

“Blood Minerals” in the Supply Chain

Complying with the “conflict minerals” provisions of the financial reform bill will pose unique challenges to the supply chain

The 848-page financial reform bill signed into law in the US on July 21 (the “Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010”) contains a six-page section, starting on page 838, that addresses the issue of “Conflict Minerals” coming into the supply chain from the Democratic Republic of the Congo (DRC). The goal of Section 1502 is to ensure that certain minerals coming from the DRC are “conflict-free” – that is, not fueling the ongoing violence that has left more than 5 million people dead, and not funding the armed parties that have employed forced labor, child slavery and sexual terror as standard practice to control the minerals trade.

The minerals covered in the law – coltan (columbite-tantalite, a source of tantalum), cassiterite (tin), wolframite (tungsten) and gold – are used extensively in a variety of industrial, consumer and electronics products. Tin is used as a solder on circuit boards. Tantalum capacitors are used widely in the technology supply chain. Tungsten is used as tungsten carbide in applications like turning tools and milling, but it’s also used in cell phones to make them vibrate. Gold is used in jewelry, of course, but also used for the gold plating of connectors, switches and other components. Collectively the minerals are referred to as the “3Ts, plus gold.”

The provisions of the law include new Securities and Exchange Commission reporting obligations that

will require companies to understand whether their products contain “conflict minerals” sourced from the DRC. Manufacturers can, for now, still use “conflict minerals,” but they face liability for failing to accurately report on their sourcing practices to the SEC – and obviously they risk the potential brand damage for companies seen to be supporting armed groups in the DRC.

The cost for any given company of complying with Dodd-Frank’s requirements is an open question. One US-based non-governmental organization campaigning on the issue, the Enough Project, has cited a figure, which it says comes from industry, that it would add only \$0.01 to the price of a cell phone to ensure that adequate auditing procedures are put in place to ensure that minerals are conflict-free. However, that figure would seem to understate the complexity of the challenge, given the “fungibility” of minerals once they reach a smelter, the shifting nature of the conflict in the DRC, and the current lack of standards for managing mineral origins in the supply chain.

Nevertheless, in the course of interviews with executives at end user organizations, OEMs and suppliers, and industry associations in the technology supply chain, the consensus opinion was the law’s provisions were necessary. It’s not that everyone wanted to be seen to be doing “the right thing” for the sake of political (or politically correct) expediency; it’s that no one actually wants to support the horrific



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violence wracking the DRC and its civilian population.

What to do about eliminating conflict minerals from the supply chain goes beyond the scope of this column, but the first step is to start educating yourself about the law and its provisions and implications. You can start with the article that starts on the opposite page. In addition to an outline of a strategy for dealing with conflict minerals, the online article will include additional background and links to online resources and relevant NGOs and industry associations.

“Blood minerals” have not yet achieved the notoriety of the “blood diamonds” that inspired a movie by that name and a movement to prevent conflict diamonds from funding violence, terror and conflict. But as the provisions of Dodd-Frank take effect and similar laws are promulgated elsewhere, you can be certain that the conflict minerals issue will impact your supply chain. As with other issues of environmental or regulatory compliance, leading companies will be working now to formulate their conflict minerals strategies – and to keep the blood out of their supply chains. ■