

Conflict Minerals Factsheet

Summary

The automotive supply chain has been attaching great importance on Corporate Social Responsibility (CSR) along the automotive supply chain since many years. High priority is set on the responsible sourcing of raw materials. The automotive supply chain provides significant resources to address this topic. This factsheet presents an overview of these activities, but also points out the challenges lying ahead.

Frameworks

Dodd Franck Act section 1502 (DFA)

US DFA regulation was set up as a response to violent conflicts in African great lakes region (Democratic Republic of Congo (DRC) and adjoining countries), which are amongst others financed by the sourcing of certain so called Conflict Minerals. Targeted raw materials are: Tin, Tungsten, Tantalum and Gold (3TG). All of them are used in automotive products. US listed companies must annually (end of May) report the sources of the 3TGs to the US Securities and Exchange Commission (SEC).

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

This guidance document sets a widely accepted framework. It recommends a 5-step approach for applying companies' due diligence schemes:

- STEP 1: Establish strong company management.
- 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.

Responsible Minerals Initiative (RMI)

As a response to the requirements of DFA, an industry collaboration has set up the RMI (formally known as Conflict-Free Sourcing Initiative (CFSI)). Based on their "Responsible Minerals Assurance Process", it lists compliant smelters and refiners, having passed the required certification procedure including third party audits.

Recommendation of VDA for responsible raw material sourcing

This guidance document provides practical assistance, on how to conduct respective Conflict Minerals surveys in the supply chain, including supplier selection criteria. The document was agreed with representatives of OECD.

Conflict Minerals Guidance by FIEV

The French Vehicle Equipment Industries Association (FIEV) has published a practical guide with many definitions and explanations regarding the practical implementation of DFA in the Automotive supply chain.

EU Regulation 2017/821

The European Union has set up a regulation, addressing Conflict-Free sourcing, which takes effect on 1st of January 2021. Most significant divergences from DFA:

- On top of the US 3TGs, it addresses also niobium, which widens the regulatory scope
- The law does not explicitly define the conflict countries
- Legal obligations directly affect importers, smelters and refiners. They do not affect so far the end-producers of products, even if they are strongly encouraged to setup a due diligence scheme.

EU Non-financial reporting directive 2014/95/EU / Guidelines on non-financial reporting C/2017/4234

Large companies of public interest are expected to disclose relevant information on due diligence to ensure responsible supply chains for 3TG from conflict-affected and high-risk areas.

Conflict Minerals Reporting Template (CMRT) as base tool

RMI has set up the CMRT for the surveys in the supply chain, in order to identify and assess risks related to responsible sourcing. Main content are questions referring to the responsible sourcing policy, due diligence activities conducted in the pre supply chain and a comprehensive list of smelters. This list specifies the smelters and refiners, which were part of the pre supply chain of 3TG containing products. At the end of the value chain RMI members can check up, which smelters / refiners have already been certified for responsible sourcing and also those, for which a certification is still pending.

Due diligence conducted in the automotive supply chain

STEP 1: Establish strong company management.

Companies shall set up a policy, in order to address the topic responsible sourcing including commitment of the top management. This policy can be integrated in already existing CSR policies, such as the companies codes of conduct.

STEP 2: Identify and assess risks in the supply chain.

Companies shall conduct surveys in the supply chain, using the CMRT tool. An appropriate supplier pre-selection should be done as a base step. The feedback of the suppliers shall be evaluated, in order to identify risks. This includes the identification of smelters / refiners, which operate in conflict countries. The survey must be conducted in due time, in order to not put in jeopardy the SEC reporting deadline for US listed companies.

STEP 3: Design and implement a strategy to respond to identified risks.

In order to promote responsible sourcing in the supply chain, companies shall encourage their suppliers to become conflict-free, in case non-certified smelters / refiners were identified during the CMRT survey. Special attention shall be given to smelters from conflict countries. Also, appropriate customer criteria for CMRT quality can be considered in this step and enforced in the pre supply chain.

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

In the automotive value chain, this activity is typically organized by RMI, on the base of the smelter lists received by their members CMRT surveys. Companies from the automotive supply chain usually perform audits with their direct suppliers. CSR topics, including responsible sourcing, can be included in these B2B audits.

STEP 5: Report annually on supply chain due diligence.

US listed companies are obliged to perform annual public reporting on their supply chain due diligence. Similar reporting requirements are addressed through the EU Non-financial reporting directive. Also companies, which are by law not required to publicly report, are recommended to include the topic responsible sourcing to their established CSR reporting activities. At any rate, in case of request, companies shall provide their direct

customers a CMRT report aggregating and summarizing the supplier responses from the CMRT surveys conducted. In view of high BOM / supply chain / variants complexity, CMRT report requests on product level are considered to be burdensome, inappropriate, with no added value. Therefor the aggregated report shall be provided on company level.

Challenges

Specific aspect sanction lists

CMRT surveys are an essential part of CSR activities related to responsible sourcing. The results of these surveys are not considered to be a good base for the sanction list monitoring activities conducted by customs departments, because automotive suppliers do usually not have a direct business relation with the smelters / refiners. The experience shows, that the ability to influence sourcing decisions, which are taken many tiers up in the supply chain, is very limited, even more for SMEs. Also having in mind, that the raw materials are usually substantially transformed, before they are transferred to countries, where the end-producers are located.

EU regulation

EU regulation 2017/821 does not define the conflict countries. For the automotive suppliers there is currently no suitable solution, on how to enable the companies to perform the task of definition of affected areas or countries.

Respective guidance material is urgently awaited by the European bodies.

Aspects not covered by RMI approach

The automotive supply chain considers the RMI approach to be a well-established mechanism, which provides appropriate and useful tools for the management of responsible sourcing in the value chain. Unfortunately, the RMI process is not fully applicable for some future challenges yet, pointing out the upcoming EU regulation (e.g. Niobium / open list of conflict areas or countries), as well as raw materials, which are in focus due to new stakeholders CSR or legal requirements (Mica / Cobalt / ...).

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BOM:	Bill of Material
B2B:	Business to Business
CFSI:	Conflict Free Sourcing Initiative
CMRT:	Conflict Minerals Reporting Template
CSR :	Corporate Social Responsibility
DFA :	Dodd Franck Act section 1502
DRC:	Democratic Republic of Kongo
EU:	European Union
FIEV:	French Vehicle Equipment Industries Association
OECD:	Organization for Economic Co-operation and Development
RMI:	Responsible Minerals Initiative
SEC:	Securities and Exchange Commission
SME:	Small and Mid-sized Enterprises
3TG:	Tin, Tungsten, Tantalum, Gold
US:	United States
VDA:	German Association of the Automotive industry

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CLEPA brings together over 120 global suppliers of car parts, systems and modules and more than 20 national trade associations and European sector associations. CLEPA is the voice of the EU automotive supplier industry linking the sector to policy makers.

- The automotive sector accounts for **30% of R&D** in the EU, making it the number one investor.
- European automotive suppliers invest over **25 billion euros** yearly in research and development.
- Automotive suppliers register over **9,000 new patents** each year.
- Automotive suppliers in Europe generate **five million** direct and indirect jobs.