

Policy Brief

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Stopping conflict minerals with the OECD Guidance for responsible mineral supply chains: Status Quo in Europe

EXECUTIVE SUMMARY

OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas aims to encourage the responsible sourcing of tin, tantalum, tungsten, their ores and mineral derivatives, and gold from conflict-affected areas so as to avoid contributing to conflict, human rights abuses and insecurity. The Guidance came into effect on 15 December 2010 and implementation is voluntary.

Professor Constantin Blome interviewed European senior executives to determine the costs and benefits of implementing this OECD Guidance in five industries: automotive, aerospace and defence, electronics and general manufacturing, jewellery, and smelting and refining. Successes and barriers to full implementation of the guidelines were also examined. A key finding is that industry collaboration plays a crucial role in compliance with the OECD Guidance.

Key findings

- OECD Guidance is widely confused with US Dodd-Frank legislation that requires US-listed firms to disclose the use of materials from the Democratic Republic of Congo and adjacent countries
- The extent of implementing the OECD Guidance varies according to firm size and place in the supply chain
- Costs vary, but tend to be higher for SMEs yet low for most firms. Costs can be further reduced through industry collaboration
- Benefits tend to be of an intangible nature (for example, improved reputation)
- Complexity of supply chains and lack of reliable information acts as barriers to full implementation
- Industry collaboration plays a crucial role in successful implementation e.g. certified smelters and refinery lists, third party audits



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OVERVIEW

There is generally a lack of transparency as to the extent that a particular company has implemented the OECD Guidance on due diligence. Implementation is voluntary and therefore there is no reporting requirement.

Implementation depends on a number of factors:

- Position in the supply chain: smelters and refiners, as well as firms that are closer to the consumer end of the supply chain tend to have higher levels of due diligence.
- Simpler supply chains and negative publicity has led to some industries e.g. jewellery having higher levels of due diligence
- The need to comply with the US Dodd-Frank legislation leads to higher levels of due diligence. Dodd-Frank legislative compliance is required if listed on the US stock exchange. A similar positive effect can be observed for firms that have major consumers in the US.

There is scope for improvement in implementing all five of the steps of the OECD Guidance. Some of these steps require significant effort and knowledge to comply with them and this can be a barrier. However, compliance with these initiatives can help bring about substantial reductions in the risks of contributing to conflict, human rights abuses and insecurity.

The majority of firms interviewed do not monitor risks in the supply chain on an on-going basis. Only a third of the firms collaborate with an independent third-party auditor – yet this is a key component of the OECD Guidance.

Implementation Costs

Average cost = 0.0002%
(of total annual sales)

IMPLEMENTATION COSTS AND BENEFITS

Costs:

The average implementation cost for the sample in this study is 0.0002% of total annual sales. The cost of implementation to sales ratio is higher for small firms and for one firm was 1% of their sales volume. The implementation costs for the vast majority is less than 0.1% of annual sales.

Benefits:

Most firms (82.8%) interviewed expect implementation to result in significant benefits: Better reputation, improved investor relationships and opportunities and greater supply chain risk mitigation strategies.

OECD GUIDANCE: BARRIERS & SOLUTIONS

Barriers

Barriers to implementing the OECD Guidance can be grouped under four categories: data related, supply chain issues, internal resource issues, and the guidance itself.

- **Data Related:** The greatest challenge centres on the need to develop reliable data regarding the conflict-free nature of minerals. The voluntary nature and absence of standard certification schemes adds to this issue. Auditing is proving problematic due to lack of appropriate types of audit and also lack of coordination along the supply chain.
- **Supply Chain:** Complexity in supply chains, particularly for large firms, creates a significant barrier. There can also be rapid changes in raw material supply making an audit particularly challenging. SMEs suffer from a lack of power in the supply chain to influence due diligence in their suppliers. Geographical distance in the supply chain can also create hurdles in implementation.
- **Internal Resources:** Lack of resources and know-how within a firm presents a hurdle to implementing due diligence. Communication difficulties were also mentioned.
- **Guidance:** The Guidance itself is also a barrier. Problems experienced are that the guidance is too complex, technical and in places vague e.g. “a good effort”. Terminology in the OECD Guidance often does not refer

“The extra costs for full OECD Due Diligence implementation are for most firms relatively small.”

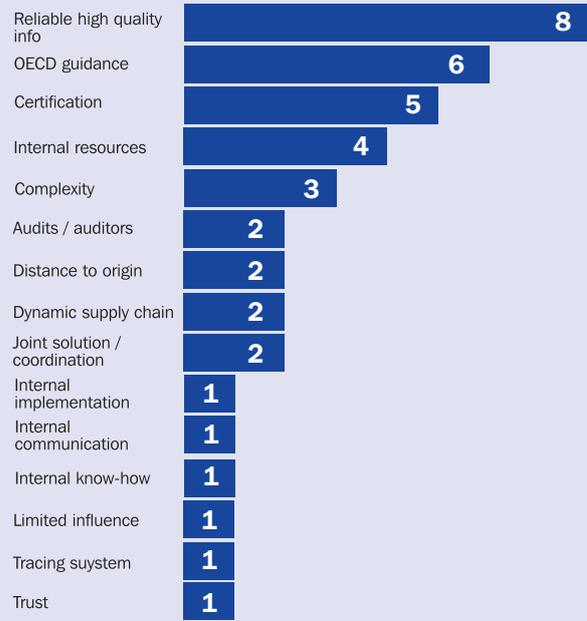
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to that commonly used by supply chain managers. There are also concerns over loopholes in accountability. The Guidance does not specify who is responsible for resolving due diligence issues.

Solutions

- **Data Related:** Certification of conflict-free smelters and refineries is particularly important. Origin of minerals requires better management. Improvements in the data available, including traceability across entire supply chains, would also be an important enabler for due diligence implementation.
- **Collaboration:** Important success factors include efforts to work with other firms in the supply chain or industry. This would be in order to: facilitate audits, share information, standardise certification schemes, influence suppliers and share costs. Industry collaboration, either directly with supply chain members or through industry associations, has been identified as a critical success factor.
- **External Support:** Support of authorities in the countries of origin, particularly in conflict regions, is important in successful implementation of due diligence. Increased awareness across whole supply chains, including the end customers, can provide the necessary pressure to lead to change.
- **Internal Management:** In-house training and improved governance across different functions will lead to due diligence improvements within firms. Making compliance a legal requirement rather than voluntary will also improve internal management.

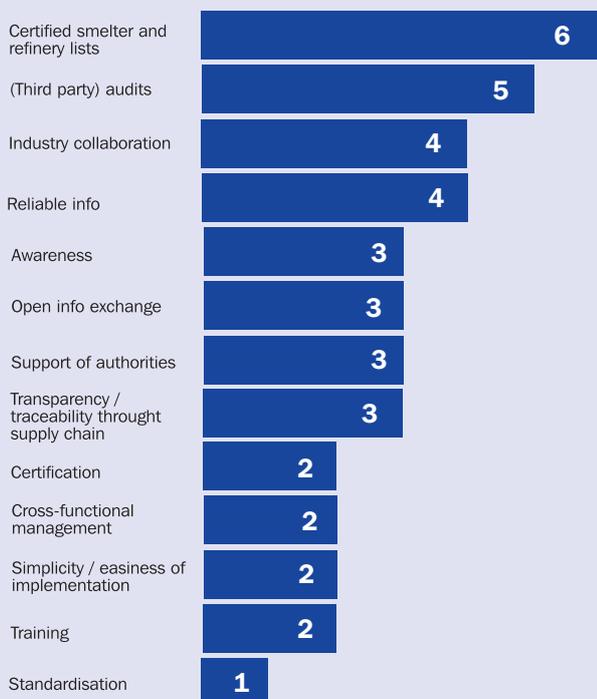
MAJOR HURDLES OF DUE DILIGENCE IMPLEMENTATION



“Firms are still required to significantly adapt their due diligence practices to avoid conflict mineral issues.”

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MAJOR ENABLERS OF DUE DILIGENCE IMPLEMENTATION



Policy implications

The following are policy recommendations to avoid contributing to conflict and human rights abuses in supply chains:

- **Legal Requirement:** The OECD Due Diligence requirements should be made mandatory. Most firms will only implement Due Diligence practices when they either face a directly quantifiable short-term benefit or when they are forced by law to implement these practices.
- **Collaboration:** Industry collaboration will enable information and data to be shared and reduce costs for implementation, especially for SMEs
- **Firm Sizes:** Small firms should liaise with larger firms or industry associations. Large firms should exploit potential of collaboration to find effective ways to fully implement OECD due diligence guidance.
- **Consumer Awareness:** Campaigns to increase consumer awareness will place pressure on companies to fully comply and improve transparency.

FURTHER INFORMATION

This research report was sponsored by Global Witness. Constantin Blome stands by the integrity of his findings and the validity of the methodology employed in this research study. The report reflects the views of Constantin Blome alone. The study was conducted in 2014.

REFERENCES

Conflict Minerals and Supply Chain Due Diligence: An Exploratory Study of Multi-tier Supply Chains Hannes Hofmann, Martin C. Schleper, Constantin Blome <http://link.springer.com/article/10.1007%2Fs10551-015-2963-z>

OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas www.oecd.org/corporate/mne/GuidanceEdition2.pdf

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