

Aluminium Stewardship Initiative

Chain of Custody Overview

September 2016

Chain of Custody – what and why?

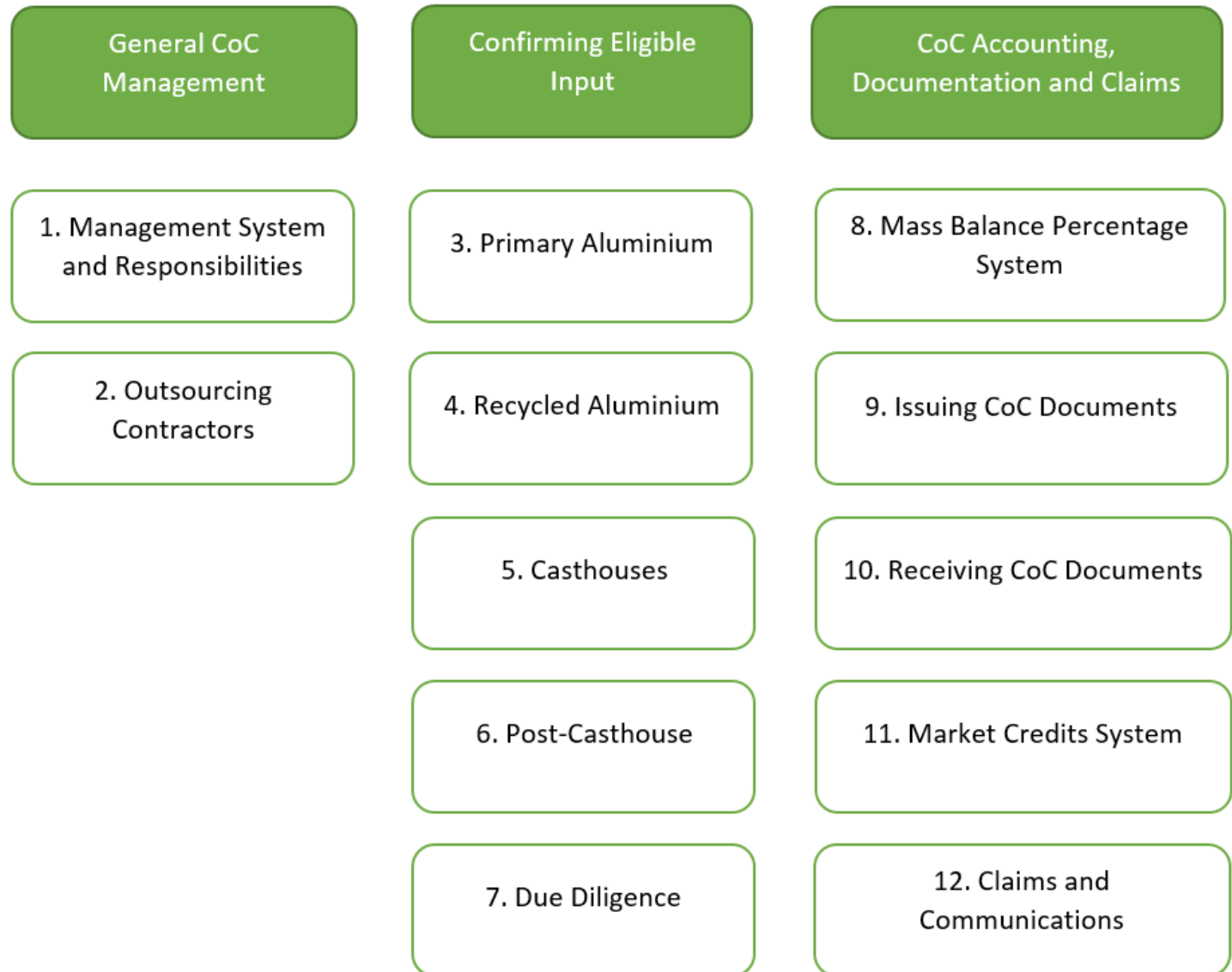
- **What:** a documented sequence of custody of material as it is transferred along the supply chain. Chain of custody (CoC) systems can provide an important point of differentiation and confidence in the business practices involved in the various stages of production.
- **Why:** ASI CoC Certification may provide value to businesses in the aluminium value chain to:
 - Support responsible mining, refining and smelting practices
 - Support responsible recycling and stewardship of aluminium
 - Reduce business liability costs
 - Enhance reputation through responsible sourcing
 - Carry out due diligence of the supply chain
 - Access reliable data on sustainability metrics of aluminium
 - Respond to the requests of customers, both B2B and B2C
 - Expand markets and customers
 - Meet or prepare for regulatory compliance requirements.

ASI Chain of Custody Standard and Guidance



Comment period opening October 2016

New CoC Standard - structure



CoC Material is a collective term for



Defined stages in CoC Standard

- **Primary Aluminium:** Mine to Casthouse
- **Recycled Aluminium:** Scrap to Casthouse
- **Post-Casthouse:** Semi-fabrication and manufacturing to final product.

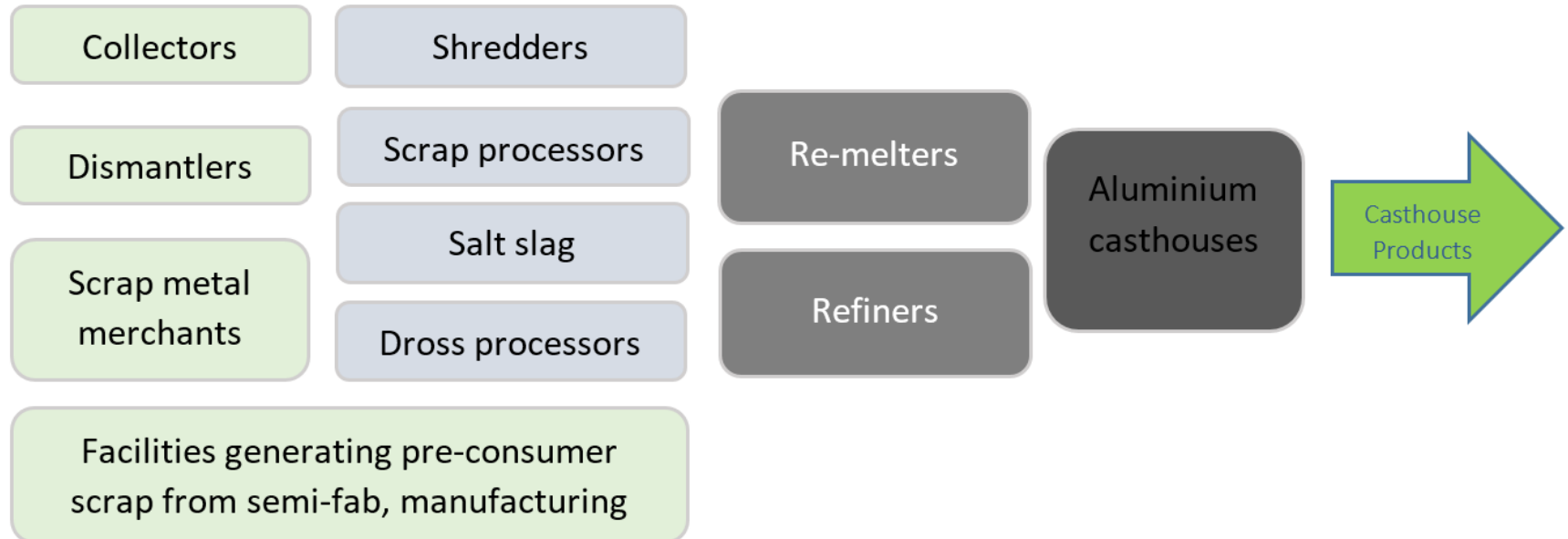


Primary aluminium



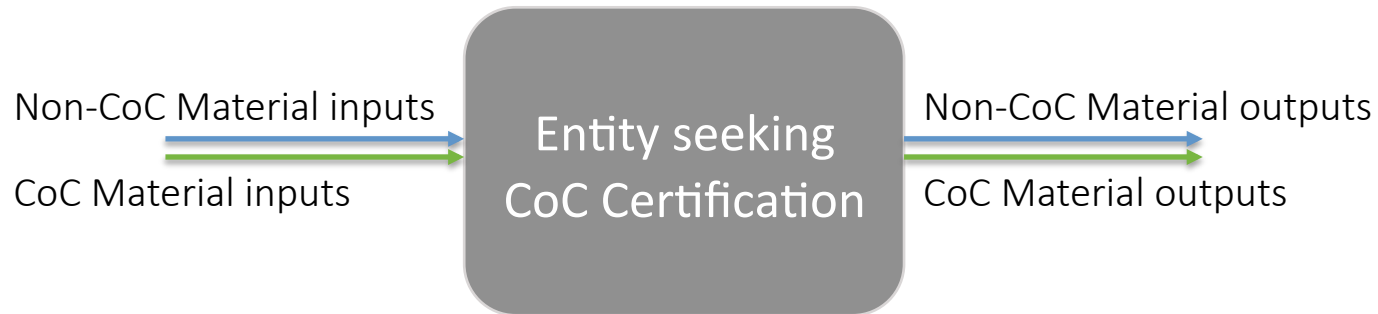
- Upstream entities drive uptake of **responsible production** standards
- ASI Certification (Performance Standard and CoC) available from the **mine** onwards
- Need to connect a series of certified entities to produce 'ASI Aluminium' from the Casthouse

Recycled aluminium



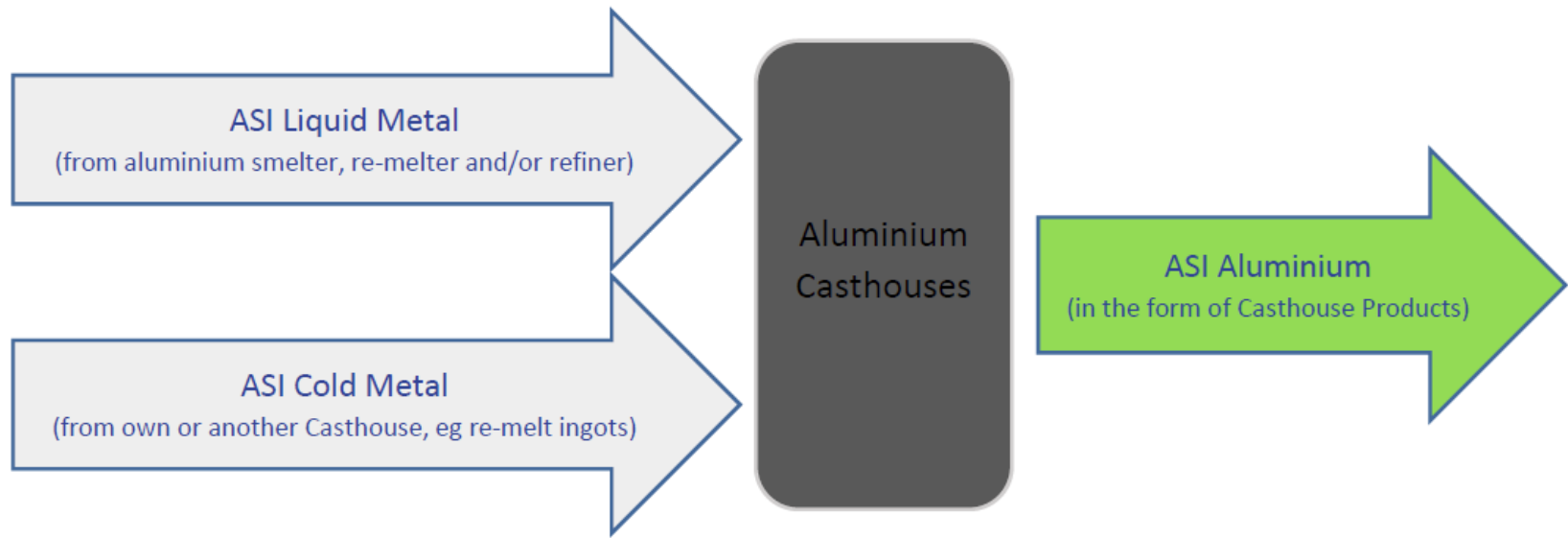
- Recycled stream is the engine for uptake of **material stewardship**
- ASI Certification (Performance Standard and CoC) required from **re-melters and refiners** onwards (and for pre-consumer scrap counting as CoC)
- **Due diligence** applied towards sources of recyclable materials

Due diligence



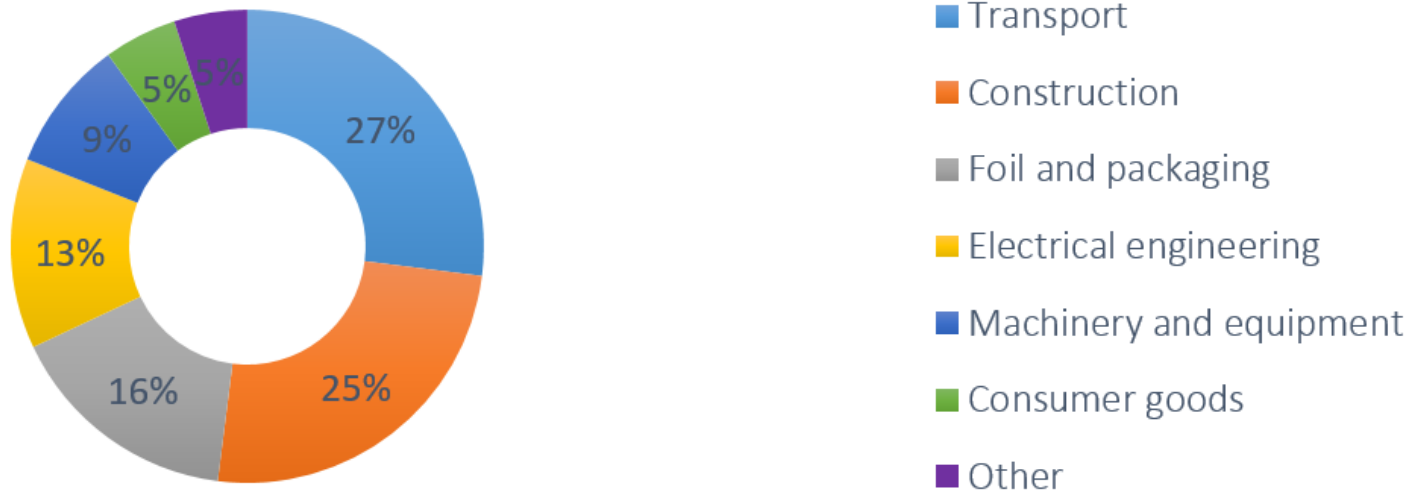
- **Due diligence** is applied towards sources of non-CoC Material inputs and recyclable materials
- Comprises a **policy, risk assessment and mitigation**, and a **complaints mechanism** directed towards aluminium supply chain risks.
- Key risk areas are linked to the following **criteria** in the ASI Performance Standard:
 - Anti-corruption
 - Responsible Sourcing
 - Human Rights Due Diligence
 - Conflict Affected and High Risk Areas

Casthouse (Primary/Recycled)



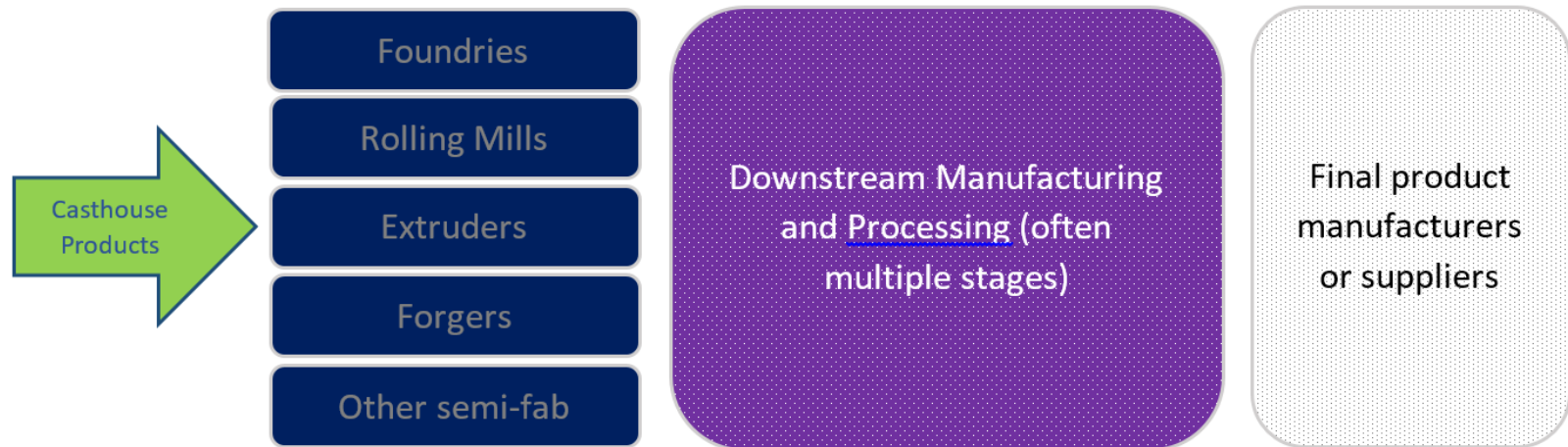
- Casthouses are a '**choke point**' in the aluminium value chain
- Casthouses usually **on-site** for smelters or refiners/re-melters but can be separate
- CoC Standard accounts for Liquid Metal and Cold Metal inputs, and production of 'ASI Aluminium' as Casthouse Products eg ingot, slab, billet etc

Post-Casthouse



- Millions of businesses globally, from micro enterprises to multinationals, **use aluminium across a variety of industrial sectors**
- Some downstream supply chains are short, simple, predictable and/or high volume; others have the opposite characteristics.

Post-Casthouse



- Downstream drives demand for **responsibly sourced** aluminium
- Types of Entities engaged in downstream manufacturing and processing through to final consumer or commercial products (heavily simplified)
- CoC Standard has designed systems for physical and non-physical (credits) flows

Overview of CoC Standard – 5 points to note

1. CoC Certification can be sought at a **Business or Facility level**.
2. Main focus is on the **flow of CoC Material**. Criteria for confirming eligible inputs are set out in the CoC Standard.
3. **Non-CoC Material is subject to due diligence** addressing key aspects of the ASI Performance Standard. Due diligence increasingly an expectation for mineral supply chains.
4. A **Mass Balance System** allows for CoC and non-CoC Material to be mixed over a defined period, and at any stage in the supply chain. It does not require physical segregation of material – businesses put in place a material accounting approach to account for the various inputs and outputs.
5. A **Market Credits System** is provided as a non-physical alternative to the Mass Balance System. An allocation of non-physical credits is linked back to physical ASI Aluminium produced at a Casthouse.

Mass Balance System

- Mixing of CoC and Non-CoC Material is allowed over a defined period, and at any stage of the production process.
 - Since CoC status is allocated after each stage of mixing, there is no guarantee at an atomic level that it contains 'certified product'.
 - Quantity of inputs and outputs are monitored through a material accounting system to ensure that these are in proportion.
 - Every stage where further processing or mixing occurs requires CoC Certification to continue the CoC status for output material.
 - CoC Material status tied to transfer of physical material via CoC Documents.
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- *Very common approach for commodity supply chains where segregation of CoC and Non-CoC Material is impossible or prohibitively expensive.*
 - *Makes sense where there is no physical difference between CoC and Non-CoC Material (unlike, say, organic agricultural produce).*

Market Credits System

- Available to Post-Casthouse entities that cannot create an unbroken chain of CoC Certified entities between Casthouse Products and themselves.
- Likely to be an issue in supply chains that are long and/or complex, and that takes time to build CoC Certification for each step.
- Links a specific quantity of output CoC Material from the Casthouse and allows this to be allocated as ASI Credits to a downstream company via a certificate. Credits/certificates cannot be re-traded.
- Provide an accessible and cost-effective avenue for companies to begin responsible sourcing programs.
- *Provides entry level access to downstream companies to support responsible production practices.*
- *Helps stimulate and recognise upstream efforts to supply CoC Material.*
- *Common in a range of sectors, including renewable energy, biomaterials, palm oil, sugar and precious metals.*

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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