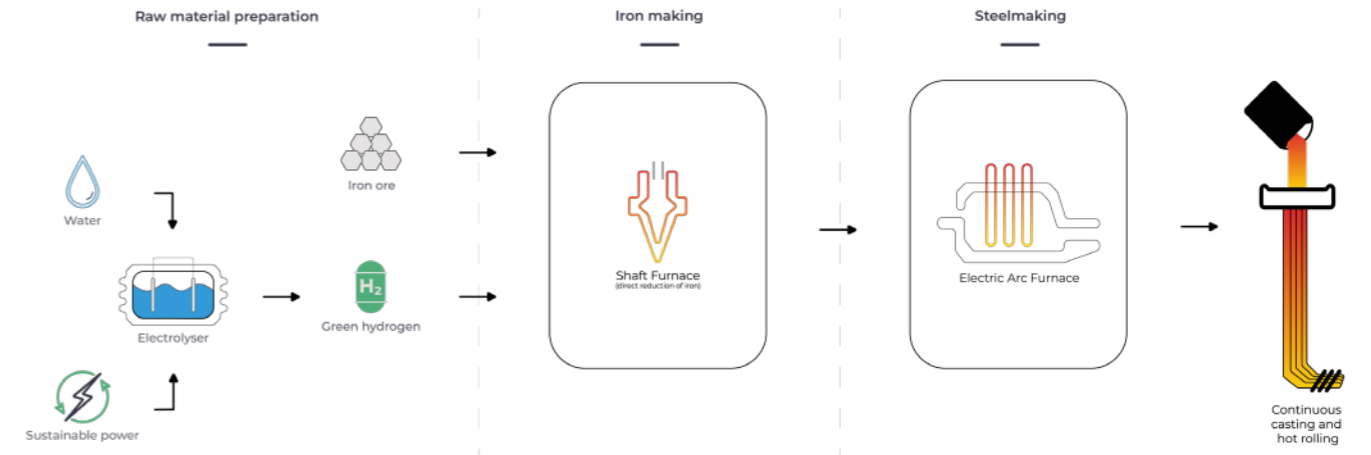
A quick internet search for «steel decarbonization» shows many results calling the sector "hard-to-abate". These come from a variety of voices, including industry,¹⁰ academia¹¹ and international organizations.¹² While steel decarbonization poses challenges, the belief that the sector is hard-to-abate is now outdated due to technological advancements and shifts in production methods.¹³

Today, coal is mostly needed only for the ironmaking part of the steel process. Collaborative industry efforts and substantial investments in research and development are accelerating the deployment of coal-free steel technologies.¹⁴ This includes direct electrification, like the pilot project Boston Metal,¹⁵ but also green hydrogen, as exemplified by initiatives like H2 Green Steel/ Stegra¹⁶ in Sweden. In this method, green hydrogen produced via electrolysis powered by renewable energy is used to reduce iron ore, thereby eliminating the need for coke and coal, and significantly cutting carbon emissions.

As an increasing number of greener steel projects is being developed, for the most part in Europe,¹⁷ it is becoming clear that coal-based steelmaking will become less and less competitive. The narrative that the steel sector is inherently hard-to-abate fails to recognize the transformative potential of these advancements. As highlighted by the Institute for Energy Economics and Financial Analysis (IEEFA), "'hard-to-abate' must not become code for delaying steel decarbonisation",¹⁸ and "the accelerating steel technology transition means that coal can no longer be considered essential for steelmaking".¹⁹

The path to a fossil-free steel industry is not only possible but is actively being forged by a combination of innovation, policy support – with around EUR€9 billion of state aid currently in the pipeline to lift the EU industry out of coal²⁰ – and a growing recognition of the sector's capacity for change. The think tank Agora Industry has modeled scenarios

Figure 1 - Hydrogen-based Direct Reduction of Iron (H-DRI)



finding that the steel sector can be coal-free before 2050, with a coal phase-out as early as 2043.²¹ Quoting its research, the iron and steel sector could go "from a hard-to-abate to a fast-to-abate sector and be a key element to increase global climate ambition."

Reclaim Finance research shows that financial institutions are massive supporters of metallurgical coal developers and steel companies.²² As such, they have a key role to

play in this industry transition by switching to massive investment in both fossil-free steel technologies and in enabling factors, such as renewable sources of energy – this is especially significant considering the small share of global energy financing allocated by banks to renewables²³ and the weakness of their commitments in that regard.²⁴



MYTH #2 METALLURGICAL COAL AND THERMAL COAL ARE FUNDAMENTALLY DIFFERENT

As financial institutions have adopted coal policies,²⁵ they have left metallurgical coal out of their scope, arguing that metallurgical and thermal coal are inherently different commodities (see Box page 10). But metallurgical coal is not an innate coal type. Ultimately, metallurgical coal is a demand-side classification. Coal only becomes metallurgical coal once it is sold to the metallurgical market instead of the power generation market. This misconception comes from falsely equating coking coal with metallurgical coal – in reality, there are non-coking coals used in the steelmaking process.

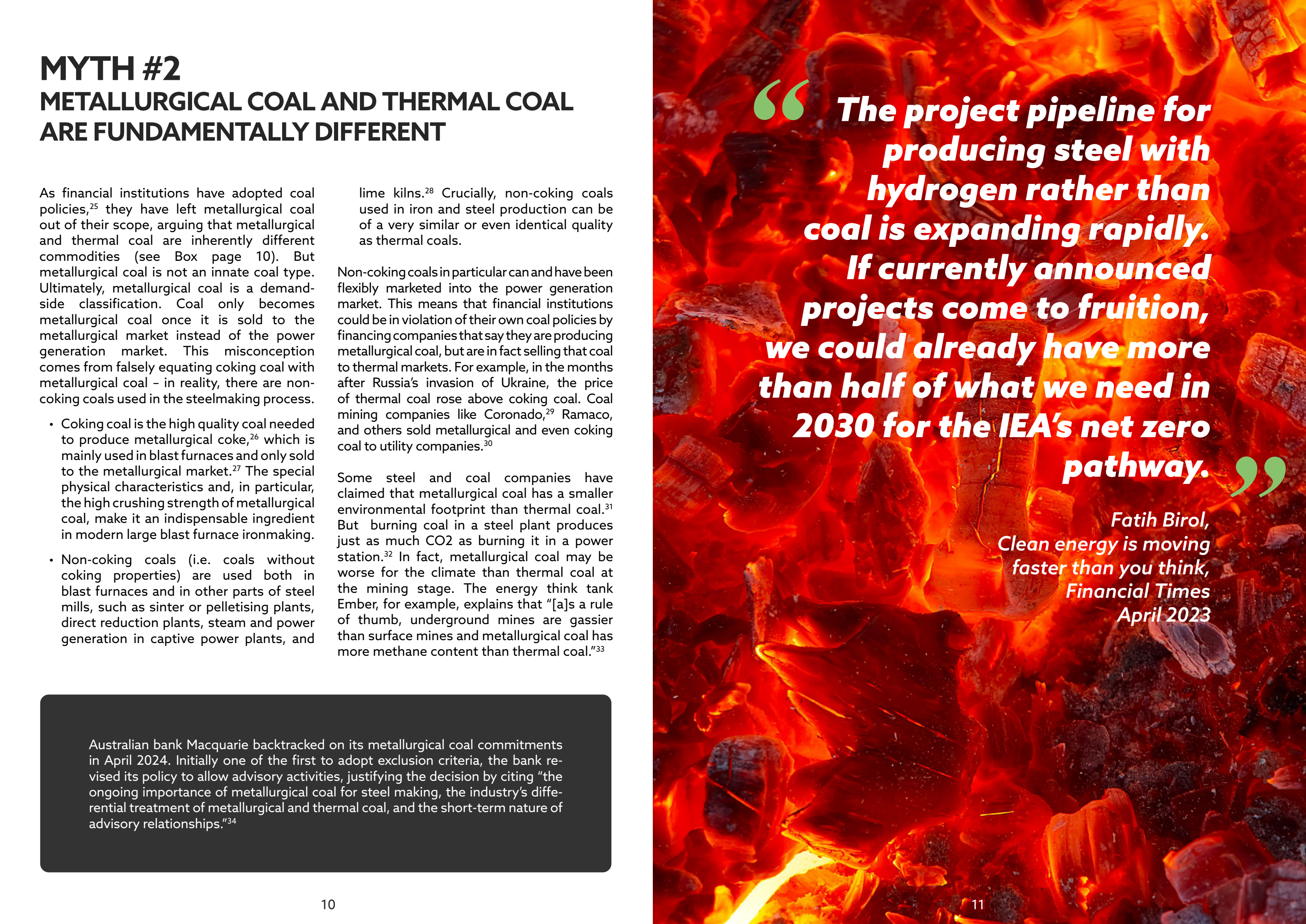
- Coking coal is the high quality coal needed to produce metallurgical coke,²⁶ which is mainly used in blast furnaces and only sold to the metallurgical market.²⁷ The special physical characteristics and, in particular, the high crushing strength of metallurgical coal, make it an indispensable ingredient in modern large blast furnace ironmaking.
- Non-coking coals (i.e. coals without coking properties) are used both in blast furnaces and in other parts of steel mills, such as sinter or pelletising plants, direct reduction plants, steam and power generation in captive power plants, and

lime kilns.²⁸ Crucially, non-coking coals used in iron and steel production can be of a very similar or even identical quality as thermal coals.

Non-coking coals in particular can and have been flexibly marketed into the power generation market. This means that financial institutions could be in violation of their own coal policies by financing companies that say they are producing metallurgical coal, but are in fact selling that coal to thermal markets. For example, in the months after Russia's invasion of Ukraine, the price of thermal coal rose above coking coal. Coal mining companies like Coronado,²⁹ Ramaco, and others sold metallurgical and even coking coal to utility companies.³⁰

Some steel and coal companies have claimed that metallurgical coal has a smaller environmental footprint than thermal coal.³¹ But burning coal in a steel plant produces just as much CO₂ as burning it in a power station.³² In fact, metallurgical coal may be worse for the climate than thermal coal at the mining stage. The energy think tank Ember, for example, explains that "[a]s a rule of thumb, underground mines are gassier than surface mines and metallurgical coal has more methane content than thermal coal."³³

Australian bank Macquarie backtracked on its metallurgical coal commitments in April 2024. Initially one of the first to adopt exclusion criteria, the bank revised its policy to allow advisory activities, justifying the decision by citing "the ongoing importance of metallurgical coal for steel making, the industry's differential treatment of metallurgical and thermal coal, and the short-term nature of advisory relationships."³⁴



“ The project pipeline for producing steel with hydrogen rather than coal is expanding rapidly. If currently announced projects come to fruition, we could already have more than half of what we need in 2030 for the IEA’s net zero pathway. ”

*Fatih Birol,
Clean energy is moving
faster than you think,
Financial Times
April 2023*

MYTH #3

STEEL DEMAND IS PROJECTED TO INCREASE, SO METALLURGICAL COAL DEMAND WILL INCREASE TOO

Global steel demand has increased in recent years and is projected to continue growing, driven by population and economic growth in India, ASEAN countries, and Africa,³⁵ as well as by the needs of the energy transition, since steel is a key material to build infrastructure like solar panels, windmills, and electric vehicles. Yet, this does not necessarily equate to a rise in metallurgical coal demand.

The International Energy Agency's (IEA) World Energy Outlook shows that under current policy conditions, coking coal production and demand are expected to drop from 941 Mtce (million tonnes of coal equivalent) in 2021, to 691 Mtce in 2050.³⁶ The IEA also establishes that even though demand for coking coal should fall at a slightly slower rate than for thermal coal, "existing sources of production are sufficient to cover demand through to 2050."³⁷

In line with this demand drop, the steel sector's coal intensity has been declining since 2015 due to the increased use of electric arc furnaces (EAFs) for recycling, and the development of alternatives to coal-consuming blast furnaces for iron production.³⁸ In fact, the industry can become less carbon intensive by increasing the use of electric arc furnaces (EAFs). As steel demand increases, scrap availability will rise in parallel, meaning that increased demand for primary steel may not increase as fast as global steel demand. According to the IEA's Net Zero by 2050 scenario, 37% of global steel production should be produced with EAFs by 2030, and 53% by 2050.³⁹ This objective is now within reach as the steel sector increasingly moves in this direction. Research by Global Energy

Monitor⁴⁰ shows that in 2023 almost half of all planned steelmaking capacity worldwide consisted of EAFs.

However, this type of process will never be cleaner than the electricity it uses. Producing fossil-free steel requires EAFs to run on sustainable electricity. To achieve this, there is a considerable capacity gap that needs to be filled⁴¹ and financial institutions must support the development of sustainable power supply by seizing it as the investment opportunity it is.⁴²

Furthermore, demand for primary green steel⁴³ is rapidly growing, with demand for green hydrogen-based steel projected to be equivalent to 35% of current total steel production.⁴⁴ The IEA's Net Zero by 2050 scenario projects that by 2030 over 100 Mt (million tonnes) of near-zero emission ironmaking production will be required.⁴⁵ If all ongoing projects transition to near-zero emissions in the near future, this still represents a gap of nearly 50 Mt.⁴⁶ Financial institutions have a key role to play here: reducing the capacity gap by providing the necessary financial support to companies developing fossil-free steel projects.

Financial institutions must realize that investing in coal-based steel is a risky bet

Financial institutions are starting to realize that an increase in steel demand does not make metallurgical coal a viable investment. A survey conducted by the Australasian Center for Corporate Responsibility⁴⁷ found that 68% of investors foresee a transition away from metallurgical coal in steelmaking, and 80% believe metallurgical coal's risk profile will increase in the next decade.

These findings now need to be translated into action, which means bringing a stop to financing metallurgical coal developers⁴⁸ and steel companies that plan to continue using metallurgical coal.⁴⁹ The first step is for financial institutions to refuse to believe coal companies that tell them that metallurgical coal is an essential component of the energy transition and a profitable investment. Coal giants like Glencore⁵⁰ and Whitehaven⁵¹ are continuing to heavily invest in metallurgical coal despite investor opposition calling some of these expansions «very high-risk investments».⁵² Research indeed proves that this strategy is not profitable in the long term: modeling by Market Forces reveals that Whitehaven's aggressive coal expansion strategy is extremely susceptible to downside risk and is not in shareholders' best interests.⁵³

Financial institutions must stop believing metallurgical coal developers' lies

"High-quality steelmaking coal also supports the energy transition as an essential input into steel production needed for certain renewable energy infrastructure."⁵⁴
Glencore

"We believe a wholesale shift away from blast furnace steelmaking, which uses metallurgical coal, is still decades in the future and as a result metallurgical coal will remain an essential input into the steelmaking process and a critical input to support decarbonisation infrastructure over the coming decades."⁵⁷
BHP annual report 2023

Although steel is needed for the energy transition, metallurgical coal will be needed in declining volumes.⁵⁵ However, Glencore is continuing to expand its metallurgical coal production by, for instance, acquiring the metallurgical coal business of Teck Resources.⁵⁶

Research shows that the steel sector can be coal-free in the early 2040s.⁵⁸

MYTH #4

FOSSIL-FREE STEEL IS TOO EXPENSIVE

Fossil-free steel is currently more expensive, but financing metallurgical coal and coal-based steel will be costlier for financial institutions in the long run. There is a real risk of investing in soon-to-be stranded assets and missing out on technologies that will be cheaper to produce and more resilient against price shocks⁵⁹ in the future.

According to Agora Industry, coal-free steel production is estimated to cost between 30% to 60% more than coal-based steel.⁶⁰ However, transitioning to net-zero steel would only increase final production costs by less than 1% in the automobile and construction sectors, which account for respectively 12% and 52% of global steel demand.⁶¹ These additional costs can be mitigated through effective public policies, such as the Carbon Border Adjustment Mechanism in conjunction with the EU Emissions Trading System.⁶² Actions from stakeholders like steel producers and automotive companies can also help reduce costs and promote the adoption of green technologies.⁶³ Additionally, Bloomberg New Energy Finance projects that fossil-free steel could cost 5% less than fossil-based steel by 2050.⁶⁴

Steel companies rely on financial institutions to secure the funds required for the industry transition. As such, financial institutions must carefully consider their spending decisions. According to a study conducted by the Mission Possible Partnership,⁶⁵ an extra annual investment ranging from US\$8 billion to US\$11 billion would be needed to shift the current worldwide steel industry towards net-zero compliant technologies. This presents an opportunity for banks to invest in companies developing fossil-free technologies that will become increasingly advantageous, as opposed to coal-based investments that will become increasingly obsolete. Indeed, the

market size for green steel should increase by over 122% from 2023 to 2030, according to a study by Fairfield Market research.⁶⁶

Furthermore, while transitioning to fossil-free steel may be expensive for now, not doing so will prove even more expensive in the near future, as coal-based assets risk becoming stranded. If all BF-BOF capacity currently proposed or under construction is fully developed, the steel industry could face a stranded asset risk of between US\$368 billion and US\$554 billion.⁶⁷ Not transitioning from coal is therefore an increasingly risky bet. Almost half of the investors (46%) surveyed by the Australasian Centre for Corporate Responsibility (ACCR) agree that the reputational risk from metallurgical coal outweighs its financial benefits, while 41% of investors also agree that the fear of stranded assets is a risk factor with the use of metallurgical coal.⁶⁸



“ 46% of investors agree that the reputational risk from metallurgical coal outweighs its financial benefits. ”

ACCR, Ahead of the game: investor sentiment on steel decarbonisation, July 2024

MYTH #5

CCUS IS NEEDED TO DECARBONIZE THE STEEL SECTOR


Carbon capture, utilization and storage (CCUS) technologies have been explored as a means to reduce carbon emissions across various industries, including the steel sector.⁶⁹ However, there are several challenges and considerations that make CCUS a risky and ineffective option for decarbonizing the steel industry. CCUS primarily focuses on capturing carbon dioxide emissions, but when applied in steelmaking involving blast furnaces, not only does it leave high residual emissions and require significant CO₂ transport and storage infrastructure, it also does nothing to eliminate the use of carbon-intensive raw materials like coal and the associated high upstream methane emissions.⁷⁰ Achieving deep decarbonization requires an end to the dependence on fossil fuels across the entire production chain.

Furthermore, CCUS technologies have a long track record of failure, and have even been called into question by the Intergovernmental Panel on Climate Change (IPCC).⁷¹ Research by Agora Industry reveals that CCS on the BF-BOF steel production route is technically unlikely to reduce direct CO₂ emissions beyond 73%,⁷² and actual performance is highly uncertain given that there are currently no full-scale CCUS facilities for blast furnaces in operation, or even planned.⁷³

Several studies highlight both the limited potential of CCUS and the risk of investments in CCS for the steel sector. Research suggests it will be a dead end,⁷⁴ resulting in new coal-based steel plants with high carbon lock-in and stranded asset risk. Indeed, DRI-based steelmaking, which has already proven its potential, is a much more promising avenue that is already leaving CCUS behind in the decarbonization race, according to IEEFA.⁷⁵

IEEFA further highlights that steel companies relying on CCS for long-term decarbonization can expect to see their plans increasingly questioned by investors. These technologies are also expected to become less and less commercially attractive as hydrogen costs decline and carbon prices increase.⁷⁶

Financial institutions must question the viability of the transition plans of steel companies that rely heavily on carbon capture and storage technologies to justify continuing the extraction and burning of coal. For example, ArcelorMittal's "Smart Carbon" decarbonization pathway can be taken as "greenwashing" of its continued development and use of coal-fired blast furnaces,⁷⁷ and has failed so far to deliver significant emissions reductions or even concrete projects with a high level of emissions reductions.⁷⁸



“ Any steelmaker or iron ore producer relying on CCUS in long term decarbonisation pathways needs to have their plans questioned. ”

IEEFA, No, metallurgical coal is not a critical material... and carbon capture won't save it, July 2023

MYTH #6

TECHNOLOGIES ARE NOT MATURE ENOUGH, SO THERE IS STILL PLENTY OF TIME TO DECARBONIZE THE STEEL SECTOR

From a climate perspective, the steel sector is currently not on track to achieve decarbonization by 2050.⁷⁹ Getting on track requires immediate and ambitious action from financial institutions to push steelmakers in the right direction. The steel sector is currently at a critical stage: it needs to develop infrastructure to meet growing demand, and simultaneously the existing steel fleet is aging and will soon need to be replaced. More than 70% of existing blast furnaces are approaching the end of their operational lifetimes and will require reinvestment by 2030.⁸⁰ With these aging facilities, the need for blast furnace relining⁸¹ becomes increasingly likely in the coming years.

Blast furnace lifetimes are subject to regional differences, tending to be longer in North America and Europe but shorter in Asia, especially China. Based on analyses of different studies and hypotheses, blast furnace lifetimes are estimated to range between 15 and 20 years, with a median of 17 years.⁸² This means that any imminent blast furnace relining would lock-in carbon emissions in the medium term. Similarly, meeting growing demand with new coal-based capacity risks creating long-term carbon lock-in and stranded assets.⁸³

The long lifetime of steel plants means that, if net-zero steel emissions are to be achieved, decisions on how steel will be produced in 2050 need to be made now. The steel sector's aging infrastructure in fact underscores the potential of the industry's transition towards more sustainable and efficient technologies – modernizing or replacing existing blast furnaces presents an opportunity to adopt

clean, fossil-free methods of production. The technologies to respond to this challenge in a timely manner already exist and key technologies will be commercially available this decade.⁸⁴ Indeed, the technology for the direct reduction of iron can be deployed immediately and operate with increasing shares of green hydrogen as it becomes available. While direct electrification technologies are promising, they will only reach industrial-scale commercialization in 2035 at the earliest, therefore clearly putting DRI as the key technology to take advantage of the blast furnace reinvestment cycle.⁸⁵

As steelmakers navigate this critical phase, strategic decisions regarding investments in innovative technologies and sustainable practices will play a pivotal role in shaping the sector's future landscape. The 2020s is the crucial decade in which key reinvestment decisions will have to be made. Research reveals that 90% of blast furnaces can be phased out by 2040 without premature shutdown.⁸⁶ Financial institutions must therefore be aware of this critical time window and avoid providing financial services to new blast furnaces or to extending the lifetime of existing blast furnaces, which would lock-in decades of emissions and risk the creation of stranded assets.

“ While the ‘hard to abate’ label no longer applies, even progressive net-zero scenarios for 2050 continue to assume that the global steel sector transformation will pick up pace only after 2030. This is a serious misconception, for it ignores an important reality: a large share of existing capacity will require reinvestment already in the 2020s, and the decisions steel producers make will shape the sector for decades to come. ”

*Agora Energiewende,
Global steel at a crossroads,
November 2021*

MYTH #7

CO2 EMISSIONS ARE THE ONLY RELEVANT ESG ISSUE IN STEEL PRODUCTION

The steel sector faces critical challenges beyond CO2 emissions, including significant methane emissions from metallurgical coal mining. Often overlooked, methane is a major climate concern in coal mining operations. The mining of coking coal alone was responsible for 10 Mt of methane emissions in 2022, according to IEA estimates,⁸⁷ a figure which is likely highly underreported.⁸⁸ Equally, methane is often ignored by steelmakers, resulting in a significant underestimation of the industry's climate impact – at least 27% of its 20-year effect, according to research by Ember.⁸⁹ Methane emissions from coking coal alone would cause a warming effect equivalent to more than the combined emissions of Germany and Canada.⁹⁰ This is not in line with the UNEP Global Methane Assessment, which highlights the crucial need to reduce human-induced methane emissions by 45% by 2030 in order to prevent average global temperatures increasing by a further 0.3°C by 2050⁹¹ and pushing the Paris Agreement's 1.5°C global warming target out of reach. Financial institutions must realize that the impact of using coal for steelmaking is worsened by methane emissions, making the elimination of coal in steelmaking a priority.

Methane also constitutes a considerable danger factor for workers' lives. A recent tragic example of this is the death of 46 miners in a mine owned at the time by steelmaker ArcelorMittal, due to a methane explosion.⁹² This was the deadliest mine accident in

Kazakhstan's post-soviet history.⁹³

In addition to methane emissions, current practices in the steel sector also pose major threats to human rights worldwide. In a report entitled 'The real cost of steel',⁹⁴ the Fair Steel Coalition, which gathers 15 NGOs from the Global South and Global North, sheds light on the disastrous human rights impact of steel companies ArcelorMittal and Ternium in Mexico, Brazil, Liberia, and South Africa. These human rights violations include the exploitation and devastation of lands, waters, and forests vital to Indigenous communities, often depriving them of their rights and self-determination. It also includes the pollution of impoverished neighborhoods, harming their health and limiting their livelihood options. Furthermore, in some regions those who decide to speak up for their rights face severe intimidation and retaliation risks. Reports by the Centre for Research on Energy and Clean Air also shed light on the decades of air pollution and health damages caused by ArcelorMittal in Kazakhstan⁹⁵ and by Ternium in Brazil.⁹⁶

Financial institutions must be aware that they should engage with their steel clients on human rights. Given the frequency and scale at which human rights impacts occur in the steel and mining sectors, financiers must diligently implement the UN Guiding Principles on Business and Human Rights (UNGPs).⁹⁷

“ How can [banks] continue to give ArcelorMittal money without even speaking to the communities who live on the land that ArcelorMittal mines? The communities are covered in dust, their forests are destroyed, and thereby they are impoverished while these banks and ArcelorMittal continue to profit. It's pure extraction. Banks need to take human rights seriously, and engage with communities meaningfully. ”

Eduardo Mosqueda, Director of Tsikini, Mexico, Banks fail to substantially respond to communities impacted by ArcelorMittal, July 2024

MYTH #8

FINANCIAL INSTITUTIONS CANNOT DO ANYTHING WITHOUT GOVERNMENT SUPPORT TO THE STEEL SECTOR

Public decision-makers play a critical role in creating and enforcing regulations, providing incentives, and setting ambitious climate targets that drive the industry toward cleaner technologies. Government policies can foster an environment conducive to innovation and investment in sustainable practices. However, private financial institutions are essential for providing the capital needed to develop and implement new technologies and key enabling factors. Their investment decisions can accelerate the adoption of these technologies by reducing financial risks and costs, while also supporting research and development efforts.

Undoubtedly, financial institutions have a key role to play to incentivize the development of cleaner production methods, which represent a substantial investment opportunity. This includes, for instance, the world's first large-scale green steel plant in development by the Swedish company H2 Green Steel/ Stegra. In January 2024, the company raised EUR€4.75 billion (US\$5.17 billion) for its planned flagship plant in the northern Swedish town of Boden.⁹⁸ Banks like BNP Paribas, ING, KfW IPEX-Bank, Société Générale and UniCredit have already seized the opportunity to finance this project by participating in the loan.⁹⁹

However, financial institutions are still enabling steel companies and metallurgical

coal expansionists to pursue their operations. Previous research by Reclaim Finance has revealed that between 2016 and June 2023, banks provided US\$429 billion to the 100 biggest steel producers,¹⁰⁰ and US\$557 billion to metallurgical coal developers.¹⁰¹ Financial institutions hold the power and the responsibility to stop the unnecessary development of new metallurgical coal mines and coal-based steelmaking assets.

Financial institutions must not be fooled by their steel clients that claim to be unable to transition away from coal-based steelmaking without public intervention, while at the same time conducting harmful lobbying that hampers climate action. For instance, ArcelorMittal and Nippon Steel were among the 25 most influential companies blocking climate policy action globally,¹⁰² according to the independent think tank InfluenceMap in its latest 'Corporate Climate Policy Footprint' report.¹⁰³ ArcelorMittal has also actively lobbied against EU climate regulations, such as the Carbon Border Adjustment Mechanism and the EU Emissions Trading System reform. Investors must also question their steel clients who, despite receiving public funding, have extremely flawed and incomplete transition plans, including ArcelorMittal¹⁰⁴ and Nippon Steel.¹⁰⁵

Find out more about the role financial institutions must play to decarbonize the steel sector in Reclaim Finance's reports:

- [Metallurgical coal financing, Time to call it off](#), November 2023
- [Steeling our future, The banks propping up coal-based steel](#), March 2024



MYTH #9

CURRENT ENGAGEMENT STRATEGIES WITH STEEL COMPANIES ARE EFFICIENT

Although the share of lower-emissions projects is on the rise, there is still 308 Mtpa (million tonnes per annum) of new coal-based blast furnace ironmaking capacity under development globally,¹⁰⁶ which is highly incompatible with a net-zero future.¹⁰⁷ While steel companies claim to be doing as much as they can with available technologies, resources, and financing, financial institutions have a duty in their engagement with them to question their choices. Indeed, research by ACCR clearly shows that not all so-called “green projects” and decarbonization choices that steelmakers put forward in their discussions with investors have the same decarbonization potential.¹⁰⁸ For instance, an in-depth analysis of ArcelorMittal’s climate commitments reveals that they are heavily flawed:¹⁰⁹ the decarbonization targets are highly insufficient, there is no verifiable 1.5°C target, no absolute emissions, and there is no 2050 net zero target for their joint venture with Nippon Steel in India. The company is also pursuing a two-paced strategy by investing in cleaner projects in Europe while continuing to expand its coal-based capacity in the rest of the world by relying on unviable technologies like CCS.¹¹⁰

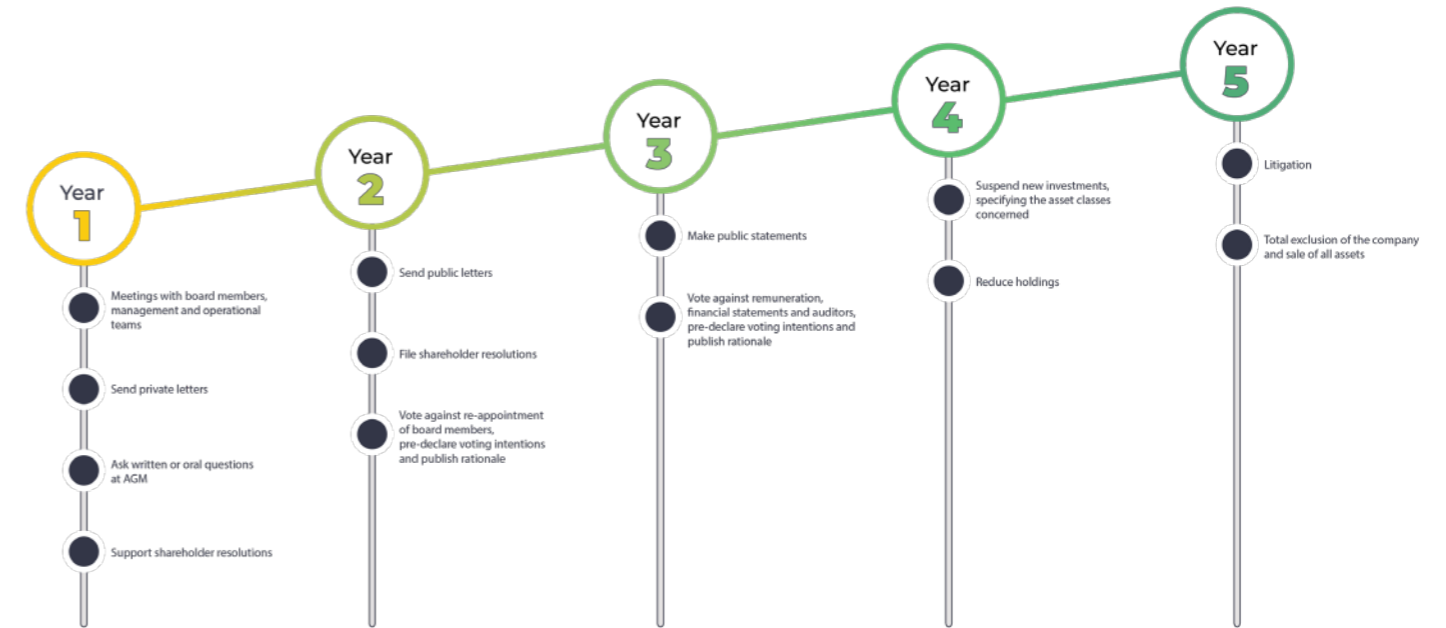
In light of this, financial institutions have a duty to engage with steel companies at a deeper level by questioning their statements and choices, obtaining detailed and thorough responses to their questions, and making decisions accordingly.¹¹¹ ACCR has published an investor handbook which provides key information and guidance to investors engaging with steel companies across four key areas:

- technology pathways
- capital allocation
- emissions disclosure and targets
- governance.

For all categories, the guide provides key questions to ask companies, common responses from companies, evidence investors can use in their engagement, and follow-up questions to ask companies.

As described in figure 2, investors should also make sure investors should also make sure to use a robust escalation strategy in their engagement.¹¹²

Figure 2 - Reclaim Finance’s recommended general shareholder engagement escalation strategy



Many financial institutions have already excluded financing for some steelmakers on climate grounds. For example, SPP/Storebrand Sweden, Industriens Pension

(Denmark), and Pensioenfonds Horeca & Catering (PH&C, Netherlands), have excluded financing for ArcelorMittal due to its use of fossil fuels.¹¹³

Detailed recommendations can be found in ACCR’s [Investor handbook: Engaging with the steel sector](#)

MYTH #10

ADOPTING STEEL DECARBONIZATION TARGETS IS ENOUGH TO DECARBONIZE THE STEEL SECTOR

So far, almost all financial institutions that have adopted commitments to the steel sector have done so by setting decarbonization targets.¹¹⁴ However, no financial institution has adopted all the elements that are key to robust steel decarbonization targets.¹¹⁵ None use both absolute and intensity metrics; only two banks – Barclays and JPMorgan Chase – have adopted targets covering both lending and underwriting-related capital market activities; none are currently targeting scope 3 steel emissions, even though these may account for more than a quarter of the total emissions of the steel sector; and none specifically target methane emissions.¹¹⁶

Not only are these decarbonization targets too few and too weak,¹¹⁷ decarbonization targets in themselves are not enough to prevent financial institutions from financing metallurgical coal expansion or coal-based steel. Indeed, as shown in Reclaim Finance research, financial institutions that have adopted steel decarbonization targets can freely continue to finance metallurgical coal expansion and the expansion of coal-based steel.¹¹⁸

Well-designed and ambitious decarbonization targets should be just one part of robust financial institution climate transition plans.¹¹⁹ Robust transition plans should include a broad decarbonization strategy that covers engagement and sectoral policies, including policies to end financing for new metallurgical coal and fossil-based steel projects and the

companies developing them, plans to finance the decommissioning of existing fossil-based infrastructure, and targets for increasing climate solutions financing.¹²⁰

Adopting sectoral policies to restrict financing to metallurgical coal expansion and coal-based steel is a much more effective way for financial institutions to play a meaningful part in the global steel transition. In the thermal coal sector, a study by Harvard Business School¹²¹ suggests that bank coal exclusion policies have a significant impact on coal firms' ability to raise capital, which in turn discourages further investments in coal expansion. The same conclusion can be inferred for the metallurgical coal and steel sector.



RECOMMENDATIONS

Banks,¹²² investors, and insurers must urgently raise their ambition and support the transition of the steel sector by ending its dependency on metallurgical coal. The adoption of strong sectoral policies is necessary to ensure this. Financial institutions must immediately:

1. Adopt sectoral policies on

a. Metallurgical coal by

- Immediately ending dedicated financial services, including advisory services, insurance coverage, and dedicated financing to new metallurgical coal projects. This includes the development of new metallurgical coal mines, the expansion of existing ones, and all related infrastructure.
- Committing to no longer provide services, including the provision of financial services, holding companies in portfolio, and providing insurance coverage, for companies that have plans to develop, or are developing, metallurgical coal projects. This includes no longer providing services to companies that do not have a detailed asset-by-asset and mine-by-mine closure (not selling) timetable aligned with a 1.5°C scenario and a just and sustainable transition plan for workers, local communities, and the environment.

b. Steel by

- Immediately ending dedicated financial services, including advisory services and dedicated financing, to new blast furnaces and to the relining of existing blast furnaces.

- Committing to no longer provide services for companies that have plans to develop new blast furnaces or to reline existing ones. This includes no longer providing services to companies that do not have a detailed asset-by-asset transition timetable aligned with a 1.5°C scenario and a just and sustainable transition plan for workers, local communities, and the environment.

2. Improve existing steel decarbonization targets to make them robust. This involves adopting targets that cover all greenhouse gas emissions – scopes 1, 2 and 3 emissions –, all jurisdictions where a company operates, and all of its value chain and joint ventures. Targets should be adopted for 2025, 2030 and 2035, with a commitment to reach carbon neutrality by 2050 at the latest. Targets must be based on absolute emissions reductions, and intensity targets can be added. They must additionally be based on and aligned with a 1.5°C pathway with no or low overshoot and a limited volume of negative emissions. Targets must also be set against the most recent year where data is available, unless that year significantly differs from the normal activities and emissions of the entity. A specific target should be adopted for methane emissions, especially due to the high methane intensity of metallurgical coal mines.

3. Increase financing for fossil-free technologies, like green HDRI, and key enabling sectors, like sustainable energy and green hydrogen for steelmaking.



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Insights for financial institutions

Reclaim Finance is an NGO affiliated with Friends of the Earth France. It was founded in 2020 and is 100% dedicated to issues linking finance with social and climate justice. In the context of the climate emergency and biodiversity losses, one of Reclaim Finance's priorities is to accelerate the decarbonization of financial flows. Reclaim Finance exposes the climate impacts of financial players, denounces the most harmful practices and puts its expertise at the service of public authorities and financial stakeholders who desire to bend existing practices to ecological imperatives.

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