

CONFLICT MINERALS

Did you know that many everyday electronic products may contain minerals tainted by human rights abuses – commonly referred to as “conflict minerals”? In this RI Expert Briefing we take a deep-dive into the mineral supply chain, key human rights concerns, what we look for in companies’ responses, and our approach here at EdenTree.

WHAT ARE CONFLICT MINERALS?

Electronic products contain various minerals necessary for functionality including tantalum, tin, tungsten, and gold – commonly referred to as “3TG”. 3TG minerals are also known as “conflict minerals” because of concerns about their mining and sale contributing to armed conflict and human rights abuses in the Democratic Republic of the Congo (DRC) and adjoining countries.

The DRC has huge untapped mineral wealth, estimated to be worth in excess of US\$24 trillion.¹ The country contains between 65-85% of the world’s columbite-tantalite reserves, 49% of cobalt reserves, and 3% of copper reserves.² However the DRC also has a long history of conflict dating back to its independence in 1960. While the extraction of 3TG in the region has contributed positively to the local economy, it has also been closely linked with severe human rights abuses in the DRC and adjoining countries.

Various non-state armed groups such as the Democratic Forces for the Liberation of Rwanda (FDLR) and rogue brigades within the Armed Forces of the Democratic Republic of Congo (FARDC) are reportedly involved in the production and trade of these minerals. To date, an estimated 4.5 million civilians have been internally displaced in the DRC due to the ongoing armed conflict, and the country’s massive resource wealth is believed to have financially sustained and fuelled the conflict.³

Most electronic products such as mobile phones, laptops and batteries contain 3TGs, and the majority of these minerals’ reserves are found in the DRC and adjoining countries. As a result, industries using these metals in their products – namely electronics, communications, aerospace, automotive, jewellery, and industrial products – risk contributing to conflict financing or human rights abuses through their supply chains.

WHAT ABOUT OTHER MINERAL SUPPLY CHAINS?

A growing body of research suggests that a variety of minerals, ranging from copper, iron ore, zinc, nickel, silver and many others, are also associated with conflict and human rights abuses all around the world. These include diamonds and gold in Cote d’Ivoire, gold, tungsten, and tantalum, and coal in Colombia, diamonds in Zimbabwe, gemstones in Myanmar, gemstones, copper and timber in Afghanistan, and cobalt in the DRC.

Cobalt for example, which is used in lithium-ion batteries from smart phones to electric cars, is not formally considered a conflict mineral. However, more than half of the world’s supply of cobalt is from the DRC, and despite being primarily sourced from the relatively peaceful southern province of Katanga, serious human rights violations are still commonplace.

A 2016 report by Amnesty International, *This Is What We Die For*, was the first comprehensive account of how cobalt enters the supply chain of many of the world’s leading brands, documenting the hazardous conditions in which artisanal miners, including thousands of children, mine cobalt.⁴ These issues persist today.

Many minerals, like cobalt, are associated with human rights abuses. However, a lack of regulation due to not being considered a “conflict mineral” is increasing the chance of companies sourcing these from mines that use child labour, unsafe conditions and human trafficking. These concerns are driving an increased demand for greater accountability and transparency across the global mineral supply chain – well beyond 3TGs.

¹ United Nations: <https://news.un.org/en/story/2011/10/390912-dr-congo-un-advises-prudent-use-abundant-resources-spur-development>

² Gov.Uk: Conflict Mineral Guidance (withdrawn): <https://www.gov.uk/guidance/conflict-minerals>

³ Global Conflict Tracker: <https://www.cfr.org/global-conflict-tracker/conflict-violence-democratic-republic-congo>

⁴ Amnesty International: <https://www.amnesty.org/download/Documents/AFR6231832016ENGLISH.PDF>

WHAT DOES THE MINERAL SUPPLY CHAIN LOOK LIKE?

The minerals supply chain is long and complex. Commodities like diamonds, gemstones, copper, cobalt, mica, as well as 3TGs, are refined or processed before being exported across the world and manufactured into products people use every day.

Companies, whether at the ‘upstream’ stage of the supply chain (i.e. from mine to smelter) or at the ‘downstream’ stage (i.e. from smelter to end user), are at risk of using minerals with associated human rights concerns. A graphic representation of a typical mineral supply chain is shown below.



Typically, minerals travel from a mine through many different hands before arriving at smelter/refiners, who then provide the resulting metals to a large number of downstream customers. Ensuring responsible sourcing of minerals requires visibility to the mine of origin through this sometimes opaque multi-tier network of suppliers. This can be a challenge, particularly in the DRC where artisanal and small-scale miners, who are working independently and are therefore more difficult to trace, are responsible for around 80-90% of mineral production.⁵

Recent legislative and industry initiatives seek to keep contaminated minerals out of the supply chain by requiring companies to prove that minerals are either not from conflict-affected areas (through proof of origin) or that their production and trade have not contributed to conflict financing and human rights abuses (through due diligence and certification). Many of these efforts are focused on smelters/refiners, commonly known as the “pinch point” in the supply chain due to there being relatively few in number.

WHAT ARE THE REGULATORY REQUIREMENTS?

The Organisation for Economic Development and Cooperation (OECD) has developed Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.⁶ This outlines the recommended steps companies should take to identify and respond to risks in mineral supply chains, in order to respect human rights and avoid contributing to conflict through their mineral purchasing decisions. The guidance is global in scope, and applies to all mineral supply chains, not just the 3TGs.

While not legally binding, the OECD Guidance has been widely adopted as the international framework for due diligence, and

has been referred to in subsequent conflict mineral laws in the United States (the Dodd-Frank Act)⁷ and the European Union (the Conflict Minerals Regulation)⁸. Both these instruments seek to stem the trade in conflict minerals by requiring companies to report annually on the steps they are taking to avoid sourcing minerals from mines controlled by armed groups.

While there isn’t any binding regulation around other mineral supply chains at present, demand for accountability and transparency is rightly increasing. Given the regulatory developments around conflict minerals listed above, it is likely that policy makers will fill this regulatory gap in time.

⁵ World Bank: <https://projects.worldbank.org/en/projects-operations/project-detail/P166110>

⁶ OECD: <https://www.oecd.org/corporate/mne/mining.htm>

⁷ CFTC: <https://www.cftc.gov/LawRegulation/DoddFrankAct/index.htm>

⁸ EU: https://ec.europa.eu/trade/policy/in-focus/conflict-minerals-regulation/index_en.htm

WHAT DO WE LOOK FOR IN COMPANIES WITH EXPOSURE TO MINERALS?

In order to avoid the financing of armed groups and human rights abuses in conflict-affected and high-risk areas, we expect all companies in the mineral supply chain to perform human rights due diligence in line with the OECD guidance.

Specifically, the OECD recommends a five-step due-diligence framework requiring companies to:

- Establish strong company management systems
- Identify and assess risk in the supply chain
- Design and implement a strategy to respond to identified risks
- Carry out an independent third-party audit of supply chain due diligence
- Report annually on supply chain due diligence

This on-going, proactive and reactive process supports companies to put in place the systems and processes necessary to identify, manage and report on risks in their supply chain.

In addition to OECD guidance, the Responsible Minerals Initiative (RMI) is an invaluable resource for companies to collaboratively address responsible mineral sourcing issues in their supply chain. Founded in 2008 by members of the Responsible Business Alliance and the Global e-Sustainability Initiative, the RMI provides

tools and resources to help companies make sourcing decisions that improve regulatory compliance and support responsible sourcing globally.

These include the Reporting Minerals Assurance Process (RMAP) and the Conflict Minerals Reporting Template (CMRT). The RMAP offers companies and their suppliers an independent audit to determine which 3TG and cobalt smelters/refiners are verified as having systems in place to source minerals responsibly in line with global standards. The CMRT is a free, standardised reporting template that facilitates the transfer of information through the supply chain regarding mineral country of origin and the smelters/refiners being used. In addition to the CMRT which is focused on 3TGs, the RMI has also developed similar reporting templates for cobalt and mica.

These tools are available beyond the DRC and surrounding countries to include due diligence on all conflict-affected and high-risk areas. Together with other resources such as the Kimberly Process and the World Gold Council, they support businesses to source minerals from suppliers whose practices are in line with global standards.



WHAT ABOUT ENVIRONMENTAL CONCERNS?

Mining is an intensive process which also involves environmental risks that, if not properly managed, can cause lasting negative impacts. In the process of gold mining for example, mercury emissions into the soil and water can lead to contamination of resources used for consumption.

The environmental impact of mining rare earth minerals – a set of seventeen elements including scandium and yttrium – is even more pronounced.

These elements tend to be dispersed with other elements, making extraction and separation fraught with environmental risks including severe pollution and erosion.⁹

Whilst this briefing has focused on the adverse social impacts associated with mineral supply chains, we recognise that the environmental risks of mining must also be adequately addressed.

⁹Earth.org: <https://earth.org/rare-earth-mining-has-devastated-chinas-environment/>

WHAT IS EDENTREE'S APPROACH?

We recognise that responsible mineral procurement practices can support peaceful economic and community development in conflict affected and high risk areas. We therefore would not seek to exclude companies with mineral supply chains in conflict affected areas de facto from our screened funds.

However, given the significant human rights risks outlined in this brief, our assessment of company approaches to this issue is extensive. Prior to investment, we assess companies against a set of environmental, social and governance criteria, including human rights. Where we do not feel that a company's management of human rights issues is sufficient, it will be deemed unsuitable for our screened funds. We do not invest in mining companies themselves on environmental and social grounds.

Additionally, given the risks involved, we regularly engage with companies held across our screened funds on the issue

of mineral sourcing as part of our reactive and thematic engagement. For instance, we recently participated in the Principles of Responsible Investment (PRI) collaborative initiative on responsible cobalt sourcing, and led an engagement with Infineon Technologies on its cobalt sourcing practices. We have also engaged with the World Gold Council (WGC) and the International Council for Metals & Mining (ICMM) on traceability and custody of supply of gold.

As the world shifts rapidly towards a low-carbon economy, demand for many of these minerals, and in particular battery metals, is expected to accelerate.¹⁰ As such this topic will only become more important to us as responsible and sustainable investors.

¹⁰ FT: <https://www.ft.com/content/fb1fa29b-7f2b-448b-ba47-05f16eccad97>

THE RESPONSIBLE INVESTMENT TEAM

We have a specialist in-house Responsible Investment (RI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of responsible and sustainable funds. Headed up by Neville White, Head of RI Policy & Research, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. Our ethical and responsible investment process is overseen by an independent Responsible Investment Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.



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We hope you enjoy this RI Expert Brief and find it useful and informative.

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