To: BRIAN T. MOYNIHAN
CC: ANZ, BANK OF AMERICA, BNP PARIBAS, CITIGROUP, CRÉDIT AGRICOLE, GOLDMAN SACHS, HSBC, JPMORGAN CHASE, KB FINANCIAL GROUP, MITSUBISHI UFJ FINANCIAL, MIZUHO FINANCIAL, SMBC GROUP, STANDARD CHARTERED

CONCERNING: CALL TO ENGAGE WITH POSCO STEEL ON BLAST FURNACE RELINING PLANS

November 29th, 2023

Dear Brian T. Moynihan,

We are writing to inform you that one of your steel-producing clients, POSCO Holdings, is investing USD 393.63 million (519 billion Korean won) in extending the lifetimes of two of its coal-consuming blast furnaces in South Korea: Blast Furnace No. 4 in Pohang and Blast Furnace No. 2 in Gwangyang. If they are relined¹, it will lock POSCO into using coal for steel until at least 2040.²

BankTrack is of the opinion that providing general corporate finance, and bond facilitation services to a steel company that is extending the lifetime of its coal-based steelmaking capacity may jeopardise your target to achieve net zero GHG emissions from financing and investment by 2050³. As a recent financier of POSCO Holdings, we’re calling on Bank of America to dissuade POSCO from extending the lifetimes of Blast Furnace No. 4 in Pohang and Blast Furnace No. 2 in Gwangyang, and instead support its transition to fossil-free steelmaking.⁴

POSCO’S RELINING PLANS

Founded in 1967, the POSCO Group is a South Korean multinational conglomerate, and is the 7th largest steel producer in the world⁵. Currently, POSCO produces close to 90% of its 40.6 million tons of steel through blast furnaces, and a marginal capacity made using FINEX and EAF, which are lower emissions steelmaking technologies⁶. Blast furnaces, which burn iron ore and coal together

¹Relining entails halting production on a blast furnace to replace or repair the layer of material inside of the furnace that can withstand high temperatures. It extends the lifetime of the furnace by an average of 17 years.
²Phasing out the blast furnace to meet global climate targets (Link)
⁴According to financial research by Profundo and Banktrack, your bank has provided USD 879 million in loans and underwriting services to POSCO and its subsidiaries since 2016. More details are available on the POSCO Dodgy Deal profile of BankTrack’s website (Link).
⁵World Steel in Figure 2023 (Link)
⁶FINEX is a technology developed specifically by POSCO which still uses metallurgical coal, and Electric Arc Furnaces (EAF) are electrified furnaces that can melt and recycle scrap steel, making the process coal-free.
in the steel production process, are the highest emitting steelmaking technology. Due to its reliance on blast furnace technology for steelmaking, POSCO is South Korea's largest greenhouse gas (GHG) emitter.\(^7\)

According to a recent issue brief by Solutions for Our Climate (SFOC), POSCO announced its relining plans for Pohang Blast Furnace No. 4 in its 2022 Half-Year financial report\(^8\). The relining began in February 2023, and is scheduled to finish in October 2024. As of June 30th 2023, 4.24% of the budget for the reline has been spent. Additionally, in its 2019 Business Report, POSCO announced its decision to reline Gwangyang Blast Furnace No. 2, however as of November 2023, the contract start and end dates remain undetermined. This means that for both blast furnaces, there is still time to stop the reline should you decide to engage with POSCO and make your ongoing support conditional on shelving these plans.

**THE CLIMATE & HEALTH IMPACT OF RELINING**

The steel industry is a major contributor to the climate crisis, with the sector contributing 11% of carbon dioxide (CO2) emissions, and 7% of greenhouse gas emissions (GHG) globally\(^9\). According to the Net Zero by 2050 scenario of the International Energy Agency (IEA NZE), to bring the steel sector in line with the Paris climate goals, the sector's emissions need to drop by 24% by 2030 and almost 91% by 2050 relative to 2020 levels\(^10\). Additionally, continuing coal-based steel production as usual will use 23% of the world's remaining carbon budget before 2050\(^11\). This is especially alarming in the wake of recent news that the world's carbon budget is substantially smaller than previously estimated\(^12\).

The world will not remain below 1.5°C if OECD steelmakers continue to reline their blast furnaces. Relining blast furnaces effectively locks steelmakers into using coal for another 17+ years\(^13\). Due to POSCO's reliance on blast furnaces for steelmaking it was responsible for 78 million tons of CO2 in 2019, and for an estimated 99 million tons of CO2e\(^14\) when the methane from coal mining is included\(^15\). If it relines its two blast furnaces, it would emit at least an additional 199 Mt of CO2 in the next 17 years, equivalent to the entirety of the United Arab Emirates’ annual emissions in 2021\(^16\). POSCO has publicly committed to reducing their CO2 emission by 10% by 2030, and

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\(^7\) Greenhouse gas emissions by top 15 emitters increase by 9.1% from 2018-2022, The Korea Times (Link)

\(^8\) Coal Tomorrow with POSCO: Doubts rising on Koreans steelmaker’s Net-Zero future, Solutions for Our Climate (Link)

\(^9\) Global Steel Industry's GHG Emissions, Global Efficiency Intelligence (Link), Emissions Gap Report UNEP (Link)

\(^10\) IEA Net Zero by 2050 (Link)

\(^11\) Sunsetting Coal in Steel Production, SteelWatch (Link)

\(^12\) Climate crisis: carbon emissions budget is now tiny, scientists say (Link)

\(^13\) Global BOF relining could derail net zero objectives, Argus Media (Link)

\(^14\) Estimate calculated on the assumption that coal mine methane adds 27% to steel's global warming impact on a 20-year timeframe. (Link)

\(^15\) Why the steel industry needs to tackle coal mine methane, Ember (Link)

\(^16\) Redline not reline: 4 leading steel companies in OECD set to lock in almost half a billion tonnes of CO2 (Link)
achieving net zero emissions by 2050\textsuperscript{17}. But it is not clear how it can achieve this if it continues to operate its mega-sized coal consuming blast furnaces beyond 2040.

Phasing out blast furnaces and removing coal from steelmaking also has the added benefit of reducing other industrial pollutants responsible for adverse health impacts. A report by SFOC and the Centre for Research on Energy and Clean Air (CREA) estimated that 150 new cases of asthma and 60 preterm births occurred due to the pollution exposure in just 2021 in South Korea\textsuperscript{18}. It also found that between 2022 and 2050 phasing coal out of steel production in South Korea could save over 9000 lives.

**REPUTATIONAL AND TRANSITION RISKS**

Given the climate and health impacts of blast furnaces, your bank is exposing itself to reputational risk by supporting a steelmaker investing in a reline. Increasingly, announcements of blast furnace relinings are getting global pushback\textsuperscript{19} from civil society groups (see for example BlueScope\textsuperscript{20} in Australia, and Cleveland Cliffs\textsuperscript{21} in the United States). In Korea, POSCO’s relining announcement was met with condemnation by domestic and international groups\textsuperscript{22}.

Additionally, there is a severe risk of stranded assets. South Korea has pledged to be Carbon Neutral by 2050, and under its Nationally Determined Contribution (NDC) to the Paris Accords, South Korea has set an unconditional NDC target of reducing 40% GHG emissions below 2018 levels by 2030. There is a high probability that the policy tools South Korea employs to achieve its climate targets will make POSCO’s blast furnaces unnecessary or inoperable in a number of situations. For example, if the cost of carbon is realised through carbon pricing (i.e. taxes) or emission standards, a conventional steel plant may be unable to price competitively with low carbon steel making plants. POSCO is a major supplier to the automotive industry, which is increasingly deepening their responsible sourcing practices and demanding low-carbon steel to address their embodied emissions\textsuperscript{23}.

Supporting POSCO’s transition to fossil free steelmaking is crucial to meeting the steel industry’s, and South Korea’s climate goals, as well as mitigating the harm done to communities living near its steel mills. Rather than reline its blast furnaces, this is an opportune time for POSCO to invest in fossil-free steelmaking technologies and for your bank to translate your climate commitments into action.

\textsuperscript{17} POSCO’s Net-zero carbon 2050 Declaration background and Achievement goals (Link)
\textsuperscript{18} Unveiling the Truth Behind Blast Furnace Pollution, CREA & SFOC (Link)
\textsuperscript{19} Reinvestment in coal-based steel production ‘fundamentally incompatible’ with achieving climate target: SteelWatch (Link)
\textsuperscript{20} Global steel monitoring organisation urges Bluescope to abandon Port Kembla blast furnace reline (Link)
\textsuperscript{21} Cleveland-Cliffs to reline blast furnace in 2025 (Link)
\textsuperscript{22} Domestic and international environmental groups protest against POSCO’s blast furnace renovation… “Doubt about the sincerity of carbon neutrality” (In Korean, Link)
\textsuperscript{23} Lead the Charge (Link)
WHAT YOUR BANK CAN DO:

As a member of the Net Zero Banking Alliance we call on Bank of America to:

- Require POSCO to publicly disclose a carbon emission reduction plan for Pohang Blast Furnace No. 4, which is currently undergoing relining.
- Use your leverage as a financier of POSCO Holdings to convince it to cancel the planned relining of the Gwangyang Blast Furnace No. 2, and instead use your financial support to replace it with new, low-carbon facilities, while disclosing a clear emission reduction plan.
- Call on POSCO Holdings to publicly disclose the phase-out plan for all its domestic and global blast furnace facilities, and release a facility-conversion plan to the hydrogen reduction process and scrap-based steel-making by electric arc furnace (EAF) in accordance with POSCO’s carbon neutrality roadmap (10% reduction by 2030, 50% reduction by 2040, and net-zero by 2050).
- Adopt a corporate-level policy that prevents your bank from onboarding new steel clients and excludes future finance for existing steel clients who are investing in blast furnace relinings.

BankTrack has also recently published a Dodgy Deal on POSCO24, outlining further human rights, climate, and nature related risks your bank may face by supporting the company.

We look forward to hearing from you on this matter, and request a response by Jan 15th 2024. We will be publishing the responses and lack thereof to this letter.

Julia Hovenier
Banks & Steel Campaigner
BankTrack

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24 BankTrack POSCO Holdings Dodgy Deal profile (Link)