China Steel Corporation  
Taiwan, Steel

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Summary view:  
- CSC faces material climate risks, primarily because of high carbon emissions from energy-intensive steel production. Coal remains the predominant energy source. CSC is taking a number of measures to improve energy efficiency and positioning itself in the green energy space. Physical risk, in particular the expectation of water scarcity, is also noted.  
- Despite these risks and the responses from the company, the audited financial statements do not appear to have considered climate risks in any way.

Background

The Business

- China Steel Corporation (CSC) is the largest integrated steel maker in Taiwan and 23rd largest in the world. Annual production of steel is 10m tonnes, including plates, bars, wire rods, hot and cold rolled coils. 66% of sales are domestic, where the company has a 50% market share, while the remaining 34% is exported primarily to the neighbouring markets of China, Japan and southeast Asia. Steel accounts for nearly 80% of CSC’s revenues, but the company has diversified into other segments with non-ferrous materials contributing 10% of revenues, construction contracts at just over 5% and freight and services at 4%.  
- CSC is listed on the Taiwan Stock Exchange. Originally a state-owned enterprise, the government’s shareholding has gradually declined but it remains the largest shareholder with a 20% stake and appoints the chair. 4% is held by the Employee Stock Ownership Trust, with the remainder being broadly held.  
- The main raw materials are coking coal (7.3m tonnes in 2019) and iron ore (14.7m tonnes), imported primarily from Australia, and also limestone, imported primarily from Japan. Each of the multiple steps in producing steel products – sintering, coking, ironmaking, steelmaking and rolling – is heat- and energy-intensive. Coal provided almost 99% of primary energy in 2019.  
- The 2020 Annual Report shows GHG emissions of 21.5m tCO2e in 2020, but with no further breakdown. The CSR Report for 2019 shows Scope 1 emissions at 20.4m tCO2e and Scope 2 at 1.2m tCO2e, which have been roughly constant over the past five years. Scope 3 was measured at further 11.4m tCO2e in 2019.  
- CSC faces material climate risks, primarily due to the large carbon emissions from the process of producing steel, and also physical risk from anticipated water scarcity. There may also be reduced demand for CSC’s steel products if a full accounting and costing is made of the carbon impact of these products through, for example, a carbon tax on consumption.

Approach to climate change

- The Annual Report’s narrative reporting opens with a commitment by CSC to devote itself “to the development of the green energy industry” and “make further efforts to the core work of energy saving and carbon reduction”. However, the specific ambitions are limited: CSC has targeted carbon emissions reductions of 1% per year from 2018 to 2025 and there is a passing reference to achieving carbon neutrality by 2050.  
- Recently, in February 2021, CSC established an internal Task Force on Energy Saving and Carbon Reduction and Carbon Neutrality, which is chaired by the board chair and also includes the president and executive vice president of the company.
• The Annual Report assesses CSC against Taiwan Stock Exchange CSR Best Practices Principles, which include identification of risks from climate change. This, surprisingly, is focussed primarily on physical risks, especially water scarcity. There is a brief reference to “transformation risks” resulting from changes in laws and policies.
• The specific measures CSC is already taking seem to be mainly focussed on energy efficiency in operations, such as more efficient blast furnaces. There is also considerable attention given to the company’s efforts around green energy, primarily offshore wind power and also photovoltaic power. However, the key issue of coal usage receives only the briefest attention, with a reference to building a “district energy integration system to mitigate coal phase out” and with hydrogen ironmaking listed as one of the items the Task Force will examine.

Accounting: judgements and consistency with other reporting

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<thead>
<tr>
<th>Accounting judgements</th>
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<tr>
<td>• CSC reports using IFRS Standards as endorsed by Taiwan’s Financial Supervisory Commission (FSC). IFRS endorsed by the FSC are called the Traditional Chinese IFRS (TIFRS).¹</td>
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<tr>
<td>• There is no reference in the notes to the financial statements that accounting judgements have been impacted by climate-related considerations despite the climate risks identified in the narrative reporting.</td>
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<td>• Climate risk may be expected to impact estimations of useful life of CSC’s assets, which in turn would impact depreciation expense. Depreciation expense is already significant for CSC, amounting to nearly NT$33bn in 2020 against operating profit of NT$2.3bn (or compared to NT$15.2bn in 2019 to exclude the effect of the pandemic). Most PP&amp;E is depreciated using the straight-line method. The notes to the financial statements have a relatively detailed schedule of useful lives, stretching out to 40 years (or 60 years for the main structure of buildings). Dividing 2020 year-beginning gross balance of PP&amp;E before depreciation by depreciation on PP&amp;E during the year gives an estimated average useful life of 29 years. Dividing year-ending net balance of PP&amp;E after depreciation by depreciation on PP&amp;E gives estimated average remaining lives of 12 years. If useful lives were to be impacted by climate risk considerations, this would have a material effect on depreciation and, in turn, on the income statement.</td>
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<td>• The narrative reporting in the Annual Report highlights issues related to climate and carbon issues, with certain risks identified. This is inconsistent with the financial statements that appear to be silent on climate considerations.</td>
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<td>• Furthermore, CSC produces a CSR Report that discusses climate issues and the steps the company is taking in greater detail (albeit the 2020 Report has not yet been published).</td>
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Climate assumptions in accounts: visibility and Paris alignment

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<th>Visibility of climate assumptions in accounts</th>
<th>Significant concerns</th>
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<td>• There are no apparent climate-related assumptions. There is thus no sensitivity analysis.</td>
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¹ Taiwanese companies have a choice of using (a) IFRS Standards as endorsed by the Financial Supervisory Commission (FSC) or (b) with approval of the FSC, IFRS Standards as issued by the IASB. IFRS Standards as endorsed by the FSC differ from IFRS Standards as issued by the IASB Board because some options have been eliminated and the mandatory effective dates of some standards have been deferred beyond the effective dates adopted by the IASB (see https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/view-jurisdiction/chinese-taipei/).
Paris alignment

- With no visibility, there can be no alignment with the goals of the Paris Agreement.

Audit: visibility in KAMs and consistency check

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<tr>
<th>Audit firm: Deloitte &amp; Touche</th>
<th>Responsible partners: Jui-Hsuan Hsu &amp; Cheng-Hung Kuo</th>
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<tr>
<td>Audit standards: Republic of China Generally Accepted Auditing Standards (ROC GAAS)</td>
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Visibility in Key Audit Matters

- There is no reference to climate change in the auditor’s report.
- There are two KAMs identified: (i) Inventory Valuation; and (ii) Recognition of Revenue from Sale of Goods of Steel Department. Both KAMs were identified because of their materiality to the company, rather than any more specific concerns. Neither KAM relates to climate risk.
- The Auditor’s Report states that the audits were conducted in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China.²

Consistency check

- The apparent absence of any climate considerations in the audited financial statements is not consistent with the relatively extensive discussion of climate issues in the narrative reporting.
- The 2020 CSR Report has not yet been published.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASS that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.

Key

- Good practice
- Few concerns
- Some concerns
- Significant concerns

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² The Company Act requires all companies to have their annual financial statements audited following Republic of China Generally Accepted Auditing Standards (ROC GAAS), which are converged with the 2016-17 International Standards on Auditing (ISAs) (see https://www.ifac.org/about-ifac/membership/country/chinese-taiwan).
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