

All that glitters is not gold...

Most of us have a little piece on the Democratic Republic of Congo (DRC) sitting in our pocket right now. This mineral rich region produces half of the world's Coltan (columbite-tantalite), a mineral ore used to manufacture capacitors in mobile phones, laptops and tablets. Whether most of us are aware of the conditions these minerals are mined in is another question. There has been much publicity and campaigning on the 'blood diamonds' of Sierra Leone but the story on conflict minerals from DRC, which are more widely used by the 'man on the street', is less known.

More than 5.4 million people have died as a result of conflict in this region, making it the biggest death toll of any conflict since WWII. The average life expectancy in the area is 47 years and one in five children will die before their fifth birthday. In fact more children under the age of 5 years die every year in the DRC (pop 63m) than in China (pop 1,325m). At over 20,000 UN troops, the DRC is home to the largest peacekeeping mission in the world; and yet the death toll continues.

The mines are controlled by government troops (FARDC) or the rebel groups that they are fighting, namely the FDLR, although this is strongly denied. Miners are usually men and include children, and are subject to forced labour, violence, debt bonded slavery and children are often forced into the armed groups that control the mining zones. The mines are mostly small, hand built 'artisan' mines that are unsafe and often collapse. Despite President Kabila's promises to clean up the industry corruption remains rife.

Minerals in the DRC

The Congo possesses 80% of the world's Coltan but only mines a fraction of its 49% Cobalt reserves, and 10% of its Copper reserves. Gold is the biggest source of conflict mineral trade and is most responsible for the on-going bloody conflicts. It is estimated that the net worth of the Congo's gold mines is tens if not hundreds of billions of US dollars. Approximately 2% of the world capacity for tin sits in the DRC, 3% Tungsten and 9% Tantalum.

'Conflict minerals' as defined in US legislation and international guidance applies to cassiterite, coltan, wolframite and gold, or derivatives of these minerals. Sometimes these minerals are referred to as the 'three Ts' - tin, tantalum and tungsten (and gold).

Despite being one of the richest mineral resources the DRC remains one of the poorest economically. Most of the minerals are smuggled into Uganda and Rwanda where they are exported to the Far East and smelted making traceability very difficult. Rwanda is currently exporting more tin than is known to be in the ground there, making them a known export route for the DRC.

Where the minerals are used?

SiliconExpert's Database reveals that nearly 25% of electronic parts contain at least one of the four minerals. Specifically passive parts which have up to 30%, semi-conductors at 28%, interconnects at 25% and electrical and electronic components at nearly 19%.

The top ten products containing one of the four minerals include: MEMS Oscillators, Connector Headers and PCB Receptacles, Connector Card Edge, Capacitor Tantalum Solid, SMD Crystal Oscillator, Resistor Fixed Single-Surface Mount, Resistor (Trimmers, Potentiometer and Rheostat), Switch Push Button, Resistor Fixed Single-Through Hole, and Switch Slide. Six of the top ten are Passives, two are Interconnects, and two are Electromechanical from the category Electrical and Electronic Components.

What's being done about it?

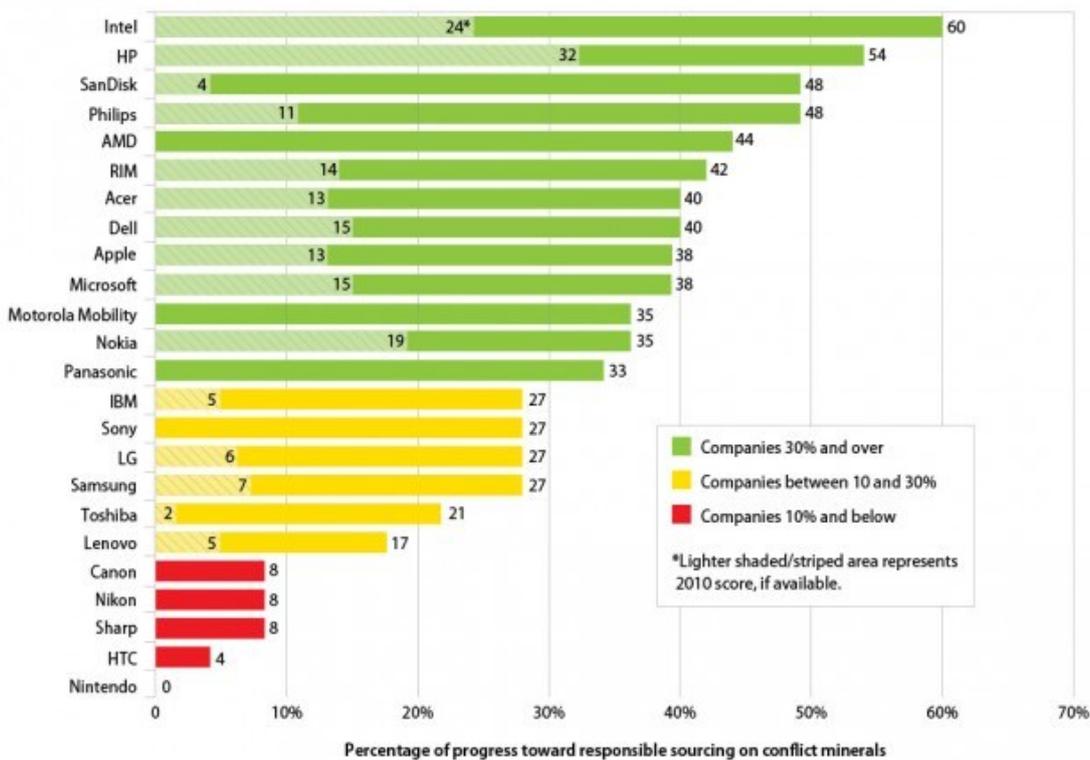
Other than the UN troops and government pressure being put upon the leaders of the DRC to clean the area up, major corporations are beginning to make a stand against sourcing minerals from conflict zones. Legislation is driving this in some countries where as others are either responding to consumer concerns or simply 'doing the right thing'.

Founded in 2004 by a group of leading electronics companies, the EICC is a non-profit coalition of electronics companies committed to supporting the rights and wellbeing of workers and communities worldwide affected by the global electronics supply chain. EICC members commit and are held accountable to a common Code of Conduct and utilise a range of EICC training and assessment tools to support continuous improvement in the social, environmental and ethical responsibility of their supply chains.

In addition to setting and holding members accountable to core standards and providing training and assessment tools, the EICC regularly engages in dialogue and collaborations with workers, governments, civil society, investors and academia to gather the necessary range of perspectives and expertise to support and drive its members toward achieving the EICC mission and values of a responsible global electronics supply chain.

Today the EICC is comprised of nearly 100 electronics companies with combined annual revenue of nearly \$2.6 trillion, directly employing over 5.5 million people. The automotive industry is also engaging in this debate with brands such as Ford, Chrysler, Daimler-Benz, Volkswagen, Volvo, Nissan, & FIAT supporting the EICC initiatives.

The more ambitious and those with global resource are heading the list of consumer activity. The table below is from an extract from a report by the Enough project comparing data from 2010 and 2012 on the most compliant consumer companies. (The full report can be found in the useful links section)



Source *The Enough Project*

Legislation

The Dodd-Frank act ([Dodd-Frank Wall Street Reform and Consumer Protection Act \(the Dodd-Frank Act\)](#)), came into force in the US in July 2010 and requires publicly traded companies to disclose the use and sources of conflict minerals. Companies had until May 2014 to file their first disclosure to the US Security and Exchange Commission (SEC) with annual submissions to follow. SEC estimate that the initial compliance costs for companies will be \$3-4bn and the annual continuing costs will be \$207-609 million.

The findings from the first report from organisations was of mixed quality and questions are being asked if the legislation is actually achieving its objectives. Many of the reports only say that their ‘status in undeterminable.’ The Enough Project have reported early signs of improvement with “many lucrative mines in eastern Congo no longer controlled by violent armed groups.”ⁱ

In the UK the [Bribery act](#) holds UK firms accountable for bribery, whether committed directly and on their behalf, in the UK or overseas; and DIFID and the FCO are working closely with the Government of the DRC and international partners (including the World Bank, EU and UN) to improve governance and management of the DRC minerals sector. The proposed Modern Slavery Bill has had its second reading and will call for organisations to have greater controls in place to ensure slavery does not exist in supply chains.

In Europe firms are offered a voluntary self-certification scheme to prove that their products' mineral components were not sold by warlords to fuel bloody conflicts, under a draft EU law. The regulation would set up a ‘responsible importer’ scheme for firms exercising ‘due diligence’ over commodity supply chains,

offering incentives ranging from EU public procurement contracts to funding possibilities for small and medium enterprises. It is limited to gold, tin, tungsten and tantalum. These minerals' ores would also be covered.

The scheme announced in March 2014 only applies to companies placing raw materials on the market, such as Europe's 20 or so smelters. It will not apply to importers of products such as mobile phones, which may already have had the materials installed. It is suggested that US templates are used for the reporting to give an industry-wide viewpoint.

What does this mean for procurement?

Industry is driving change by putting demands on their suppliers to document materials in all of their component parts. There will be more onerous checks to put suppliers through as well as on-going audits and requests for reports. In the UK, BAE have terms in their contracts to insist that suppliers keep sources conflict-free, in line with the map of designated areasⁱⁱ. BAE's US counterparts also included a conflict mineral statement in their T&C'sⁱⁱⁱ from December 2012.

There are on-line tools^{iv} readily available to help organisations organise their reporting but there is no universal standard as of yet meaning suppliers will be potentially duplicating effort for all their customers. Procurement professionals need to ensure that any pre-qualification criteria and reporting tools are simple to use and not over specified. SMEs are often put off by unyielding processes and reporting and do not tender for business which can affect the market as a whole.

The cost of an exposure to conflict materials in the supply chain could be damaging to the company's reputation as well as imposing costs of resourcing and requalifying new products and parts. Resourcing may not be an easy option as the scramble for raw materials increases as the US step up their game to compete with China to stock pile resources.

A recent study on reputational events clearly shows the financial impact on an organisation. The table captures ten of the more extreme reputation events from 2011. The list covers a wide range of events, industries and countries and the companies are ranked according to their recovery of shareholder value following their particular reputation crisis.

Table 1 Top 10 reputation events in 2011

Date	Company	Event	Value Reaction ¹	
			%	\$m
March 11	TEPCO	Japanese earthquake	-89.6	-37,368
August 18	Dexia	Exposure to Greek debt	-87.3	-3,990
September 27	Diamond Foods	Accounting irregularities	-77.8	-1,406
October 14	Olympus	Accounting irregularities	-57.8	-5,062
October 10	Research In Motion	Service disruption	-49.7	-6,095
January 3	Renault	Industrial espionage	-35.9	-6,266
April 16	Sony	Computer hacking	-35.9	-10,679
July 29	Qantas	Industrial dispute	-17.0	-795
September 15	UBS	Rogue trader	-13.2	-6,294
July 4	News Corp	Phone hacking scandal	3.2	1,529

Source: <http://www.aon.com/attachments/risk-services/Aon-OM-Reputation-Review-2012.pdf>

How can procurement make a difference?

For now we can look to the US to see how the legislation is working what the reporting from the Dodd-Frank act over the next few years tell us. According to a poll of 134 electronic industry managers in April 2013 more than 35 per cent of respondents said they have “made no plans on how to conform to the rules set out by the Dodd Frank act, and only 7.5 per cent said they were ready for compliance”.

Other organisations have taken a stronger stance. Intel claim to be “conflict-free” in their processors and Apple was the first company to compile a list of all 175 of its suppliers and require that they start to audit their sources. General Electric, HP and Motorola have created a [Public-Private Alliance for Responsible Minerals Trade](#) in order to try and encourage governments to break ties with the conflict mineral trade and weaken their strength and control. Just how these organisations can make these claims is unknown as traceability in the supply chain is very difficult.

Procurement teams can take the lead in ensuring that conflict minerals are included and considered in company policies on welfare for individuals, good citizenship, international relations, ethical sourcing and CSR reports. Conflict mineral polices could be hung off any one of these standard company policies.

It’s becoming more likely that your customers and end consumers will start to ask more questions from you regarding the compliance of your product. Ensure you have compliance statements and plans in place to increase compliance. Have a statement on ethics and global welfare and demonstrate your efforts to ensure your supplier selection process ensures further compliance. This is the kind of due diligence your customers are asking, or will be shortly.

In the long term this is just one of many spot lights that will shine on our supply chains, whether it is ‘blood diamonds’, horsemeat in beef burgers or faulty steering wheels resulting in product recalls. These issues can only help raise the importance and impact of procurement professionals in organisations to get the attention of the board and CEO to ensure thorough risk management and responsible procurement strategies are implemented throughout the whole supply chain.

Useful Links

The Enough Project report on company rankings –

<http://www.enoughproject.org/publications/taking-conflict-out-consumer-gadgets-company-rankings-conflict-minerals-2012>

Article on the impact of the Frank-Dodd act on conflict areas -

<http://www.enoughproject.org/reports/impact-dodd-frank-and-conflict-minerals-reforms-eastern-congo%E2%80%99s-war>

EU and US legislation comparison table -

http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&cad=rja&uact=8&ved=0CCEQFjAA&url=http%3A%2F%2Fwww.digitaleurope.org%2FDocumentDownload.aspx%3FCommand%3DCore_Download%26EntryId%3D812&ei=ZhM0VL2NEMrgaKyPgLAF&usq=AFQjCNH_pliG669LcB1ondZudLZC3QaAUg

<http://www.oecd.org/daf/inv/mne/GuidanceEdition2.pdf>

EU Legislation on conflict minerals –

<https://www.gov.uk/conflict-minerals#legislation>

Tips for complying with the Frank-Dodd act - <http://www.environmentalleader.com/2013/04/01/15-tips-for-complying-with-the-conflict-minerals-provision-of-the-dodd-frank-act/>

Reporting template =

<http://www.conflictreesmelter.org/ConflictMineralsReportingTemplateDashboard.htm>

References

ⁱ <http://www.enoughproject.org/reports/impact-dodd-frank-and-conflict-minerals-reforms-eastern-congo%E2%80%99s-war> - Article on the impact of the Frank-Dodd act on conflict areas -

ⁱⁱ The Supplier shall ensure that any items or materials forming part of the Supplies have been purchased from legitimate and responsible sources which are in compliance with United Nations resolutions and which are not in any way involved in funding conflict. If requested by the Purchaser, the Supplier shall provide to the Purchaser all relevant information showing the source of such items and materials.

ⁱⁱⁱ h) In compliance with Dodd-Frank Act Section 1502, SELLER agrees to SEC Reporting Requirements for Issuers Using Conflict Minerals. Conflict minerals are: columbite-tantalite (coltan), cassiterite, wolframite, and gold, which are used to finance conflict in the Democratic Republic of Congo or adjoining country.

^{iv} <http://www.conflictreesmelter.org/ConflictMineralsReportingTemplateDashboard.htm>