

In just under a week, investors will vote at Nippon Steel Corporation's annual general meeting on a [series of shareholder proposals](#) urging the company to improve on steel decarbonisation and climate lobbying disclosures. A member of the [\\$US4.988 trillion co-engagement group](#) backing the proposals, ACCR believes it is important to address some of the key questions investors have about our asks.

## Proposal 1: Strengthening climate targets and disclosures

### The Ask

Alongside Corporate Action Japan (CAJ), ACCR asks Nippon Steel Corporation (NSC) to:

- set and disclose Paris-aligned, near- and medium-term Scope 1, 2, and 3 reduction targets
- prepare and disclose transition plans that include planned capex for decarbonisation over the next three years, alongside the estimated emissions reduction impact of each investment.
- report annually on progress against these targets and plans.

### Rationale

The co-engagers believe an ambitious 2030 target sets a near-term benchmark for progress and demonstrates NSC's commitment to immediate action. By enhancing its targets and disclosures, the company has an opportunity to lead in steel decarbonisation, securing its long-term market position.

### Key Questions

#### Why are Scope 3 targets important for the steel sector?

NSC's existing targets of a 30% reduction in Scope 1 and 2 emissions by 2030 and carbon neutrality by 2050 are commendable, but its 2030 target does not fully align with the Paris Agreement, in no small part due to the exclusion of overseas operations and Scope 3 emissions from these targets.

Setting targets for Scope 3 emissions can be complex, but is vital for NSC to have a comprehensive, Paris-aligned climate strategy.

- In 2023, NSC's Scope 3 emissions amounted to 19.5Mt of CO<sub>2</sub>e, representing 18% of its total emissions - a substantial portion of its carbon footprint.
- The [SBTi](#) recommends steel companies involved in fossil fuel sales set Scope 3 targets. NSC's 25Mt of owned metallurgical coal capacity means it clearly falls under this guideline.
- By setting Scope 3 targets, NSC is committing to actively engage with suppliers and customers across the steel value chain to reduce their Scope 1 and 2 emissions, enhancing its strategic response to climate change and addressing the financial and climate-related risks created by these emissions for investors.

## **Why aren't NSC's existing climate disclosures on decarbonisation capex sufficient?**

NSC's current reporting on decarbonisation spending is vague, earmarking only an overarching figure of 4-5 trillion Yen for the practical implementation of its decarbonisation strategy. The absence of itemised investment data and expected emissions reductions, and unclear fund allocation, means investors can't evaluate how NSC distributes capital across each decarbonisation project.

To enhance investor confidence and support informed decision-making, NSC should provide:

- itemised disclosures of how the 4-5 trillion yen in capex is allocated to specific decarbonisation projects
- clear timelines for the initiation and estimated completion of these projects
- estimated emissions reductions and expected benefits of each investment.

By improving transparency in these areas, NSC can assure shareholders it is directing funds towards impactful and strategically aligned decarbonisation efforts, ensuring the company's adaptation to a low-carbon future is both effective and accountable.

## **Why should NSC shift its approach when its peers are operating to similar standards?**

While NSC's current approach is comparable to its peers, as a world-leading steel producer looking to flex its muscle globally, NSC needs to lead on steel decarbonisation to ensure global climate commitments are met.

Other global steelmakers, including SSAB and ThyssenKrupp, have set more ambitious targets that have aligned with a 1.5°C scenario. NSC enhancing its targets ensures competitiveness, mitigates climate risks, and protects long-term shareholder value.

## **Proposal 2: Linking remuneration to climate goals**

### **The Ask**

ACCR and CAJ request that NSC set and annually report how its compensation system incentivises and rewards progress towards achieving the company's emission reduction targets.

### **Rationale**

Linking executive remuneration to the achievement of emissions reduction targets offers a powerful incentive for NSC's leadership to prioritise and achieve these critical goals, and ensures NSC remains competitive with peers such as JFE Steel and Kobelco, who have already implemented such policies.

### **Key Questions**

#### **Does adding climate metrics make performance assessment unnecessarily complex?**

Incorporating environmental metrics into executive compensation simplifies performance assessments by transparently aligning them with corporate sustainability goals. It not only motivates executives but ensures accountability, reflecting a commitment to long-term corporate value.

#### **Why should the company consider this proposal while it is considering revisions to director compensation in proposals 4 and 5 at its General Meeting?**

The co-engagement group sees this as an opportune moment for shareholders to demonstrate the importance of integrating environmental performance metrics into this revision. It would ensure the new compensation policies also align with NSC's stated priority of achieving carbon neutrality.

### **Why should NSC provide such information when many of its peers in Japan provide limited information on executive and director compensation?**

This is precisely why NSC needs to lead by example. By tying compensation to the achievement of environmental targets, NSC can enhance its disclosure practices and set a new standard in transparency and accountability in the Japanese market.

## Proposal 3: Improving climate-related lobbying disclosures

### **The Ask**

ACCR and Legal and General Investment Management (LGIM) request NSC annually discloses:

- its global climate-related and decarbonisation-related policy positions and lobbying activities, including direct lobbying and industry association memberships.
- a review of these activities for alignment with its company goal of carbon neutrality by 2050.
- actions the company will take if its activities are found to be misaligned.

### **Rationale**

The co-engagement group believes enhancing NSC's climate lobbying disclosures and transparency will enable shareholders to assess whether the company's lobbying supports its decarbonisation goals, demonstrates good company governance and is crucial for long-term value creation.

Clarity on lobbying and policy activities are important because effective policies and subsidies are crucial to decarbonising Japan's steel sector, and with NSC's overseas activities becoming increasingly material, helps ensure the company's decarbonisation strategy is globally consistent.

### **Key Questions**

#### **Why aren't NSC's current disclosures of climate-related policy and lobbying positions sufficient?**

While NSC has made some disclosures, the current level of detail is insufficient for shareholders to fully understand and evaluate the alignment of lobbying activities with NSC's stated climate goals.

Stakeholders require comprehensive, clear, and frequent updates to evaluate how NSC's lobbying efforts align with its commitment to carbon neutrality. Enhanced transparency is not only about providing more information but also about ensuring that this information is detailed enough to verify that all lobbying activities support NSC's commitment to achieving carbon neutrality.

## Why is an amendment to the Articles of Incorporation required?

In Japan, shareholder proposals that seek to enforce specific corporate behaviours or strategies must be incorporated into the Articles of Incorporation. The amendment of the Articles are a necessary step for enacting substantive and enforceable changes, such as the shareholder proposals the co-filing group have brought forward for consideration at NSC's General Meeting.

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