

Background of Responsible Minerals Sourcing

June 2018

[Caution on the use of this presentation]

This presentation was created by the Education and PR Team of the JEITA Responsible Minerals Trade Working Group.

We strive to provide information on responsible mineral sourcing that is as extensive and accurate as possible, but please note that it may not necessarily be the most recent information and at times it may not be accurate.

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- Conflict Minerals Inquiry Gained Traction Due to an Act Enacted in the US
- What is Due Diligence ?
- Environment Surrounding Companies
- European and American Regulations for Conflict Minerals
- Future Trends (Expansion of CSR Risks)

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Previously (Conflict Minerals Inquiry)

3. New risks/minerals sourcing

- CAHRAs
- OECD Annex II risks
- Cobalt sourcing

From now on

2. Establishing conflict minerals management systems

- Formulate policies
- Conduct due diligence (DD)
- Take corrective action based on DD

Previously

1. Clarify and report smelters used

- Conduct inquiries about 3TG contained in own company products
- Expand CMRT upstream
- Disclose information downstream

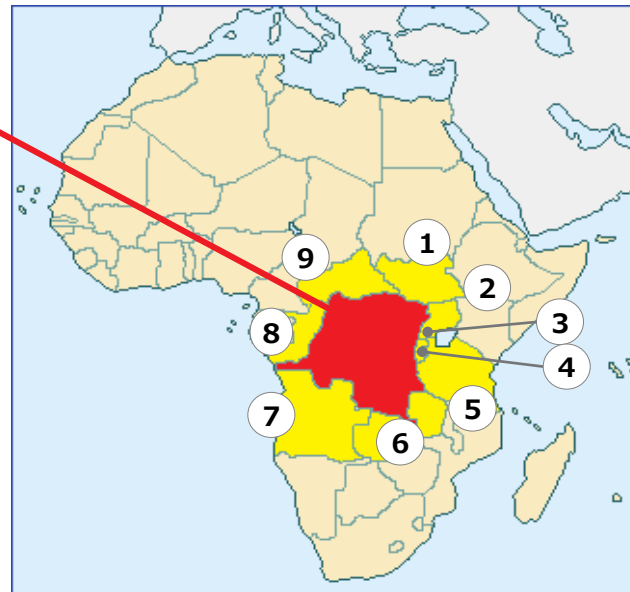
Continuous efforts have been made to responsible minerals (Conflict minerals) sourcing through Conflict Minerals Inquiry

Conflict Minerals Inquiry Gained Traction Due to an Act Enacted in the US

- It is feared that mineral resources mined in **the Democratic Republic of the Congo (DRC) and the nine adjoining countries** are sources of finance for armed groups that are committing human rights abuses and causing environmental destruction.
- In response to this, in the U.S., the Dodd-Frank Wall Street Reform and Consumer Protection Act (commonly known as the Dodd-Frank Act) enacted in July 2010 stipulated the following conditions.
 - (1) **Tantalum, tin, tungsten, and gold (3TG)** are defined as **conflict minerals**.
 - (2) Listed US companies are subject to the act. These companies are now required to ascertain whether the conflict minerals used for their own products are sources of financing for armed groups in these areas, and **disclose this information annually**.
- The conflict minerals Inquiry for downstream companies is to **identify upstream refiners and smelters in supply chains, and confirm whether they procure minerals that fund armed groups in these areas** according to the RMAP (formerly CFSP) program.

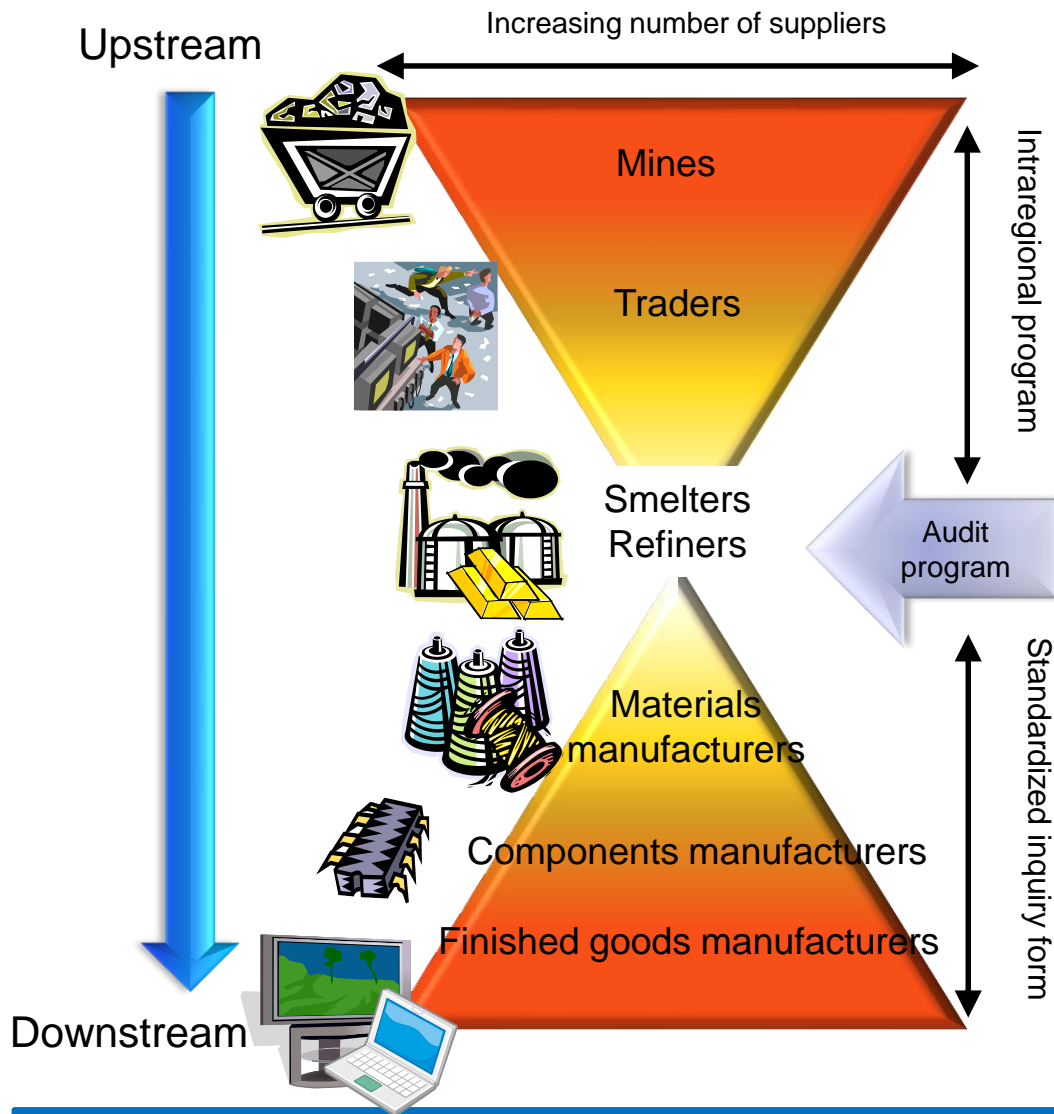
Democratic Republic of the Congo

- (1) Republic of South Sudan
- (2) Republic of Uganda
- (3) Republic of Rwanda
- (4) Republic of Burundi
- (5) Republic of Tanzania
- (6) Republic of Zambia
- (7) Republic of Angola
- (8) Republic of the Congo
- (9) Central African Republic



More than five years have passed since the Inquiry began, and the standard of requirement is escalating

Responsible Minerals Assurance Process (RMAP)



- Cost and time required would be enormous if each company individually conducts a origin inquiry of its 3TG.

RMAP Methodology

- The Inquiry is made more efficiently by dividing the supply chain into three.
- The intraregional program conducts the Inquiry upstream from smelters.
- Audit the smelters, who are few within the supply chain hierarchy, and determine the origin of the smelted minerals.
- The Inquiry form is standardized downstream from smelters, improving efficiency.

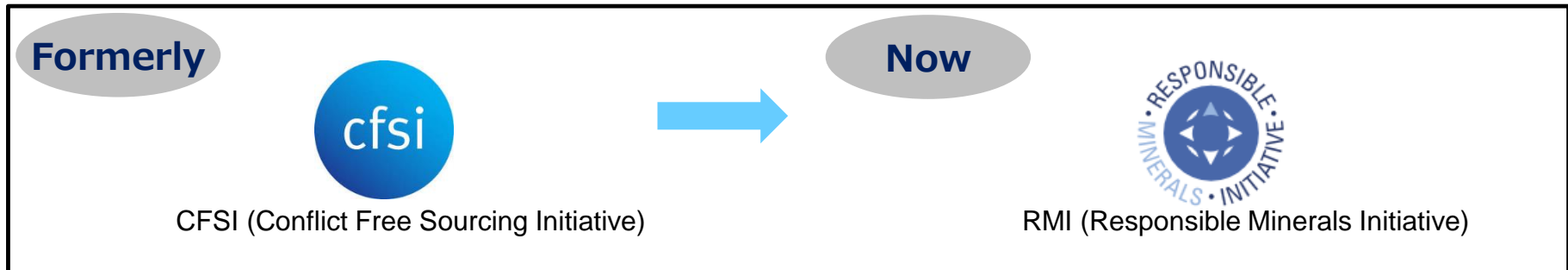
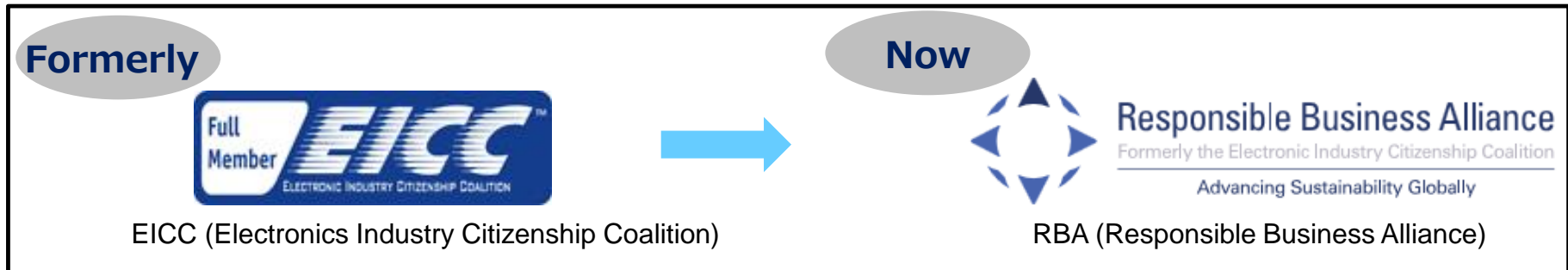
CFSP: Conflict-Free Smelter Program
RMAP: Responsible Minerals Assurance Process

Originally called CFSP, the RMAP program evolved and is no longer limited to DRC and adjoining countries

Name Changes of EICC and CFSI (Starting Oct 17, 2017)

The EICC (Electronics Industry Citizenship Coalition (CSR Alliance)) is active in a wide range of industries in addition to electronics, and has changed its name to **RBA (Responsible Business Alliance)**.

Also, the CFSI (Conflict Free Sourcing Initiative) applies to a wide range of minerals worldwide in addition to conflict minerals in DRC and adjoining countries, it has changed its name to **RMI (Responsible Minerals Initiative)**.



EICC changed its name to RBA, and CFSI changed to RMI

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What is Due Diligence (DD)?

Due diligence

- > Risk assessment (ensure transparency in supply chains)
- > **Make supply chains transparent, check whether there are problems such as human rights abuses in the origin of the raw materials, and take corrective action when problems are found**

OECD due diligence forms the guidelines for action

[Name]

OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas

[Objective]

Created to support companies in respecting human rights and avoiding procurement decisions that end up aiding conflicts — including the selection of suppliers

[Five-step framework for achieving the objective]

Step 1: Establish strong company management systems

Step 2: Identify and assess risks in the supply chain

Step 3: Design and implement a strategy to respond to identified risks

Step 4: Carry out independent third party audit of smelter/refiner's due diligence practices

Step 5: Report annually on supply chain due diligence

(Source) <http://www.oecd.org/daf/inv/mne/OECD-Due-Diligence-Guidance-Minerals-Edition3.pdf>

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Past Examples of Human Rights Problems in the World

■ Movement to Boycott a US Sporting Goods Brand (1997)

Problems with forced labor, child labor, underpaid labor, long work hours, and sexual harassment were uncovered at subcontractor factories in Southeast Asian countries including Vietnam which were producing for a US sporting goods brand. An internet campaign centered in the US sprung up to oppose the company for its business with “sweatshops” such as these, leading to a movement to boycott the products of the company, in addition to legal actions.

(Source) The New York Times: <https://www.nytimes.com/1997/11/08/business/nike-shoe-plant-in-vietnam-is-called-unsafe-for-workers.html>

■ Bangladesh Building Collapse (2013)

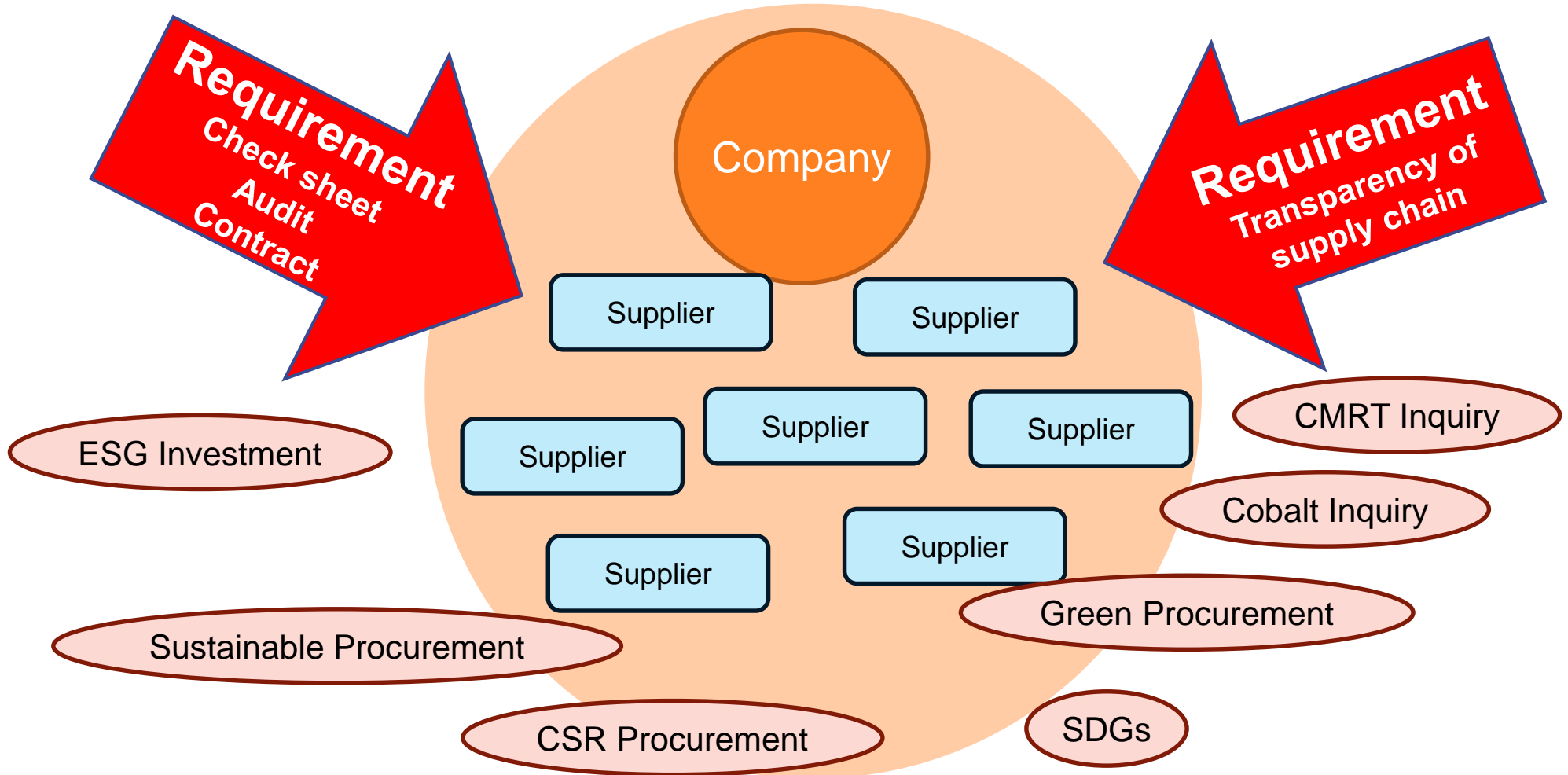
More than 1,000 people died in a building collapse on the outskirts of Dhaka. In discussions on where the responsibility lies for the collapse of the building, the European and North American companies that import the clothing made there came under criticism for forcing cost reductions that resulted in factory workers being made to work in a substandard environment. “Bangladesh Building Collapse Death Toll Surpasses 900”

(Source) CNN News: <https://edition.cnn.com/2013/05/09/world/asia/bangladesh-building-collapse/index.html>

Human rights problems occurring in the supply chain of a company can greatly damage its corporate Value

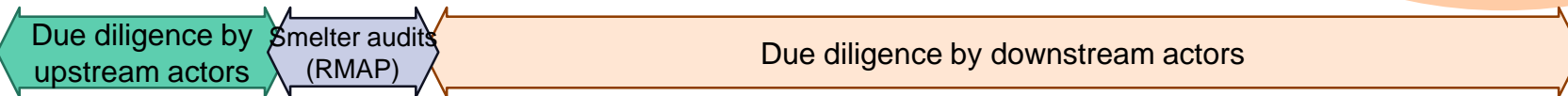
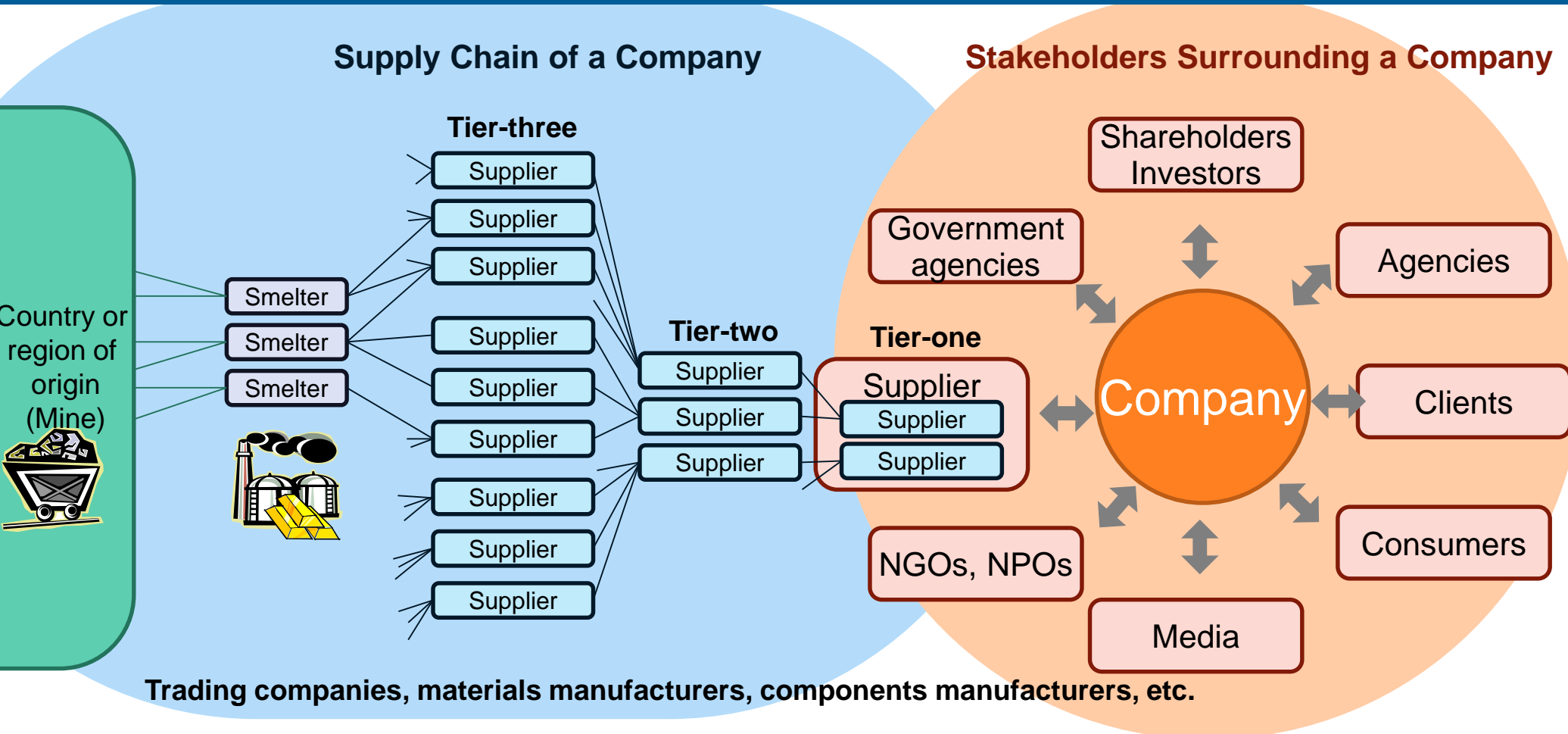
Companies must be responsible not only for themselves, but also for all of their raw materials and components suppliers

Social Requirements from Stakeholders (clients, etc.)



Requirement levels go beyond laws (requirements apply not only to the companies but also include the suppliers linked to them)
Increased requirements involving commitments through contracts or consent forms

Supply chain and Stakeholders of a Company



Companies make their supply chains transparent as per stakeholder requirements, and make corrections when problems are discovered

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European and American Regulations for Conflict Minerals

	US	EU
Date enacted	July 2010 Dodd-Frank Act August 2012 SEC regulations	July 2017 Effective date January 2021 Fully apply (Due diligence becomes mandatory)
Applies to	Listed US manufacturers	Companies that import minerals (ore, unprocessed metal) to the EU <u>(*) Does not apply to companies that import them in the form of Components or products</u>
Risks	Whether armed groups are being funded	Based on OECD Annex II (All human rights abuses including child labor)
Minerals	Tin, tantalum, tungsten, gold	Tin, tantalum, tungsten, gold
Applicable areas	The DRC and adjoining countries	Conflict Affected and High-Risk Areas (CAHRAs)
What business operators do	1. Find whether 3TG are used, place of origin Inquiries 2. Supply chain due diligence 3. Submit annual reports	1. Supply chain due diligence 2. Submit annual reports 3. Follow-up confirmation in each country
Future actions	There is a movement under way to repeal the Dodd-Frank Act, but there is no expectation for a bill to be passed. The act is still currently in effect.	A handbook and responsible smelter list are being prepared based on the defined Conflict Affected and High-Risk Areas

US -> Conduct Inquiries on conflict minerals (continue into the future)

EU -> Applies to companies that import minerals (ore, unprocessed metal) to the EU, but since the EU revises regulations every three years, it may also be applied to downstream companies in the future

Expansion of CSR Risks

Changing from DRC and adjoining countries conflict risk -> OECD Annex II risks

OECD DD Guidance Annex II

Model supply chain guidelines for responsible global supply chains from Conflict Affected and High-Risk Areas (CAHRAs)

1. Direct or indirect support to non-state armed groups
2. Human rights abuses related to the mining, transport, and trading of minerals (child labor, etc.)
3. Wrongful acts by public or private security forces (protection rackets)
4. Bribery or misrepresentation of mineral origins
5. Money laundering
6. Non-payment of taxes, fees, royalties to governments (tax evasion)

[Important] Changes to RMAP (formerly CFSP) audit protocols in June 2018

Changes may be made to the current list of conformant smelters

What is CAHRA (Conflict Affected and High-Risk Areas)?

■ Definition of CAHRA

Conflict-Affected and High-Risk Area in Annex II of OECD due diligence guidance

Conflict-affected and high-risk areas are identified by the presence of armed conflict, widespread violence or other risks of harm to people.

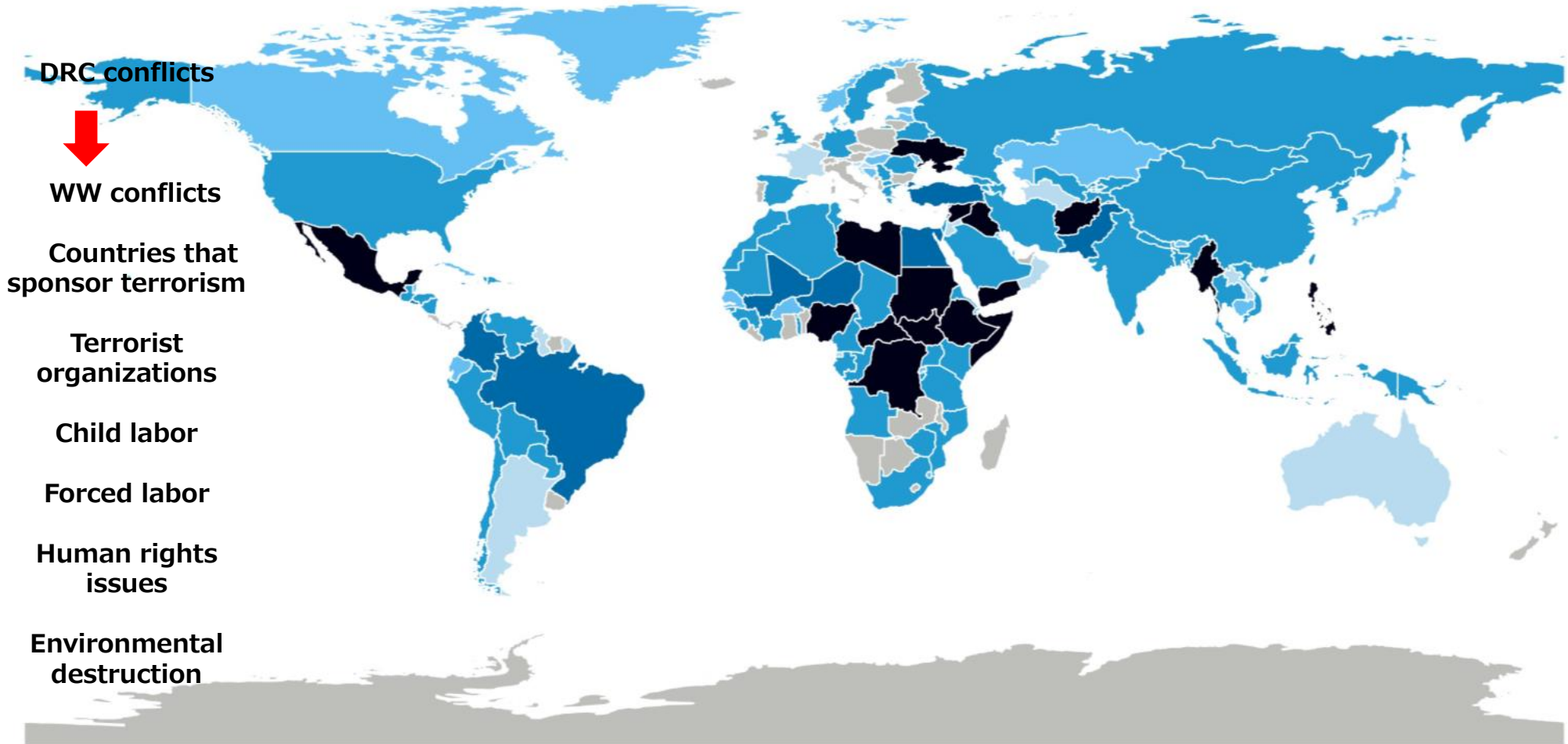
Armed conflict may take a variety of forms, such as a conflict of international or non-international character, which may involve two or more states, or may consist of wars of liberation, or insurgencies, civil wars, etc.

High-risk areas may include areas of political instability or repression, institutional weakness, insecurity, collapse of civil infrastructure and widespread violence. Such areas are often characterized by widespread human rights abuses and violations of national or international law.

The inquiry had previously been limited to minerals involved in DRC conflicts (3TG)
Now the inquiry has expanded beyond DRC conflicts to cover a wide range of risks, areas, and minerals

(Reference) Examples of Risk Areas

CONFLICTS IN 2017
(NATIONAL AND INTERNATIONAL LEVEL)

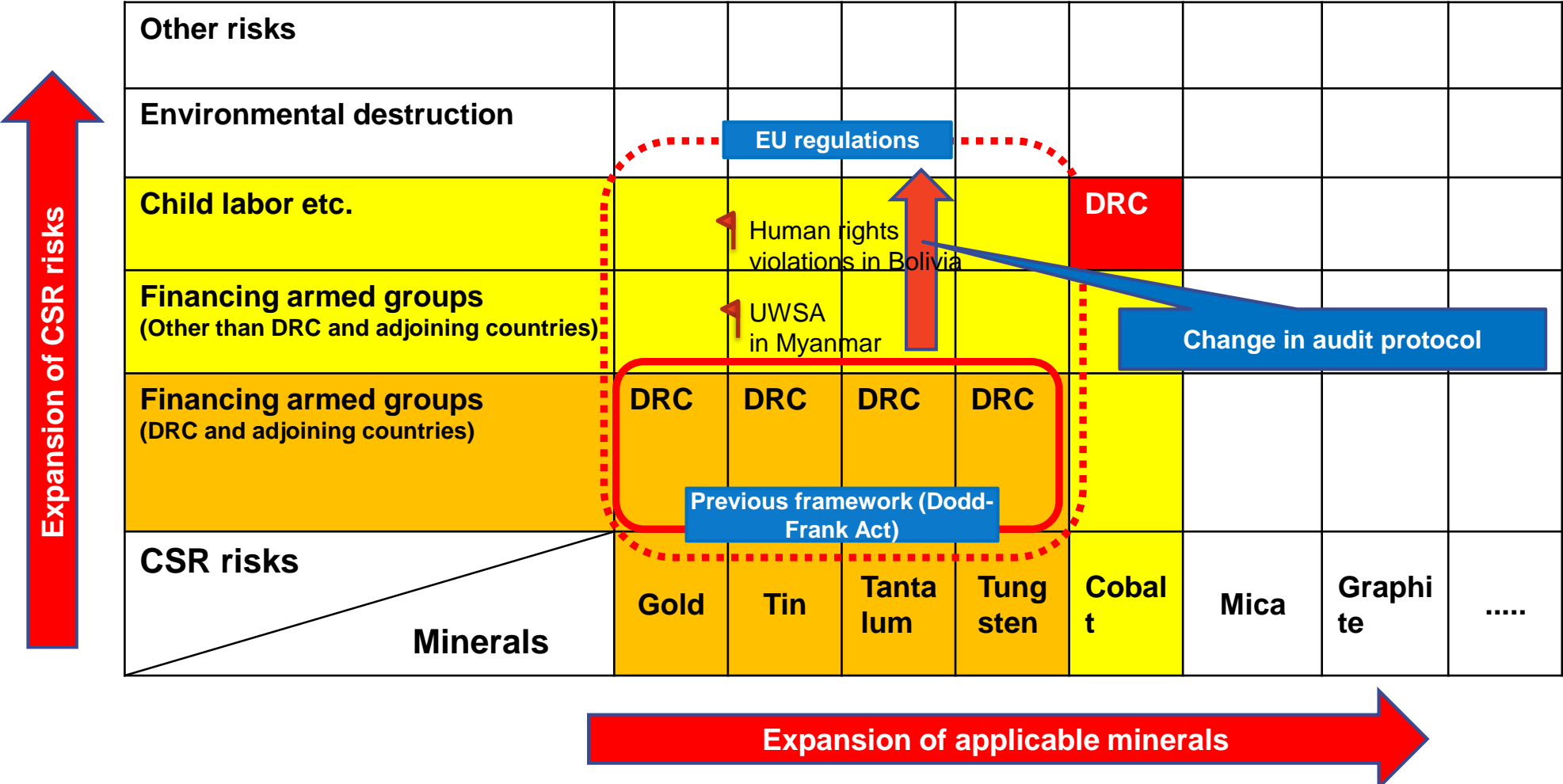


(Source) Heidelberg Conflict Barometer 2017
<https://hiik.de/conflict-barometer/current-version/?lang=en>

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- **Future Trends (Expansion of CSR Risks)**

Future Trends (Blueprint of Expanded Risks)



Expanded requirements for CSR in procurement as “responsible mineral sourcing”
 The scope of inquiry expands to also cover risk of involvement in human rights problems outside of conflicts in the DRC and adjoining countries

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Another level has been added to responsible minerals sourcing (conflict minerals) through the inquiry. What will it be from now on?

Summary

- Compliance with the US Dodd-Frank Act (conflict minerals Inquiries) continues as it has been.
- The international initiative has changed its name to RMI (Responsible Minerals Initiative, formerly CFSI). At the same time, the name of the audit protocols for smelters has also changed and is now called RMAP (Responsible Minerals Assurance Process, formerly CFSP), turning into an audit standard that also includes risks other than conflict minerals.
- CSR risks are expanding. Companies will have to engage in more thorough due diligence (make supply chains transparent, check whether there are problems such as human rights abuses in the origin of raw materials, take corrective action when problems are found).