1. Proper Management of Information Disclosed in Various Reports

The JFE Group’s Sixth Medium-term Business Plan places high priority on “Ongoing ESG Initiatives,” and the progress of these initiatives is disclosed through various mediums, including the CSR Report, the Integrated Report, and even the Annual Securities Report. When disclosing information through different mediums, it is essential to carefully select the information that is necessary and sufficient for each and to ensure consistency so that all of the corporate reports are reliable overall. The Group significantly improved the quality of ESG-related information disclosed in the section for challenges to be addressed in your Annual Securities Report. In general, few companies try to link ESG-related information in their Annual Securities Report as well as through other mediums, but your reports demonstrate that the Group is managing the information disclosed in each of them properly.

2. Advanced Scenario Analysis

Since its issuance in June 2017, TCFD recommendations are increasingly attracting the interest of industries in Japan. The JFE Group announced its endorsement of the report in May 2019 and began disclosing information consistent with its recommendations. The scenario analysis disclosed in this year’s CSR Report is indeed its best part, with six pages of detailed analysis on business strategy based on the Long-term Vision for Climate Change Mitigation established by the Japan Iron and Steel Federation, in which JFE Steel participates as a core member. The analysis was conducted on a set of different scenarios considered highly probable. By including resilience among the factors under review, the Group’s scenario analysis is now one of the most advanced in Japan. Your proactive disclosure of excellent quality information, describing a long-term vision of climate change actions, is to be highly commended.

3. System for CSR Procurement

ESG initiatives should be undertaken throughout the value chain, and establishing a supply chain that is closely aligned with a sustainable society is at the core of every initiative. JFE Steel established its Raw Materials Purchasing Policy in February 2019 and began conducting procurement in accordance with the principles of respect for human rights, legal compliance, and environmental protection. I hope this will propel a Group-wide move to implement a CSR procurement system.

4. Future Challenges

Disclosing data on lost-work injuries for employees of the Group and those of business associates marks a major improvement in this year’s report. However, we must seriously address the fact that fatal injuries did occur. Considering the nature of the business, I believe that the necessary actions were in fact implemented; however, you must once again review your employee health and safety measures. Another key challenge to face going forward is the creation of more objective KPIs with quantitative goals so as to enhance transparency and strengthen the persuasiveness of the assessed results.
This is my third opportunity to offer comments on the JFE Group’s report. I felt that this year’s report reflects a high level of enthusiasm. In addition to the detailed TCFD scenario analysis, introduced for the first time this year, the report shows progress from the previous year in terms of the organization and presentation of information in a visual, reader-friendly fashion. The explanations for the Group’s value chain and climate change initiatives clearly identified the stages of activities and impact on risks and opportunities.

Meanwhile, the increasing severity of the global environmental crisis was evident through multiple catastrophic events, including the European heatwave, wildfires in the Arctic in June, fires that ravaged the Amazon rainforest into August, and a major hurricane that hit North America in September. In addition, news about massive volumes of plastic waste threatening the sustainability of the ocean ecosystem is being broadcasted almost daily. Japan also suffered severe flood damage from torrential rainfalls that hit Kyushu and western Japan this summer with unprecedented impact, forcing railways to suspend service during the busiest holiday.

Under these circumstances, companies involved in the steel business, which is associated with high carbon emissions, are vulnerable to critical public judgement. Therefore, the key to future growth, in my opinion, is to formulate bold management strategies toward decarbonization that take into account the social value of steel as well as its social cost based on the acknowledgement that the steel industry is in fact a high carbon-emitting enterprise.

As in the previous year, this year’s report also contains a detailed description of the value of steel. However, I think that information on how the Group acknowledges the social cost of generating this value should also be disclosed. Those outside the industry perceive the social cost as the massive volume of CO2 emissions from blast furnaces during production, while the social value lies in the easy recyclability of steel and its indispensable role in building resilient infrastructure and creating low-carbon cities. Engineering businesses that leverage iron and steel technology, especially waste power generation and water treatment plants, also significantly contribute to reducing the environmental burden.

A Group-wide management strategy for minimizing the negative impact on climate change mitigation and increasing its contribution to climate change adaptation and moving toward decarbonization will likewise be important.

Climate change initiatives featured in the section starting on page 25 clearly demonstrate this strategy. The double-page spread on pages 25 to 26, spanning the period from 1990 to 2100, categorizes the technologies put to practical use, as well as various eco-products and businesses such as renewable energies, into “Addressing Risks” or “Seize the Opportunity.” The chart, which displays the volume of CO2 emissions and contribution to CO2 reduction, illustrates the history of JFE Group’s commitment to low carbon and decarbonization and how the Group will address these issues going forward in a way that is easy to understand. The chart not only presents historical details but also shows the change in CO2 emissions based on several long-term scenarios developed with the assumption that CO2 emissions will be zero by 2100. The analyses of two scenarios, based on TCFD recommendations, are also presented along with an assessment overview and a message from the officer in charge. This is to be highly commended as a valuable and advanced effort for deliberating over a long-term corporate strategy. The chart lays out how decarbonization could be achieved in a variety of ways, such as technological development leading to an innovative iron and steelmaking process, shifting to electric furnaces, providing eco-products such as a lighter steel plate, renewable energy plants, recycling plants, and energy-saving iron and steel technologies. It should be pointed out, however, that the associated risk analysis for these scenarios seems weak. Global climate hazards are becoming more severe at an alarming scale, even though the current temperature rise is 1°C. The impact under the 2°C or 4°C scenario and our ability to adjust to such change may be far beyond our imagination. I hope to see your bold analysis regarding potential risks. That could open up opportunities for the steel industry to establish new businesses for creating a resilient society.

As for current initiatives, KPIS have been set for each CSR materiality item identified in 2016. While the results achieved for 2018 show that KPI targets have been significantly exceeded in some environmental initiatives, almost the same KPIS were set for 2019. This may be because of the desire to leave some room for fluctuation considering technological volatility, but I sincerely hope this will not hinder progress in resource recycling. Since a long-term scenario was created based on TCFD, it should be used to define long-term KPIS for materiality items targeting 2030. Specifically, looking at the data for female advancement, the number of women in managerial positions exceeded the KPI target of tripling the FY2014 level to 3.3 times, and the target for FY2019 was raised to 5 times that of FY2014. Although we must to take into account the fact that human resource strategies are essentially different from KPIS for environmental items, the challenges of addressing global warming, recycling resources, and conserving water resources are pressing issues. I advise you to consider setting specific numerical targets for environmentally sound products that could represent solutions for these concerns.

This year’s report presents the commitment of the JFE Group to establish decarbonizing management. I look forward to the Group’s actions for organizing its decarbonizing management system based on the TCFD scenario analysis and disclosures under TCFD guidelines for factors such as governance, risk management, and the setting of KPIS.