

## Responsible Mineral Sourcing & Supply Chain Management

Answering the challenges of 21st century stewardship at the intersection of trade compliance, supply chain and sustainability management

### 1. Responsible supply chain management and the place of minerals due diligence

Responsible supply chain management is all about making a positive impact instead of negative externalities throughout the value chain of a company. Practically speaking, it is about selecting and partnering with a – sometimes 10k strong - supplier population by enlarging selection assessment criteria to include sustainability or ESG (environmental, social, governance) criteria next to the traditional questions of quality, costs and timely delivery. The OECD Guidelines for Multinational Enterprises recommend that enterprises conduct due diligence in order to identify, prevent or mitigate and account for how actual and potential adverse impacts, externalities are addressed.

*Why to do this?*

In the 21st century, many sustainability management and evaluation frameworks opened up the Pandora's box of a company's impact on society. Since then, most firms have established practices to better understand the potential adverse impacts of their operations and supply chains, such as related to workers, human rights, the environment, bribery, consumers and corporate governance. Companies are now not only responsible for their own direct impact, but are also expected to manage and report on what is happening outside their own gates. Environmental and human tragedies in the oil & gas, textile sectors or food safety issues are probably the most apparent examples bringing home the need to keep track of how the firm's (global) activities interact with local societies.

*What are the risks of not taking action?*

Increasingly, sustainability matters are on the agenda at board meetings, and CEO's are committed to ensuring that the business takes up societal responsibility. The price of not following the path of responsible operations is simply too high.

As a result, a trend is visible towards business reducing the outsourcing of tasks related to responsible supply chain management. Instead, in-house sustainability practices are set up, managing those risks that can cause reputational, operational and financial damages to the company. Unfortunately, some companies still lag behind, only realizing such risks when they materialize suddenly as consequence of a specific incident or negative publicity. Let alone risk mitigation, conscious management has the potential to open up new market and other opportunities.

### 2. Due diligence – Conflict Minerals - OECD guidance

Responsible business conduct (RBC) starts with the recognition that businesses interact with society, both contributing in a positive way, and at the same time fomenting potential adverse impacts.

What does due diligence mean in the context of day to day responsible business conduct? From an in-company organization perspective, due diligence means many things in different functions. However, the process pops up more and more often in relation to sustainability /sustainable supply chain management practices, and refers to both the risks and opportunities associated with business operations.

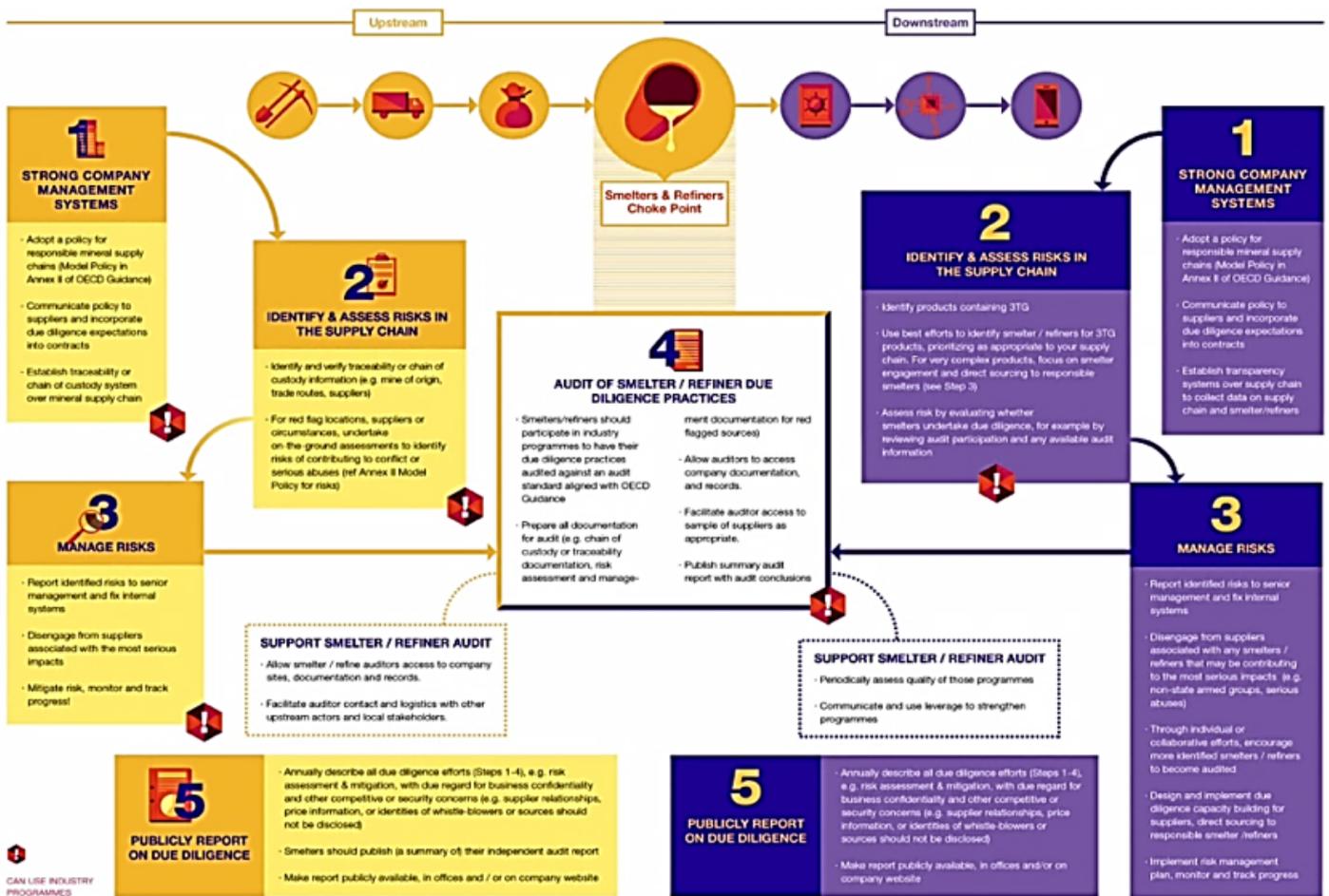
Due diligence in the context of responsible business conduct is as old as the frameworks advocating it and lately focus has been mounting to explain and operationalize the concept. A good definition of due diligence in a sustainability context is found in the ISO 26000 standard: "due diligence in the context of social responsibility is a comprehensive, proactive process to identify the actual and potential negative social, environmental and economic impacts of an organization's decisions and activities, with the aim of avoiding and mitigating those impacts". The main components of this definition of due diligence are:

- Organizational policies
- Assessment methodologies, frameworks
- Social responsibility integration within the organization
- Performance management via KPIs
- Action plan to address negative impacts;

Other legal and non-legal instruments are also prescribing due diligence as an important risk management tool, such as the UN Guiding Principles of Business and Human Rights (2011), the EU Directive on Non-Financial Information Disclosure, or a specific law on Due Diligence in the French legislation. In 2018, the OECD released its Due Diligence Guidance for Responsible Business Conduct, which links the two concepts.

We still need to see how this enlarged scope of due diligence will be appraised by the authorities, however the tendency is clear: companies need to know much more about their supply chain risks and act upon them. For example human rights issues leading to operational risks on the ground or conflict minerals compliance risks can all disrupt supplies and affect reputation. Our experience shows that due diligence is a resource-intensive internal and external task which needs cross-divisional collaboration within a company, involving purchasing, sustainability, risk departments – to name just a few.

Perhaps one of the most comprehensive frameworks, which is moving several value chains and motivating actors vertically to deepen risk assessment and mitigation processes is the OECD's Due Diligence Guidance [with specific sector guidances, such as] for Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. The long title covers a straightforward guidance on how to implement due diligence processes covering any mineral, with special focus on Tin, Tantalum, Tungsten and Gold (3TG) supply chains (explained in two supplements). The guidance comprises a 5-step risk-based due diligence process, which applies to all companies at a global scale throughout the mineral supply chain that produce or potentially use minerals from conflict-affected or high-risk areas. The five steps are explained in OECD's chart below.



<sup>1</sup> GRI G4 Guidelines and ISO 26000:2010 - How to use the GRI G4 Guidelines and ISO 26000 in conjunction, page 11.

The OECD guidance is closely linked to legal instruments in the area of conflict minerals, although the framework is valid for non-conflict minerals, as well. In the USA, the Dodd Frank Act introduced compulsory due diligence processes regarding 3TG in provenance from the Democratic Republic of Congo, while in the EU the Regulation on Conflict Minerals will come into force in 2021 requiring due diligence processes to be performed on 3TG minerals sourced from a number of countries – the first country list will be published in 2019 by the European Commission. To know more about the legislations read our previous article [link]. Upstream companies are the main target of minerals due diligence and reporting, and the regulation does not require downstream companies to establish formal processes. However, the largest Downstream companies are already and will remain under pressure from civil society and consumers to have a clear understanding of their supply chain risks, issues and opportunities and be transparent about these.

Nonetheless, even with many commendable initiatives on the ground such as the iTSCi providing a solution to trace tin down to the last mine, the Responsible Minerals Initiative proposing tools and services in all stages of the due diligence guidance, EPRM to finance innovation and projects in responsible mineral sourcing or LBMA covering the gold supply chain, etc. challenges remain .

Without the aim of being exhaustive, challenges show in ensuring the full transparency of mineral supply chains which could make the miner interested in providing information feeding into due diligence

processes, while price volatility and the propensity of avoiding conflict areas are all part of the problem inducing further grey economic and criminal activities.

How Deloitte can assist in responsible supply chain management

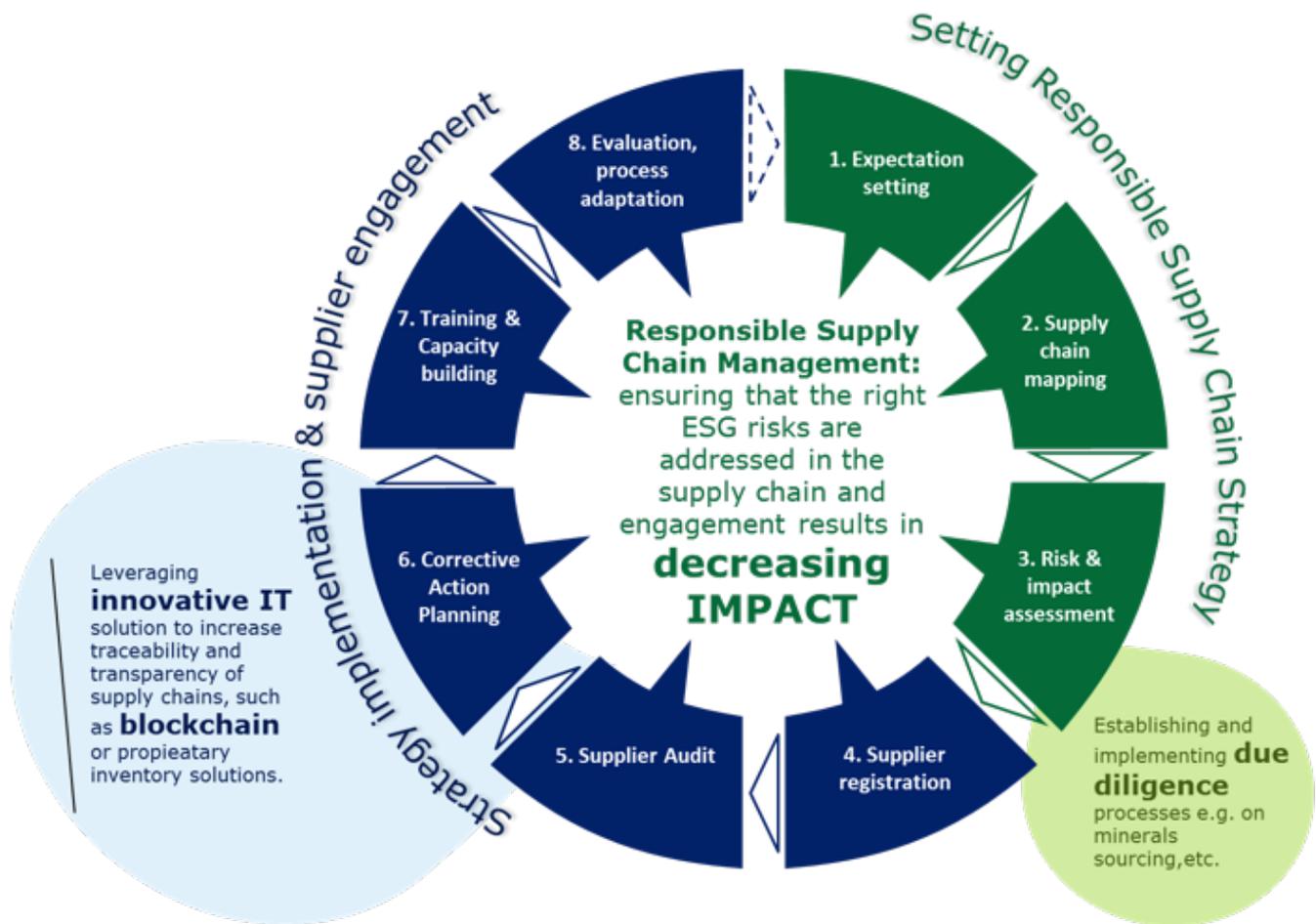
We at Deloitte understand both the risks and opportunities associated with a better view and control on supply chain operations and societal impact of your business. Hence, we understand that complex issues spanning entire supply chains need an integrated approach: connecting in-company supply chain business functions, processes and data. (incl. leveraging on existing data and system interoperability) to meet trade compliance requirements and generate additional opportunities for positive impact and shared value creation. We believe the greatest value is found in the intersection of sustainability principles, supply chain management and trade compliance.

Combining our proven expertise in risk and technology innovation, we are following a pragmatic model, which enables companies to manage risks and be open to opportunities that their supply chain has to offer. The internal strategy setting process and the implementation phase of engaging with suppliers is paved with more or less challenging milestones like due diligence and the decision whether to use or not new, disruptive data-collection models and technologies to power up the performance of the magnifying glass which will help companies see clearer.



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<sup>2</sup> Some of the frameworks were assessed for the level of their alignment to the OECD Due Diligence guidance. Results can be accessed here:



With a view to the unique supply chains and interaction with society, our approach aims at an integrated responsible business program which connects and leverages on different in-house business functions, processes and data. Depending on the level of maturity in responsible business conduct and sustainability in the context of supply chain operations, our services range from design and implementation of due diligence program, to developing innovative technology solutions that allow a 'beyond compliance' focus on full supply chain transparency and accountability.

#### Collaborating for an optimal integrated approach

Deloitte's expertise covers downstream companies' strategy, processes and data. In order to connect the upstream part of the supply chain we are collaborating with BetterChain, an upstream-facing social venture, brings unique and in-depth understanding of mining- and community-level conditions and data-generation. BetterChain is ensuring that upstream provenance data is credible and that the right data is reported to understand and mitigate compliance and reputation risks, and take meaningful development actions, which improve both impact and reputation of downstream companies.

Through our integrated approach and collaboration with BetterChain, we are ready to initiate the conversations that will allow for a critical mass to move mountains sustainably.