

Conflict Minerals – How Manufacturers can stay ahead of Unformulated but Inevitable Regulations

By Liz Garnand, *Principal, Newport Consulting Group (December, 2011)*

This article reports on how recent activities in “Conflict Minerals” legislation all point towards continued pressure to be placed on manufacturers and suppliers and how one can ease the compliance effort through a careful software vendor selection.

The Dodd-Frank Act, signed in July 2010 and expected to take effect in January, 2012, included a new requirement (Section 1502) for manufacturers to disclose the origin of minerals used in their products, such as tin, tantalum, tungsten, and/or gold, to the Securities and Exchange Commission (SEC) . This requirement has been in response to activities in the region centered and around the eastern Democratic Republic of the Congo (DRC) where miners, including children, have been subject to abuse and violence, and funds from mineral sales have been used to support armed groups and insurrection. Manufacturers are now expected to be conflict-free in their supply chain from anything that originates within the region of the Democratic Republic of the Congo (DRC) and to publically disclose in an annual report and on its Web Site that their products do not originate in the DRC and surrounding areas, or are “DRC Conflict Free”.



Sentiments and Precedents Leading up to a Final Ruling

“Conflict Minerals” has caused real concern for SEC registrants because the ability to actually discern and source every mineral is difficult. This legislation also lays an ominous precedent for the potential of other similar legislations being formed in the future. Despite current concerns, recent SEC discussions indicate the new requirement is proceeding, with reporting details to follow. In the October 18th 2010 SEC Roundtable, panelists discussed how much flexibility would be given to manufacturers and their supply chain in the due diligence required to ascertain the origination of each mineral. In light of the difficulty to identify every mineral origin, especially coming from recycled materials or stockpiled minerals, there was sentiment expressed to support a transition period for mineral stocks and products already in existence.

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But overall the process to continue towards a final ruling was absolutely insinuated throughout the discussions.

One Roundtable Panelist, Andrew Matheson, Founder and President of Boston Silicon Materials, responded to the concerns expressed on the complexity and impact that the Conflict Minerals Ruling will have on businesses by noting that businesses have had ample warning:

“I think it's disingenuous of industry groups or particular firms to suggest this is a problem that's going to require a multi-year process to come to terms with, given the ample warning and the egregious nature of the issue at hand that we're all aware of, and that this has taken significant attention and time over this past decadeⁱ”.

These comments can certainly influence the ruling as Mr. Matheson had specific points to back up how manufacturers have had time to implement.



And certainly many larger manufacturers have already responded and declared their activities and positions on their website. Apple reported its 2010 activities to ensure its suppliersⁱⁱ use conflict-free sources and its activities to enforce supplier adherence to their Supplier Code of Conduct.ⁱⁱⁱ Dell has posted on its website their positioning on conflict minerals, which includes this statement;

“We have notified all our suppliers of our policy on conflict minerals and have asked each supplier to provide us with a confirmation of their conflict-free status.”^{iv}

Intel has declared on their website:

“From the time we became aware of the potential for conflict-metals from the DRC to enter our supply chain, we have responded to this issue with a sense of urgency and resolve.”^v

Similarly in the automotive industry, OEMs like Ford have posted their activities and positions. Such large corporate leaders are setting the standard for others on how to respond and act to

the Conflict Minerals issue, which in turn can create more social and legislative pressure for others to follow suit, all despite the difficulty to implement.

The immediate need of technology to support the management of Conflict Minerals

Various industry organizations are tracking and updating their respective manufacturers on Conflict Minerals legislative issues (e.g. EICC - Electronic Industry Citizenship Coalition, Global e-Sustainability Initiative (GeSI), AIAG – Automotive Industry Action Group, Mema – Motor & Equipment Manufacturer’s Association). Although these types of associations are knowledgeable sources of information for what will be required for reporting, their role is not focused on the “how to get it done”.

This question on “how” a company can systematically report and track Conflict Minerals is a challenge, especially for industries such as Electronics and Automotive. Ford reports on their website:

“Ford intends to utilize an existing automotive industry database that tracks material content at the part level to analyze the presence of conflict minerals in our vehicles. The database currently tracks material content to monitor for the presence of certain regulated substances; it does not indicate where materials originated.

While the presence of the four conflict minerals may, in some cases, be reported to the system by suppliers, reporting of the geographic source of these minerals has not been required to date (as it previously had not been regulated).”^{vi}



The Automotive-industry system IMDS (International Material Data System) just announced on Dec 8^{thvii} that extra substances will be added to its database. However, what is missing today in IMDS and CAMDS (China Automotive Material Data System) is the ability to easily and automatically track multiple suppliers reporting data for compliance. Finding out a mineral’s origin right to the smelters and mining region is both a workflow and reporting process, and outside the core capabilities of IMDS. The core capabilities of systems that support PLM (Product Lifecycle Management) or SCM (Supply Chain Management) areas tend to be much broader and may not efficiently complete all the workflow and reporting required to ease the

implementation around environmental compliance. Without an automated IT and workflow process for compliance concerns like Conflict Minerals, much follow up and requests to suppliers are then limited to emails, letters, and requests for information, all being quite tedious and manual, and prone to error.

As with other sustainability and compliance concerns, companies need an automatic and integrated workflow and reporting mechanism for every part or component through the supply chain. Conflict Minerals is just one more type of legislation that reflects environmental and social concerns, like toxic materials, carbon footprint, and workforce social responsibility etc.

The technology vendors who are best positioned to advise on the “how to get it done” for Conflict Minerals, or for whatever is next in product compliance, are those who have joined deep expertise in compliance with expertise in systems integration and software. Sustainability concerns and market drivers on social responsibility do overlap with legislation and compliance requirements. Tracking the metrics around both compliance and sustainability together using one integrated solution can give the most comprehensive visibility for management and with it - the ability to respond to whatever compliance issue comes next.

iPoint-systems - Simplifies the “How” in Compliance Reporting

iPoint-systems gmbh is a software vendor with a proven track record in specializing and managing product-related compliance and sustainability. With their software solutions and company advisory services, they are well positioned to quickly respond to new regulations like Conflict Minerals. iPoint-systems has created an intelligent and modular software technology that integrates into a manufacturer or supplier’s existing systems and leverages and augments the information in those systems to produce comprehensive environmental product compliance reporting and automated processes. iPoint-systems tracks compliance and sustainability across industries such as Automotive, Electronics and Aerospace.

For more information, visit <http://www.ipoint-systems.com>.

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Endnotes:

ⁱ ROUNDTABLE ON CONFLICT MINERALS Tuesday, October 18, 2011 12:30 p.m. 0025 line 14

<http://www.sec.gov/spotlight/conflictminerals/conflictmineralsroundtable101811-transcript.txt>

ⁱⁱ http://images.apple.com/supplierresponsibility/pdf/Apple_SR_2011_Progress_Report.pdf

ⁱⁱⁱ http://images.apple.com/supplierresponsibility/pdf/Apple_SR_2011_Progress_Report.pdf

^{iv} <http://content.dell.com/us/en/gen/d/corp-comm/conflict-minerals.aspx>

^v <http://www.intel.com/content/dam/doc/policy/policy-conflict-minerals.pdf>

^{vi} <http://corporate.ford.com/microsites/sustainability-report-2010-11/issues-supply-materials-minerals>

^{vii} <http://www.mdssystem.com/magnoliaPublic/en/public/news.html>