

Aluminium Stewardship Initiative

What is Due Diligence?

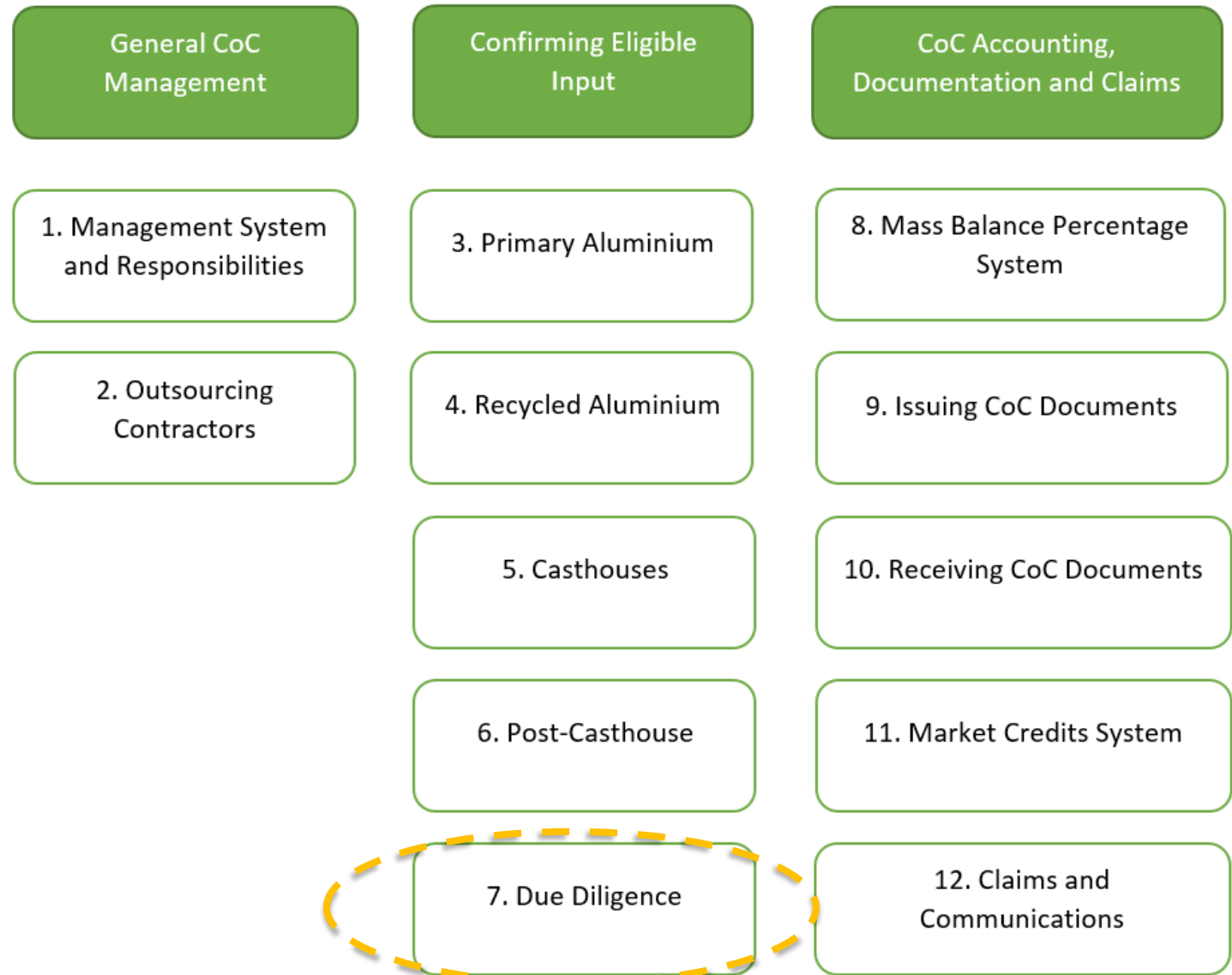
Chain of Custody Standard – public consultation, October-December 2016

ASI Chain of Custody Standard and Guidance



Comment period October to December 2016

Draft CoC Standard - structure



What is Due Diligence?

- Due diligence in minerals and metals supply chains is becoming an important expectation from stakeholders, and increasingly subject to regulation.
- Due diligence is understood as an 'ongoing, proactive and reactive process' through which companies can identify and assess risks, and design and implement a strategy to respond to identified risks.

Due Diligence - Recyclable and Non-CoC Material

- 7.1 The Entity shall adopt and communicate to suppliers of Non-CoC Material and Recyclable Material a policy for responsible sourcing of Aluminium, which at a minimum takes account of the following criteria in the ASI Performance Standard:
 - a. 1.2 (Anti-corruption)
 - b. 2.4 (Responsible Sourcing)
 - c. 9.1 (Human Rights Due Diligence)
 - d. 9.9 (Conflict Affected and High Risk Areas)
- 7.2 The Entity shall assess the risks of non-compliance with its responsible sourcing policy by its suppliers of Non-CoC Material and Recyclable Material, document the findings, and undertake measurable risk mitigation where risks of adverse impacts are identified.
- 7.3 The Entity shall establish a complaints mechanism as per criteria 3.2 in the ASI Performance Standard, that is appropriate to the nature, scale and impact of the business and that allows interested parties to voice concerns about practices in its Aluminium supply chain.

In a nutshell:

- Due diligence = policy + risk assessment, mitigation + complaints mechanism
- Identifies linkages with criteria in Performance Standard – extends application to Industrial Users through CoC Standard

Due Diligence – 4 areas already extend to 3rd parties

Issue	ASI Performance Standard	Drivers / legal context
2.4 Responsible sourcing	“The Company shall <u>implement a sourcing policy</u> covering environmental, social and governance aspects.”	<i>General criteria, with 1.2, 9.1 and 9.9 below identified as inherently relevant to business relationships.</i>
1.2 Anti-corruption	“The Company <u>shall work against corruption in all its forms</u> , including extortion and bribery, consistent with applicable law and international instruments.”	US Foreign Corrupt Practices Act (FCPA) UK Bribery Act, EU, OECD, UN Conventions
9.1 Human rights due diligence	“The Company shall <u>have and implement a human rights policy and due diligence process</u> to identify, prevent, mitigate and account for how it addresses its actual and potential impacts on human rights, in line with the <u>UN Guiding Principles on Business and Human Rights</u> and applicable human rights instruments.”	UN Guiding Principles on Business and Human Rights. <i>Note: includes labour rights, working conditions, health and safety, indigenous rights, etc. The company identifies the most salient risks of negative impacts in its context.</i>
9.9 Conflict affected and high risk areas	“The Company <u>shall not contribute to</u> armed conflict or human rights abuses in conflict-affected or high risk areas.”	OECD Due Diligence Guidance. <i>Note: could also wrap under UN Guiding Principles process to assess risk.</i>

What due diligence is NOT

- **It is not: Pass / fail of suppliers:**
 - Most published guidance on due diligence acknowledges that these issues can be complex and take time to address through supply chains. This is also ASI's position in draft 3.
 - A 'pass/fail' type approach can also have unintended consequences from a human rights point of view, which must be considered when mitigating risks.
- **It is not: applied at the material / shipment level:**
 - It is applied to non-CoC and recyclables direct suppliers.
 - The frequency of due diligence is scaled to the nature of the risks. E.g.: risk assessments in place for new suppliers and updated every 1 or 2 years for existing suppliers or as needed.
 - Identified risks under mitigation with suppliers are not translated to "contamination" of material.
- **It is not: A "test" for "eligible for mixing":**
 - "Eligible for mixing" was a concept in draft 2 of the CoC Standard, linked to a "minimum sourcing provision" that has not been carried forward to draft 3.
 - Draft 3 of the CoC Standard only has "CoC" and "Non-CoC" Material.
 - CoC Material must meet the requirements of the Standard (Section B on Eligible Inputs), otherwise it is Non-CoC. Mass balance calculations are applied for inputs/outputs.
 - The draft 3 Due Diligence criteria are fundamentally different in approach from draft 2 and align to well-recognised instruments, notably UN Guiding Principles, OECD Due Diligence Guidance, and various anti-corruption due diligence approaches.

What due diligence IS

- **A process:**
 - A policy sets out expectations of the company.
 - It can specifically identify risk areas beyond the minimum areas set out in the CoC Standard. For example, if health and safety conditions are a key risk, then this can be identified in the policy.
 - Risk assessment and mitigation against the policy.
 - Complaints mechanism to allow for issues to be flagged by other parties.
 - These are all scaled to the nature and size of the company. No one-size-fits-all approach.
- **That evolves over time through learning:**
 - Carrying out due diligence provides insights into both key risks and the strategies that can be used to address them. Integrate these into the evolution of your due diligence approach.
 - All current members would have some kind of supplier process to use / build on.
- **And is an expectation for certification programs from a wide range of stakeholders:**
 - Particularly for minerals supply chains, governments, NGOs and international institutions are increasing their focus on due diligence as a core responsibility throughout the value chain.
 - ASI has a vital role to play in this for the aluminium sector as a whole:
 - Showing that the aluminium value chain recognises these issues are important
 - Building capacity to address them
 - Supporting the credibility of the ASI program.

Summary – section 7 Due Diligence

- **What:**
 - Sets out process elements (policy, risk assessment, complaints mechanism).
 - Aligns with requirements already agreed in the Performance Standard – i.e. issues that ASI already stands behind.
 - A company's due diligence can of course go beyond the identified issues and reach beyond direct suppliers where it has reason and capacity to do so.
- **How:**
 - Doesn't prescribe exactly how each of the process elements should be carried out – this will be determined by the individual business. Can also evolve over time.
- **Who:**
 - Members that seek CoC Certification. P&T members will already be implementing these under the Perf Standard. It extends the responsibility to Industrial Users – because they will be using the CoC Standard to make 'responsible sourcing' claims through ASI.
- **Why:**
 - Due diligence has become a fundamental expectation for minerals supply chains. ASI needs to address this to maintain credibility in the CoC program.

CoC Standard – stakeholder consultation

- CoC Standard and Guidance (approx. 100 pages) will be published for comment for 2 stakeholder consultation periods:
 - October to December 2016 (draft 3)
 - May to June 2017 (draft 4)
- Webinars and workshops will be arranged – join the ASI mailing list to be kept informed
- We welcome your input and engagement – members, non-members and interested stakeholders

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