

# Conflict Minerals

## Background

Armed groups, operating in the eastern Democratic Republic of the Congo (DRC) and surrounding countries, control many of the region’s mines or transit routes and are responsible for some of the world’s worst human rights violations. As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the U.S. Securities and Exchange Commission (SEC) adopted rules to implement reporting and disclosure requirements related to “conflict minerals” sources from the region.

The definition of “conflict minerals” refers to tin, tantalum, tungsten, and gold, and their derivatives identified as cassiterite, columbite-tantalite, and wolframite (hereinafter referred collectively as “3TGs”), regardless of where they are sourced, processed or sold. Implementing guidance be found at that following sources:

- [Text of the U.S. Conflict Minerals Law](#)
  - [http://www.ipc.org/3.0\\_Industry/3.3\\_Gov\\_Relations/Conflict-Minerals-Financial-Reform-Final.pdf](http://www.ipc.org/3.0_Industry/3.3_Gov_Relations/Conflict-Minerals-Financial-Reform-Final.pdf)
- [Conflict Minerals - SEC Small Entity Compliance Guide](#)
  - <http://www.sec.gov/info/smallbus/secq/conflict-minerals-disclosure-small-entity-compliance-guide.htm>
- [Text of the final Conflict Minerals Rule - Fed Register](#)
  - <http://www.gpo.gov/fdsys/pkg/FR-2012-09-12/pdf/2012-21153.pdf>

“Covered Countries” are defined in Dodd-Frank Section 1502(e) (1) as the Democratic Republic of Congo (DRC) and any country that “shares an internationally recognized border” with it; this presently includes:

- |                            |                             |            |
|----------------------------|-----------------------------|------------|
| • Angola                   | • The Republic of the Congo | • Tanzania |
| • Burundi                  | • Rwanda                    | • Uganda   |
| • Central African Republic | • South Sudan               | • Zambia   |



Technically, companies must report only on conflict minerals sourced from the “Covered Countries”;; however, without some investigation and help from within their own supply chain, most companies are not going to know from which mine the derivatives are extracted and introduced in to the supply chain. As a result of this uncertainty, all companies that use any 3TG must determine whether this rule applies to their products, and if it does, how they eventually will determine whether the mine’s location is within the covered region.

Public companies, already filing SEC required reports, are now also required to disclose whether the products they manufacture, contract to manufacture, or procure from subcontractors and vendors, contain “conflict minerals” that are “necessary to the functionality or production” of those products. These public companies must continually evaluate and monitor their product lines to determine whether these products contain conflict minerals and if so, file a Form SD by May 31 annually beginning in 2014.

There are three very limited exceptions to the reporting requirement, meaning either the rule doesn’t apply at all, or that companies do not have to complete a CMR:

- Minerals “outside the supply chain” were used only prior to January 31, 2013;
- 3TGs are used only from recycled or scrap sources;
- **The company only “contracts to manufacture” a product over which it has no input, influence, or say over the product design or composition.**

Reporting compliance is challenging because under the SEC regulation implementing the federal law, there is no “*de minimis*” exception to the rule, meaning that there is no minimum amount of a mineral that a company must use or that must be in a product in order to trigger the rule—it applies regardless of how much 3TG is used.

Although ultimate compliance is on these public companies, their supply chain companies are also impacted. The public companies must require their supply chain sources to inquire, verify, and report on their own compliance with regulations to stop acquisition of conflict minerals from sources in the DRC or adjoining countries.

There are numerous internet resources available to help companies understand the conflict minerals regulation’s full intent, and implement compliant identification, tracking, and reporting programs. The Manufacturer’s Alliance for Productivity and Innovation (MAPI) website provides a user friendly analysis of the policy and implementation requirements.

- [The SEC’s Conflict Minerals Reporting Requirements: A Primer](https://www.mapi.net/forecasts-data/sec%E2%80%99s-conflict-minerals-reporting-requirements-primer)
  - <https://www.mapi.net/forecasts-data/sec%E2%80%99s-conflict-minerals-reporting-requirements-primer>

## Products using 3TGs and Their Derivatives

The 3TGs along with their covered derivatives are incorporated in to numerous common products, some of which are less obvious than others. For example, tin is used throughout industrial manufacturing in solder and high-performance paint; tantalum is widely used in electronics and tools; tungsten is a common component in metalworking tools and welding applications; and finally, gold is commonly used in electronics and semiconductors. The table below, while not complete, identifies each element’s significant common uses:

Metal	Common Uses
Tin	<ul style="list-style-type: none"> <li>• Solders for joining pipes and circuits</li> <li>• Tin plating of steel</li> <li>• Alloys (bronze, brass, pewter)</li> <li>• PVC’s</li> </ul>
Tantalum	<ul style="list-style-type: none"> <li>• Capacitors (in most electronics)</li> <li>• Carbide tools</li> <li>• Jet engine components</li> </ul>
Tungsten	<ul style="list-style-type: none"> <li>• Metal wires, electrodes, electrical contacts</li> <li>• Heating and welding applications</li> </ul>
Gold	<ul style="list-style-type: none"> <li>• Jewelry</li> <li>• Electric plating and IC wiring</li> <li>• Circuit boards</li> </ul>

## Fairlead’s Conflict Minerals Policy

Fairlead is committed to supporting responsible sourcing of conflict minerals from the region. Our suppliers are required to annually complete and return **Attachment 1 “Conflict Minerals Certification”** to the Fairlead Material Management department. In reviewing and modifying their internal compliance programs, Fairlead expects its suppliers to adopt policies necessary to meet the expectations set out below:

### Supplier Expectations:

- **Supply “DRC Conflict Free” materials.** Suppliers are expected to supply materials to Fairlead that are “DRC conflict free,” which means either:
  - 1) Any 3TGs necessary to the functionality or production of supplied materials must not directly or indirectly fund armed conflict in the DRC or adjoining countries, or
  - 2) Any 3TGs sourced from the conflict region can be provided only if:

- a) The 3TGs are now obtained from approved mines and smelting operators, or
- b) They were originally sourced prior to the federal law being implemented, or are now sourced exclusively from recycled or scrap sources.
  - Conflict minerals are from "recycled or scrap sources" if they are from recycled metals, which are reclaimed end-user or post-consumer products, or scrap processed metals created during product manufacturing. Recycled metal includes excess, obsolete, defective, and scrap metal materials that contain refined or processed metals that are appropriate to recycle in the production of tin, tantalum, tungsten, and/or gold. Minerals partially processed, unprocessed, or obtained as a "bi-product" from another ore, are not included in the definition of recycled metal.
  - The SEC published due diligence requirements for using the recycled or scrap classification [U. S. Securities and Exchange Commission Fact Sheet – Disclosing the Use of Conflict Minerals: URL:  
<http://www.sec.gov/News/Article/Detail/Article/1365171562058>
- **Adopt conflict minerals policies.** Suppliers must adopt a policy regarding conflict minerals consistent with Fairlead’s policy, implement management systems to support compliance with their policy and require their suppliers to take the same steps.
- **Send surveys to their suppliers, and complete Fairlead’s survey.** Fairlead suppliers are expected to pass the CFSI public Conflict Minerals Reporting Template (link below) to their suppliers and successively upstream until the final smelter/refinery is identified. The survey information must then be passed back down through the levels of the supply chain to Fairlead, who will provide it to their ultimate customer’s.

## CFSI public source materials

The following public sources are available for use by our suppliers.

- [Conflict Minerals Reporting Template](#) for use by Fairlead’s suppliers
  - <http://www.conflictreesmelter.org/ConflictMineralsReportingTemplateDashboard.htm>
- [Conflict Free Smelter program](#), provides the list smelter / refineries
  - <http://www.conflictreesmelter.org/cfshome.htm>

## Frequently Asked Questions (FAQs)

Attachment 2 provides responses to a number of frequently asked questions (FAQs). A key prime customer of Fairlead developed the responses contained therein. Fairlead includes these FAQs in this policy as a guide only and does not warrant the accuracy of the responses or guidance.

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## Attachment 2

# Frequently Asked Questions (FAQs)

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In an effort to improve the content, and accuracy, and required responses, the following responses to “frequently asked questions” were developed from various authoritative sources.

### **What are Conflict Minerals?**

“Conflict Minerals” is the term used to describe the following minerals: gold, wolframite, cassiterite, columbite-tantalite and their derivative metals, which include tin, tungsten and tantalum – no matter where they are mined or smelted (e.g., gold mined in Canada is technically considered a “Conflict Mineral” under federal law).

### **What laws and rules govern Conflict Minerals?**

On July 16, 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). Section 1502 of this new law directed the U.S. Securities and Exchange Commission (SEC) to establish rules requiring public companies that file quarterly and annual financial statements with the SEC to provide an annual disclosure as to the origin and source of “Conflict Minerals” in the products they assemble, manufacture and/or sell.

### **What is the purpose of the Dodd-Frank Act and related SEC Rules?**

Congress included this provision in the Dodd-Frank Act in an effort to further the humanitarian goal of ending violent conflict in the DRC and the nine adjoining countries, which include the Republic of the Congo, Angola, Burundi, Central African Republic, , Rwanda, South Sudan, Tanzania, Uganda and Zamia.

Congress chose to use the U.S. securities laws’ disclosure requirements to promote the understanding and, where required, the exercise of due diligence on the origin and source of Conflict Minerals in supply chains, and to persuade companies to procure Conflict Minerals from sources that do not finance or benefit armed groups in the covered countries.

### **Are there special rules for government contractors?**

There are no special rules for any industry delineated in the final rule. As a current or future supplier to Fairlead, however, you will be contractually obligated to assist Fairlead in determining the presence and source of Conflict Minerals in the products sold to Fairlead that are included in Fairlead’s finished products.

**We are not a public company and do not file reports with the SEC. Is my company affected by the Conflict Minerals rules?**

Yes. Even if your company is private and/or does not file reports with the SEC, as long as you are a direct or indirect supplier to a company that files certain reports with the SEC, you will be asked to provide information regarding the uses and sources of Conflict Minerals in your products. Fairlead is a supplier to a publicly-traded companies, and therefore is contractually obligated to provide information to these same companies. Fairlead requires your full support in identifying the presence and source of Conflict Minerals in the products you sell to Fairlead and which we then incorporate into products sold to our customers.

Fairlead requires its suppliers to complete the Global E- Sustainability Initiative Conflict Free Smelter Template (the “GeSi template”).

**Why did the SEC identify gold, tin, tungsten and tantalum as Conflict Minerals? Are they considered dangerous or subject to contamination?**

These four minerals were selected not because of their physical characteristics, but because of where they are mined. Financial proceeds from the mining of these minerals in the DRC and adjoining countries are believed to be used by armed groups who are subjecting workers and indigenous people to serious human rights abuses. It has nothing to do with toxicity or danger.

**Is it illegal to procure Conflict Minerals from the DRC region?**

No, it is not illegal. In fact, the rule is not intended to discourage the purchase of Conflict Minerals from the DRC or adjoining countries. It is meant to provide transparency to stakeholders regarding whether

- (i) The products they purchase are conflict-free or
- (ii) The purchase may have gone to support armed conflict in the DRC region.

**What is the acronym 3TG?**

The three T’s are the derivative elements known as Tin, Tantalum and Tungsten. “G” stands for the element Gold.

**What are the common uses of 3TGs?**

Metal	Common Uses
Tin	<ul style="list-style-type: none"> <li>• Solders for joining pipes and circuits</li> <li>• Tin plating of steel</li> <li>• Alloys (bronze, brass, pewter)</li> <li>• PVC’s</li> </ul>
Tantalum	<ul style="list-style-type: none"> <li>• Capacitors (in most electronics)</li> </ul>

Metal	Common Uses
	<ul style="list-style-type: none"> <li>• Carbide tools</li> <li>• Jet engine components</li> </ul>
Tungsten	<ul style="list-style-type: none"> <li>• Metal wires, electrodes, electrical contacts</li> <li>• Heating and welding applications</li> </ul>
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**Is the filing by public companies of an annual report about any Conflict Minerals used in their products only for one year or is it an on-going requirement?**

This is an on-going requirement each year.

**Are there alternative sources of these minerals besides the DRC?**

Yes. The percentages of the global supply of the 3TGs coming from the DRC region is relatively small, generally from one percent to 12 percent. Major alternative sources of origin for these minerals include:

- **Tin:** China, Indonesia, Peru, Bolivia, Brazil
- **Tantalum:** Australia, Brazil, Canada
- **Tungsten:** China, Russia, Canada
- **Gold:** South Africa, Australia, the United States, China

The rule does not call for a ban or boycott of minerals sourced from the DRC region; it instead encourages conflict-free mineral supplies from the DRC region through the development of tracing and auditing practices.

**Our company assembles products from components manufactured by third parties. Does assembly of a product constitute “manufacturing” for purposes of the Conflict Minerals rules?**

Yes, the manufacture of products through assembly is subject to the Conflict Minerals rules.

**What is a “reasonable country of origin inquiry” (RCOI)?**

While the Conflict Minerals rules do not prescribe what steps are necessary to satisfy the RCOI requirement, they do provide general standards to be used or considered for the RCOI. The inquiry must be reasonably designed to determine whether the company’s Conflict Minerals either:

- Did originate in the covered countries, or
- Did come from recycled or scrap sources.

Further, the inquiry must be performed in good faith. As part of their “good faith” inquiry process, companies should apply reasonable skepticism and judgment when assessing statements from suppliers and be aware of any red flags that could be counter-indicative to the suppliers’ statements, such as the pricing of materials, location of the supplier, purity/quality of materials used for products, markings suggesting the products originated in the DRC region, etc.

**Is there a de minimis exception for small quantity or low dollar value minerals?**

No, there is no exception based on any quantity, percentage or dollar value. The presence of any Conflict Minerals in a supplier’s products, no matter where they are mined or smelted or the amount, must be reported to Fairlead, and thus disclosed by Fairlead to its customers.

**Are recycled metals exempt?**

Yes. Fully recycled metals are exempt and would represent a reasonable outcome of an RCOI.

**What is considered acceptable due diligence?**

We expect the definition of what is considered “acceptable” will likely evolve over time as supply chain custody and reporting mechanisms mature. Given the recent release of the SEC rules, there is not a lot of clarity yet about the SEC’s expectation in this regard. At a minimum, however, public companies must develop and document due diligence procedures customized to their particular facts and circumstances in order to make an assertion that is capable of being audited. The OECD guidance recommends five key steps to establish a due diligence program regarding sourcing of Conflict Minerals.

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

**How do the “outside the supply chain” rules work?**

The rule indicates that any Conflict Minerals “outside the supply chain” prior to January 31, 2013, can be excluded from any assessment or reporting requirements. Conflict Minerals are considered to be “outside the supply chain” if they have already been smelted or refined prior to January 31, 2013. So conceivably, any materials obtained or inventoried by any company before January 31, 2013, would be outside the scope of the rule.

**Why do some articles talk about metals and not minerals?**

Tin, tantalum and tungsten are often referred to in their mineral ore form before they are processed by a smelter or refiner into metals.

- Tin ore = cassiterite
- Tantalum ore = coltan or columbite-tantalite
- Tungsten ore = wolframite

The mineral ores are what make up the metals tin, tantalum and tungsten. The name changes once they are smelted and/or chemically processed by refining companies. To be consistent we refer to them as Conflict Minerals.

#### **Do similar rules exist in other countries?**

Improving transparency and reducing the risk of contributing to human rights abuses and conflicts are issues that have gained traction globally over the past few years. Some other countries or government bodies such as the European Union, Canada, and Australia, are taking steps to address concerns about Conflict Minerals.

#### **What is the penalty for non-compliance?**

It is against the law for public companies to knowingly provide false or misleading statements with regard to material facts or otherwise not act in good faith with respect to their public filings with the SEC. Additionally; implications of not complying include issuers facing pressure from human rights activists, non-governmental organizations, consumer or other market forces to prove their products are conflict free. Fairlead and its customers include contractual terms and conditions requiring their supply chain providers to report the presence and source of Conflict Minerals in the goods sold to Fairlead. Failure to accurately report to Fairlead could result in breach and termination for default of the applicable purchase order.

#### **Should we expect the scope or types of Conflict Minerals to be expanded in the future?**

The Conflict Minerals and covered countries in the rule align with those identified by the U.S. State Department. While there are no changes expected at this time, if the State Department modifies its list of Conflict Minerals or covered countries, the SEC rule automatically follows suit.

#### **ADDITIONAL RESOURCES:**

<http://www.sec.gov/rules/final/2012/34-67716.pdf>

<http://www.sec.gov/News/Article/Detail/Article/1365171562058>

<http://www.conflictreesourcing.org/>

<http://www.pwc.com/us/en/audit-assurance-services/conflict-minerals-fags.html>

[http://www.aia-aerospace.org/assets/AIA\\_Conflict\\_Minerals\\_FAQ.pdf](http://www.aia-aerospace.org/assets/AIA_Conflict_Minerals_FAQ.pdf)