

To: All members, warehouse companies and their London agents and other interested parties

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Classification: General Updates

Date: 05 March 2024

Subject: **DISCOVERING THE LOW CARBON PREMIUM FOR THE NICKEL MARKET**

## Summary

1. This notice sets out the LME's position on the topic of "green" nickel, its solution for establishing sustainability-related pricing differentials and its broader efforts in driving improved sustainability practices across the industry.

## Background

2. As part of its overall sustainability strategy, the LME places a strong emphasis on driving improved transparency around ESG data, all the while protecting the integrity of its traded contracts. The LME recognises that there is a broad range of mining and refining practices employed in the nickel market which give rise to nickel with widely differing ESG characteristics.
3. Noting recent market commentary on this important topic, this notice sets out an approach, backed by a solution already in operation, which enables industry participants to procure and price nickel with specific ESG characteristics.

## Expanding the number of LME Nickel brands

4. Over the past year, the LME has listed four new brands under the LME Nickel contract with additional brands pending review. These newly listed brands together comprise an incremental 91,600 tonnes of annual production capacity in LME-eligible material. Bringing this additional capacity to the LME Nickel contract was one of the key recommendations in Oliver Wyman's independent report following events in nickel in 2022 and was strongly supported by the LME Nickel Committee. This measure has not only helped rebuild stocks in LME Nickel but has assisted in driving price convergence between class 1 and class 2 nickel markets.
5. The newly listed brands fully meet the LME's brand specifications in respect of metallurgical quality and the LME's Responsible Sourcing Policy. Increasing the number of eligible brands has helped rebuild confidence and liquidity in the LME Nickel contract, with average daily volumes in February 2024 of almost 60,000 lots per day – comparable to typical volumes observed in 2021.

## Challenges around introducing a new contract

6. Noting the need to increase the amount of LME-eligible metal available to protect the established LME Nickel contract, the LME believes the market for "green" nickel is not yet large enough to support vibrant trading in a dedicated green futures contract. Market participants have expressed concern that there remains significant market debate as to how to define "green", and further, that an LME contract representing a narrower sub-segment of the market would not attract sufficient stocks and trading volumes to be viable. Indeed, the LME's extensive market engagement around nickel over the last two years has similarly considered whether to introduce traded contracts for other segments of the nickel market like nickel sulphate, matte and other nickel class 2 materials. Limited support exists for such initiatives, with a majority of market participants taking the view that dedicated contracts would detrimentally fragment liquidity and potentially undermine the utility of LME Nickel as the primary risk management tool used by all segments of the market.

## **Pricing ESG characteristics: role of physical spot market platforms**

7. The LME believes that pricing for metal variants that differ from LME brand specifications – whether by ESG characteristic, grade, shape or location – is most effectively conducted through digital spot trading platforms. These platforms allow consumers to directly buy specific batches of metal that meet their procurement requirements. On such marketplaces, sellers can list their metal for immediate delivery and specify characteristics for buyers to filter against. The pricing data collected from transactions of metal traded with similar characteristics can then be used to calculate a premium or discount to the LME benchmark price.

## **Metalshub offers an established solution today**

8. The LME collaborates closely with Metalshub, which has successfully operated a pricing and procurement solution for physical market participants since 2016. Volume traded on the platform continues to grow with more than \$220m of class 1 nickel transacted in 2023. Metalshub already uses transactions to calculate a weekly European Duty Paid Nickel Briquette Premium Index. As of 1 March, this premium to the LME Nickel cash price is \$245 per metric tonne. Market participants may also use Metalshub to buy and sell nickel sulphate, ferronickel and other types of class 2 nickel.
9. Any class 1 nickel on the Metalshub platform can be listed with specific ESG credentials, including its carbon footprint. This allows buyers to filter against carbon thresholds of their choosing, ensuring they source material that complies with their ESG objectives. To provide the market with additional transparency, Metalshub will begin to report on a monthly basis (from 31 March) data on the number of transactions and market value of class 1 nickel traded, including the subset with a registered carbon footprint lower than 20t of CO<sub>2</sub> equivalent per tonne of output. Once a sufficient number of regular transactions take place, Metalshub will begin publishing a Low Carbon Nickel Class 1 Premium Index (European Duty Paid). This index could in time be extended to become a “green” nickel premium index by considering additional sustainability characteristics.

## **Defining a standard for green nickel**

10. As noted above, and as is the case with other metals, global industry consensus currently does not exist on what constitutes “green” nickel. Such a standard would need to consider carbon footprint but also other sustainability criteria including environmental management practices, respect of labour rights, water management, and wider business integrity and transparency considerations – to name just a few.
11. Industry associations and standards are delivering important work to support producers in defining ESG priorities, implement systems and controls, and measure performance improvements on an ongoing basis. For example, the Nickel Mark provides an independently audited standard designed to support nickel producers in demonstrating their performance against 33 commonly agreed ESG issues. Towards Sustainable Mining, Initiative for Responsible Mining Assurance, ICMM, CCCMC, and the Responsible Minerals Initiative similarly provide relevant standards in this context. The LME strongly supports the efforts of ESG standards bodies such as these, but comprehensive industry compliance with these certifications is still relatively nascent and the broad range of options means it can be difficult to identify consensus regarding scope and metrics. This suggests that the carbon footprint of nickel, currently a more readily assessed and reported metric, should be the initial basis for ESG-related pricing.
12. The carbon footprint for a tonne of class 1 nickel can vary widely, ranging from 6t to more than 100t of CO<sub>2</sub> equivalent per tonne of metal. This range is typically a function of the extraction method, the number of conversion steps and the refining methodology used. Based on its market engagement, the LME has determined that a threshold of 20t of CO<sub>2</sub> equivalent (or less)<sup>1</sup> across scopes 1-3 is an appropriate level to start the identification of a low-carbon nickel premium. The LME will work with the LME Nickel Committee and the nickel market more broadly to refine the carbon threshold and eligible measurement methodologies. Over time, the LME expects that rather than the emergence of a two-tier market, metal

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<sup>1</sup> A wide range of methodologies exist for assessing carbon emissions. The LME believes that the Nickel Institute’s GHG Emissions Guidance (leveraging GHG Protocol and ISO 14044) is the appropriate initial method for assessing the proposed carbon threshold. This methodology assesses full lifecycle emissions, including the precursors to refined nickel metal such as ores, concentrates and intermediates. The LME believes that methodologies that are limited to assessing scope 1 and scope 2 emissions at the point of refining cannot be used to compare the carbon footprint of nickel metal that has undergone differing approaches to feed sourcing and processing. Any carbon disclosures provided for listed metal, must upload third-party audit documentation that reflects the current mix of feed materials used. The LME welcomes the views from standards bodies and the wider industry to refine this approach over time.

with the best sustainability credentials will attract an additional premium over metal narrowly complying with a particular CO2 threshold. However, this will rely on industry consensus to develop on the most important sustainability criteria, compliance with ESG standards accurate measurement, and the availability of sufficient transaction data.

### **The LME's wider role in driving improved sustainability practices**

13. While the LME is currently not planning to change the brand specifications for the LME Nickel contract, nor list a parallel LME contract, market participants are reminded of the LME's Responsible Sourcing Policy. The LME has taken an industry-leading role by introducing this policy, underpinned by requirements set out by the OECD, with which all LME listed brands must comply. The LME is in the process of suspending or delisting a number of brands that do not demonstrate full compliance with the requirements. More broadly, the LME continues to encourage LME-listed producers to showcase their ESG certifications, metrics and standards on LMEpassport. As of February 2024, LMEpassport lists a total of 616 sustainability disclosures (more than half of which are environmental) from 262 listed brands.
14. While the LME is proud of the steps it has taken to improve the transparency and availability of ESG data through LMEpassport, ultimately the LME believes that further industry consensus and agreed industry standards will be needed in order to provide the data necessary for consumers to be able to make fully informed purchasing decisions and to support the emergence of truly green price premia.

### **Participation and feedback**

15. Market participants are encouraged to share their views with the LME on the above topics at: [nickel@lme.com](mailto:nickel@lme.com). Physical market participants interested in selling or sourcing nickel with particular characteristics, helping development of a credible transaction-based green premium, are encouraged to visit [www.metals-hub.com](http://www.metals-hub.com) and contact Metalshub for a platform demo: [info@metals-hub.com](mailto:info@metals-hub.com)

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cc: Board directors  
All committees