


Certification and Due Diligence in Mineral Supply Chains – Benefit or Burden?

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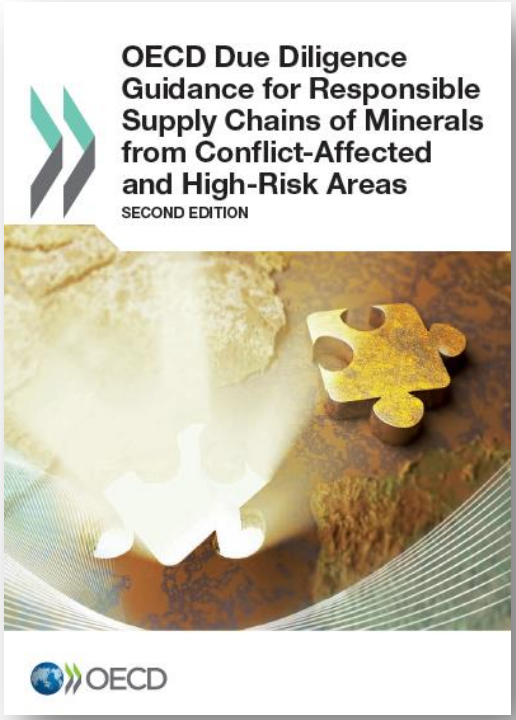
Definitions

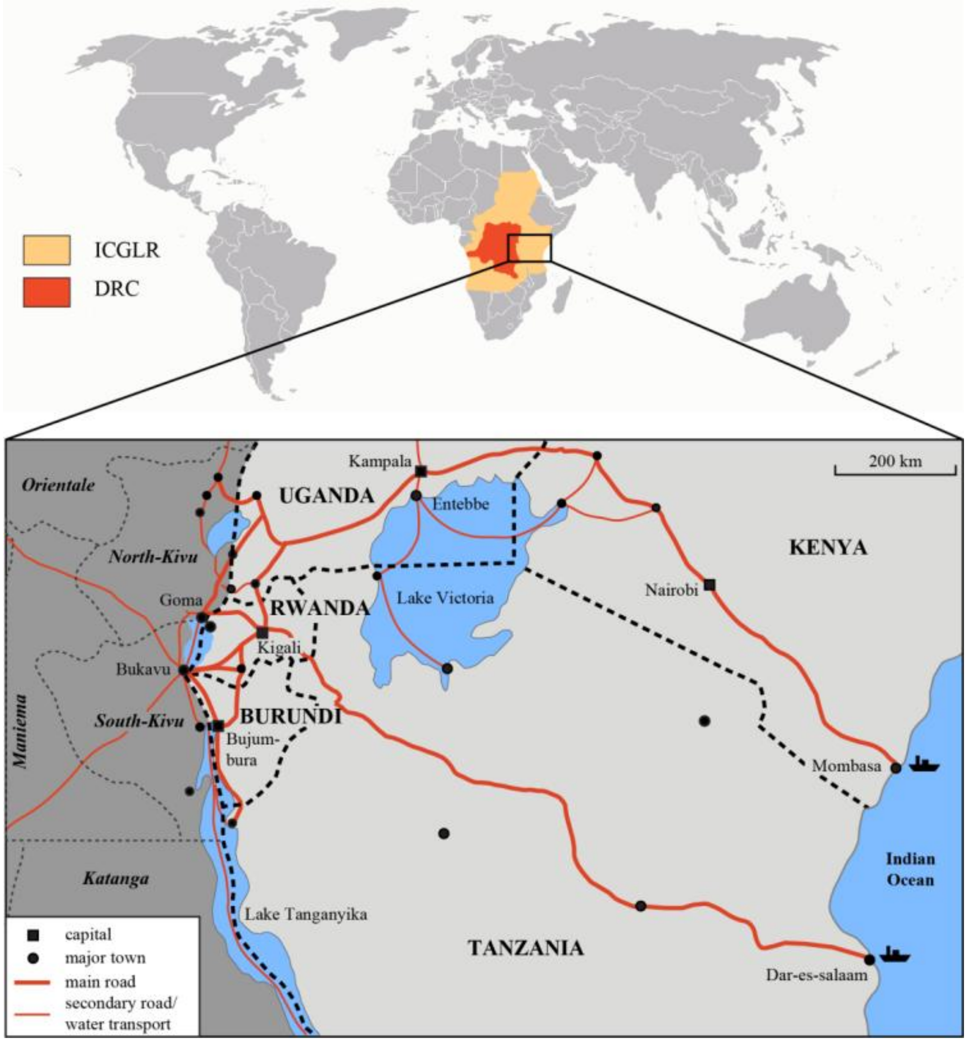
- ***Due diligence*** is an on-going, proactive and reactive process through which companies can ensure that they respect human rights and do not contribute to conflict.
  - Five steps framework defined in the OECD Due Diligence Guidance (2011).
- ***Certification*** refers to assessment and assurance procedures that a business, product, process, service, supply chain or management system conforms to specific requirements.
  - The Regional Certification Mechanism (2011) aims to institutionalize due diligence sourcing provisions for designated minerals in the Great Lakes Region.



Background: Artisanal Mining & Conflict Minerals

Why supply chain due diligence?

- 3Ts (tin, tungsten, tantalum) and gold earnings contribute to conflict in the eastern DRC
- ASM-dominated production in Great Lakes Region lacking transparent formal supply chains
  - "Conflict mineral" smuggling
- US Dodd-Frank Act, 1502 (2010): companies sourcing from the region to report on mineral origin & due diligence
- Response: due diligence mineral sourcing initiatives & certification



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Research Questions

Certification and Due Diligence in Mineral Supply Chains
– Benefit or Burden?

- Does the scope of DD implementation reflect conflict risk relevance?
- What is the efficiency of implementation (coordination of efforts)?
- Is economically sustainable auto-financing of DD possible?
- What are tangible results of DD implementation?

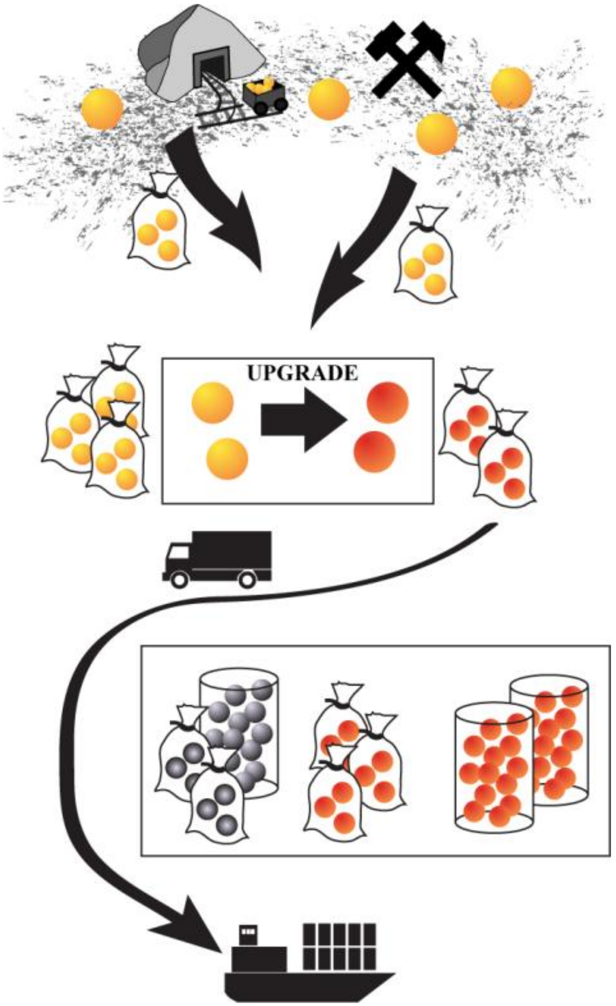
The Upstream Supply Chain: From Mine to Smelter

ASM mining in the Great Lakes region: heterogeneous country features

- 250-500 active 3T mine sites in **Rwanda**; relatively well formalized (recently)
- 200 3T sites (declining) & 900 gold sites in the **DR Congo**; mostly informal / illegal; extensive mineral trading networks
- Hundreds of gold sites in **Tanzania**; variable level of formalization
- <100 mine sites in **Burundi, Uganda**

Exports:

- **3Ts**: official (several dozen exporters) & in-region smuggling; smelters (bottleneck in supply chain) in Asia & EU
- **Gold**: mostly smuggled to UAE/Dubai



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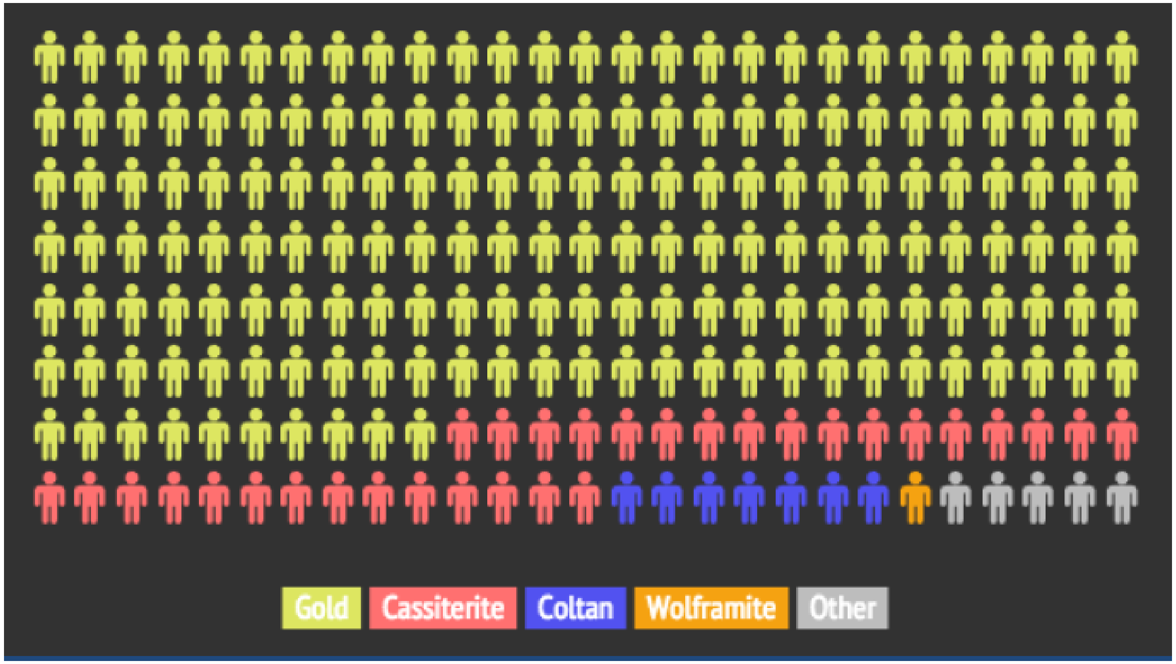
The Evolving DRC Conflict: Changing Sources of Financing

Number of ASM miners (conflict minerals) in the DR Congo (IPIS 2015):



Relative percentage of militarized mine sites: gold (57%) vs. 3Ts (26%)

2014/15: ASM Gold = ca. 10 times the conflict relevance of 3T minerals

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Due Diligence Schemes in the Great Lakes Region

- **Industry-driven** certification of smelters as “conflict free”
  - Conflict-free Sourcing Initiative / Conflict-free Smelter Program (CFSP)
  - Linked with industry-driven institutionalized upstream mechanism for due diligence: ITRI Tin Supply Chain Initiative (iTSCi)
- **Government-driven** mandatory mineral certification scheme
  - International Conference on the Great Lakes Region (ICGLR): Regional Certification Mechanism (RCM)
- Pilot (voluntary) mine/supply chain certification
  - Certified Trading Chains (CTC)
  - Fairtrade Gold; PAC Just Gold
- Other private sector due diligence service providers & standards

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<u>Actual implementation progress on the ground (so far):</u>

3Ts **ASM gold** **industrial gold**

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In-Region Due Diligence Framework for 3T Supply Chains

Key certification system components:

- Mine site inspections: local conditions with regards to conflict risks, production capacity (smuggling), child labor
  - Red – Yellow – Green classification
  - Responsible mining (OHS, environment) not enforced
- Mineral traceability: establish chain of custody tracking
  - Mineral traders/ exporters: verifiable aggregation of ore concentrates (several dozen sources per 24 ton container)
  - Export certification
- (Semi-) Independent assurance procedures
  - Regular monitoring (on-site & database)
  - Incident reporting
  - 3rd party audits
  - System-level governance & conformance assessments

In-Region Due Diligence Framework for Supply Chains

Process	Industry approach (in cooperation with government): ITRI Tin Supply Chain Initiative	Government approach (supported by donors): Regional Certification Mechanism
Mine site inspections	Baseline studies, industry funds	Inspections / Validation missions (state & donors)

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System-level assessments	Established, industry funds	Theoretical, donor funds on selected procedures

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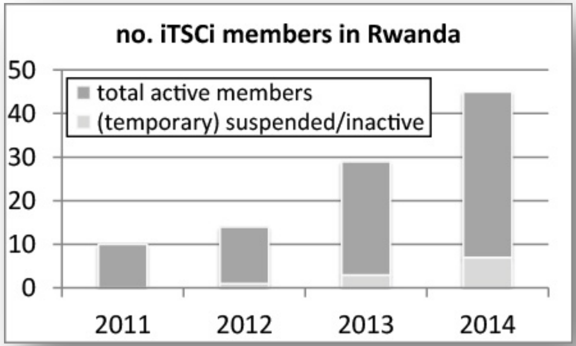
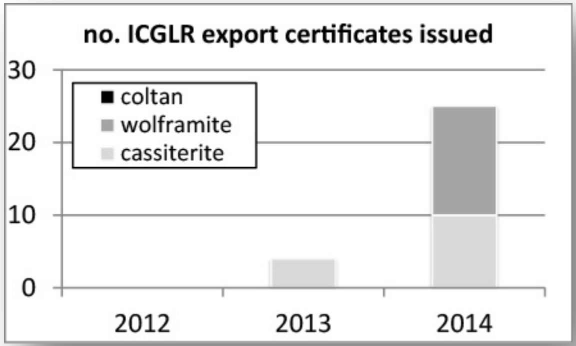
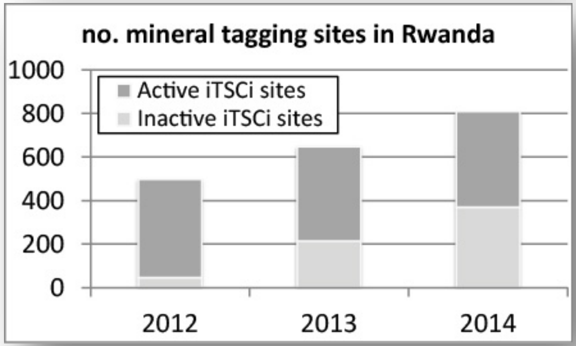
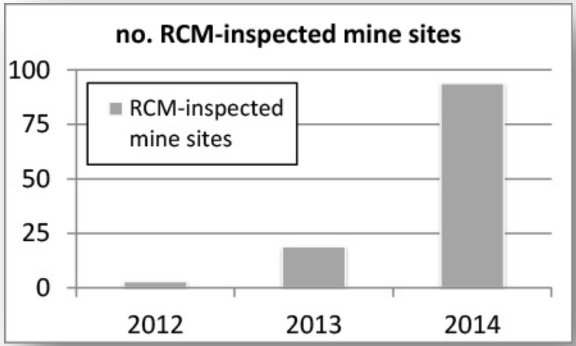
Due Diligence Implementation Progress Rwanda

Both industry (iTSCi) and government-led (RCM) schemes advancing:









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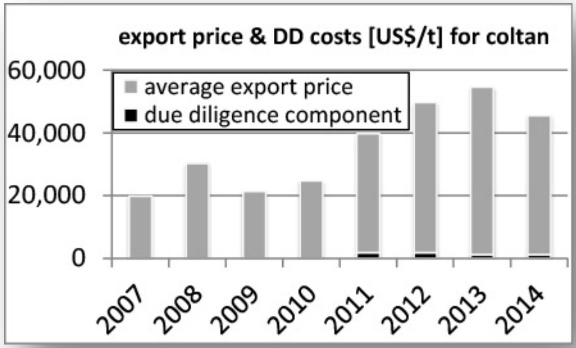
Due Diligence Implementation Progress Rwanda

- Due diligence implementation levies for iTSCi (industry scheme): ca. 3% of 2013 3T export value (total ca. US$ 6 million)
  - Scalability – relative costs significantly higher in other countries (no level playing field)
  - Commodity price fluctuation risks: implementation so far has taken place during high-price cycle



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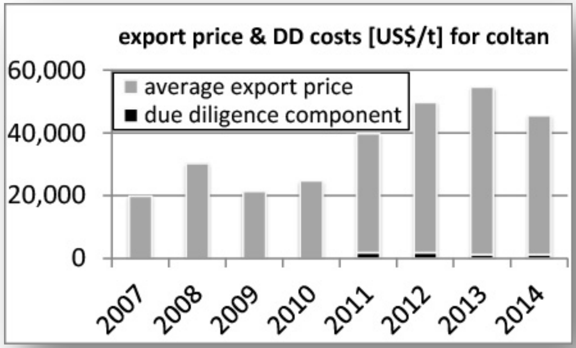
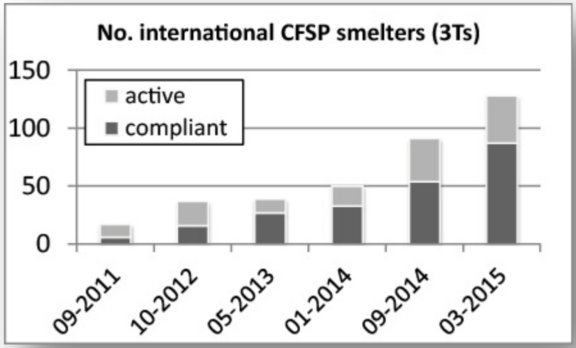
  - Scalability – relative costs significantly higher in other countries (no level playing field)
  - Commodity price fluctuation risks: implementation so far has taken place during high-price period
- International: steady increase in number of smelters seeking conflict-free certification
  - Smelters = bottleneck in supply chain
  - Requiring iTSCi participation for in-region suppliers (quasi-mandatory)
  - Few alternatives, heavy price penalties





CFSI data

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In-Region Due Diligence: Complementary Challenges

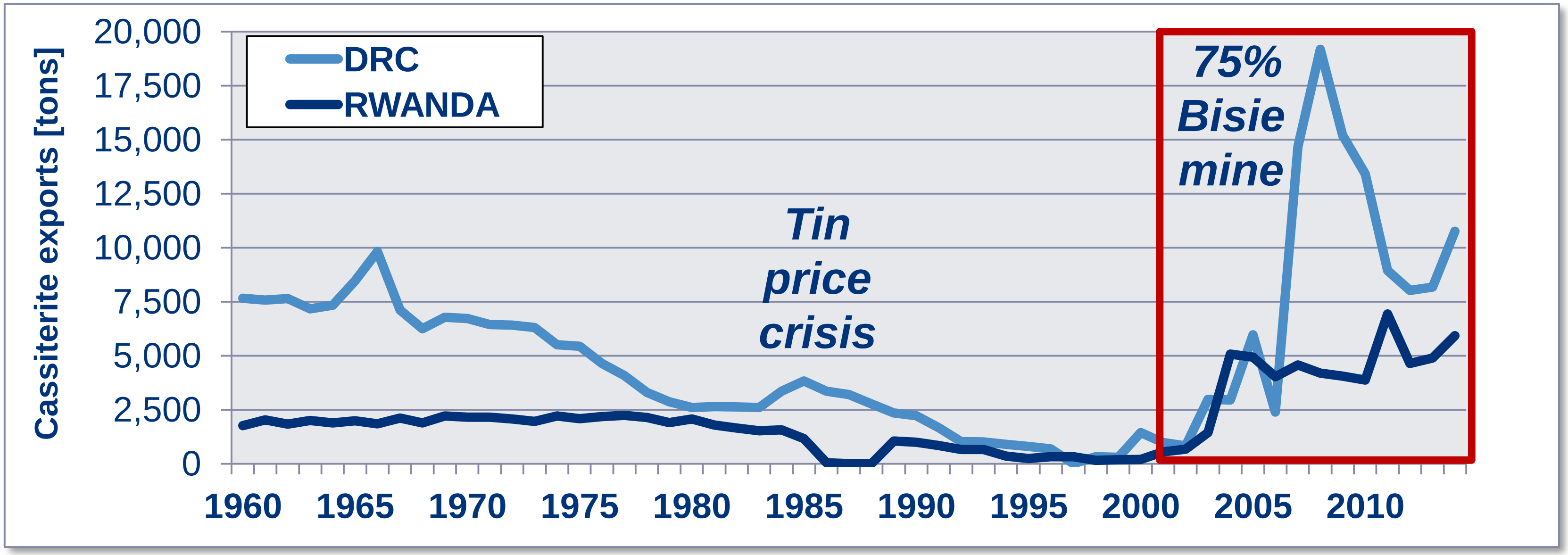
Industry (& government) focus: iTSCi

- Established across all levels, integrating lessons learnt since 2011
- Fully accepted by smelters & downstream (electronic) industry
- Industry-driven and –funded: conflict of interest risks? credibility?
    - secretariat = industry associations abroad, not in-region (ownership)
- 3T-selective, not considering ASM gold

Government & donor focus: ICGLR Regional Certification Mechanism

- Initial implementation progress in selected member states (RWA, DRC)
    - gap between standard theory and practice (incl. procedures; ASM gold)
- Wide-spread donor support & member state ownership: credibility (+)
- Management capacity challenges: credibility (-)
    - political processes impact on performance orientation

Due Diligence Impacts on Mineral Exports



Independence (foreign/national), mostly ASM

State mining companies subcontracting ASM

Genocide & Congo wars

Liberalization & re-privatization

Congo conflict

Dodd-Frank Act

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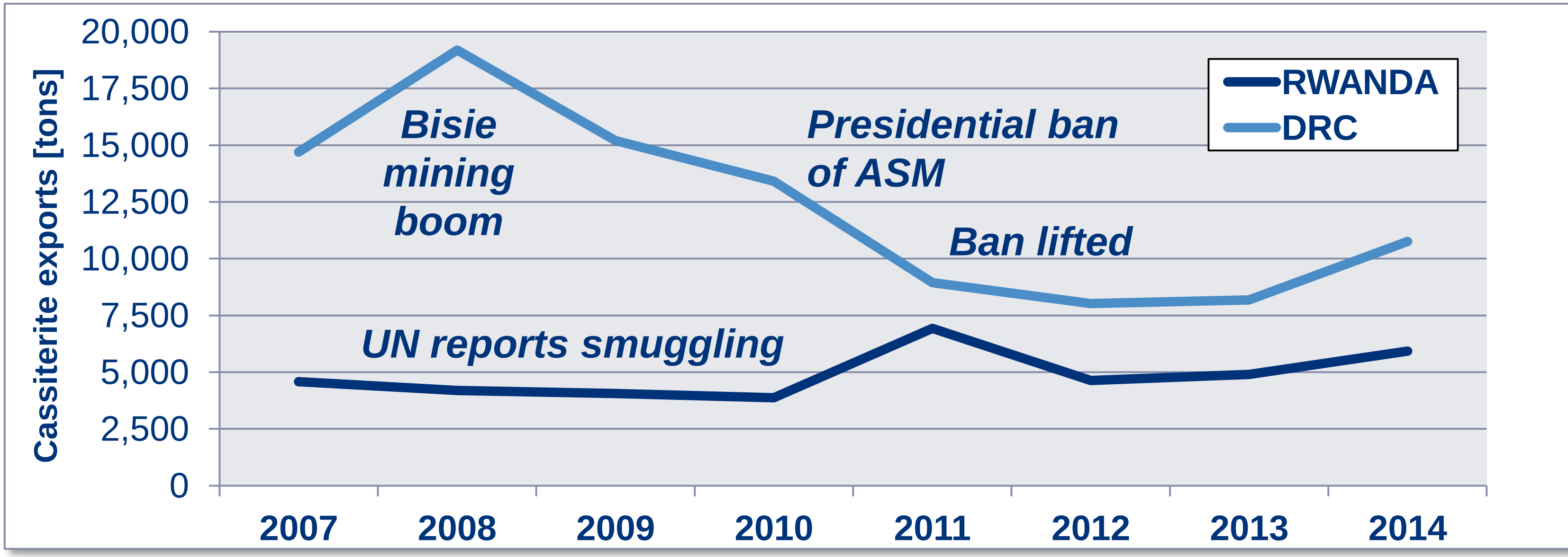

Dodd-Frank Act signed

Traceability starts in RWA

Conflict Mineral Rule adopted

SEC reporting starts (transition period)

Post-2010 (Dodd-Frank) impact:
- Rwanda: exports increased
- DR Congo: exports declined (Bisie geology, ASM gold shift)

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Four Years of Due Diligence Implementation…

Conclusions

- DRC conflict continues to be partly funded by natural resources (gold, charcoal)
  - shifting of problems in eastern DRC from 3T sector into ASM gold
  - no correlation between due diligence efforts/spending and specific conflict risks
- Very general coordination of efforts at political level, but not on the ground
  - process duplication (industry vs. government schemes)
- Auto-financing in-region due diligence is economically feasible (3Ts) if
  - supported by attractive international mineral price level
  - sustained by sufficiently large mining sector (economies of scale) – but… ASM gold?
- Due diligence expectations management: contribution to ASM supply chain formalization & market access
  - no certification of responsible mining practice (OHS, environment, communities)
  - performance unclear when it comes to mitigating smuggling risks
  - but: no large-scale embargo because of Dodd-Frank Act (selected temporary disengagement)
  - further review after Dodd-Frank transitional 2-4 year period (“conflict undeterminable”)?

Acknowledgement

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german cooperation
DEUTSCHE ZUSAMMENARBEIT

INTERNATIONAL CONFERENCE ON THE GREAT LAKES REGION
CONFERENCE INTERNATIONALE SUR LA REGION DES GRANDS LACS

http://www.bgr.bund.de/mineral-certification

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