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Responsible Sourcing and Conflict Minerals

Breakout Session Summary

Thursday, November 4, 2010 | 11:30 a.m.-12:30 p.m.

Speakers

- » **Karen Hayes**, Director, Corporate Community Engagement, Africa Region, Pact Kenya
- » **Selig Merber**, Counsel, International Trade Regulation and Sourcing, General Electric Company
- » **Marshall Chase**, Manager, Advisory Services, BSR (moderator)

Highlights

- » Recent U.S. legislation has focused attention on the sourcing of conflict minerals from the Democratic Republic of Congo (DRC), and companies are preparing for expected reporting requirements from the Securities and Exchange Commission.
- » Tracing minerals back to the smelter and original mine is quite challenging, so there are concerns that companies may feel unable to meet the reporting requirements and might instead source minerals from other regions, which would have negative economic impacts on local livelihoods in the DRC.
- » Companies can be involved through direct engagement with stakeholders in the DRC as well as working with industry groups such as the [Electronics Industry Citizenship Coalition](#) (EICC).

Memorable Quotes

"We fear that the timing [of the conflict minerals legislation] will mean that responsible companies will have no choice but to withdraw [from the DRC]. If they leave, the trade will get left to the warlords and the charlatans."—Karen Hayes, Pact Kenya

"We've already had letters from some of our customers saying 'Where did you get the tin, tungsten, and tantalum in your product?' Well, it's impossible for us to trace that back to the mine."—Selig Merber, General Electric Company

Overview

Chase opened the session by providing background on the current situation of conflict mineral regulation. The minerals in question are gold and the "3Ts"—tin, tantalum, and tungsten—and are described as conflict minerals because of the role of armed groups in mining and taxing their trade. Recently the U.S. Congress inserted language into the Dodd-Frank financial reform legislation that would require listed companies to report to the Security and Exchange Commission (SEC) regarding any conflict minerals from the DRC and adjoining countries in their supply chains, and the SEC is currently developing the detailed guidelines for 2012 reporting.

Hayes has been directly involved with efforts in the DRC to label raw ore as it is removed from mining sites, and recently conducted a three-month trial project in which the Pact team tagged minerals with unique numbers that can be traced back to individual miners. The project has been useful for discovering the practical challenges of implementation, and Pact has been engaging with local people, governments, and NGOs to understand what works. It has also held workshops to explain the conflict minerals law to local stakeholders. Hayes emphasized that people shouldn't assume that working in the DRC will be impossible—there is a huge willingness to participate, and many people want to do the right thing.



Hayes and Merber agreed that the short timeline of the pending SEC rules presents a huge challenge for companies, which would need to trace the source of all conflict minerals back at least six to nine months. If the requirements are too difficult, companies may just decide to stop sourcing any conflict minerals from the region. Merber pointed out that end users like GE have to complete two processes to identify the source of conflict minerals: sourcing the components they buy to the smelter, then from the smelter to the mine.

Chase asked the panelists how the U.S. legislation has affected the work previously being done on conflict minerals. Merber reported that GE's earlier work focused primarily on tungsten because the company does more direct sourcing of that mineral, but now GE is mainly working on the expected SEC requirements. Hayes mentioned that the accelerated time frame means that some groups have slowed their activities as they wait to see what the SEC decides.

Chase next raised the issue of corruption, and Hayes responded that it would be naïve and unrealistic to think that a tracking system could be corruption-free in a country where there is no payment of the civil service. However, Pact is putting in place systems to monitor and gradually change practices.

The panelists discussed the challenges of developing effective reporting requirements; if every company essentially has the same content in its reporting, the disclosures are meaningless. Also, Merber argued that a system of material certification to trace metal throughout the supply chain is simply not workable. Hayes noted that tracking gold is even more difficult. The 3Ts are heavy and unwieldy and thus easier to trace, but gold can be easily hidden. Official data reports that 200 kg of gold are exported from the DRC annually, but Pact estimates that actual gold exports total around 6 tons.

Chase asked about the role of artisanal mining in the DRC, and Hayes replied that artisanal mining is widespread and hugely important for local livelihoods and economic security, supporting up to 20 million people. All minerals in the eastern DRC are produced using artisanal methods. For this reason, initiatives from groups like the EICC are trying to avoid major negative impacts on the local economy.

Questions from the audience next touched on the situation in Rwanda, where the national government has begun developing an ambitious monitoring system with the aim of tagging 100 percent of conflict minerals by April 2011. Another question was raised about the current DRC presidential ban on mining in three Congolese provinces. Hayes reported that Pact's activities in DRC mines have been entirely suspended due to the ban, which they hope will be lifted so that project activities can resume.

Chase closed the session by asking where companies should devote their efforts, and Hayes recommended that companies engage directly, following the example of recent ICT and other company representatives who actually traveled to the DRC to meet mineral traders in person.

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