

ASI Chain of Custody Standard: Introduction to draft 3 for consultation

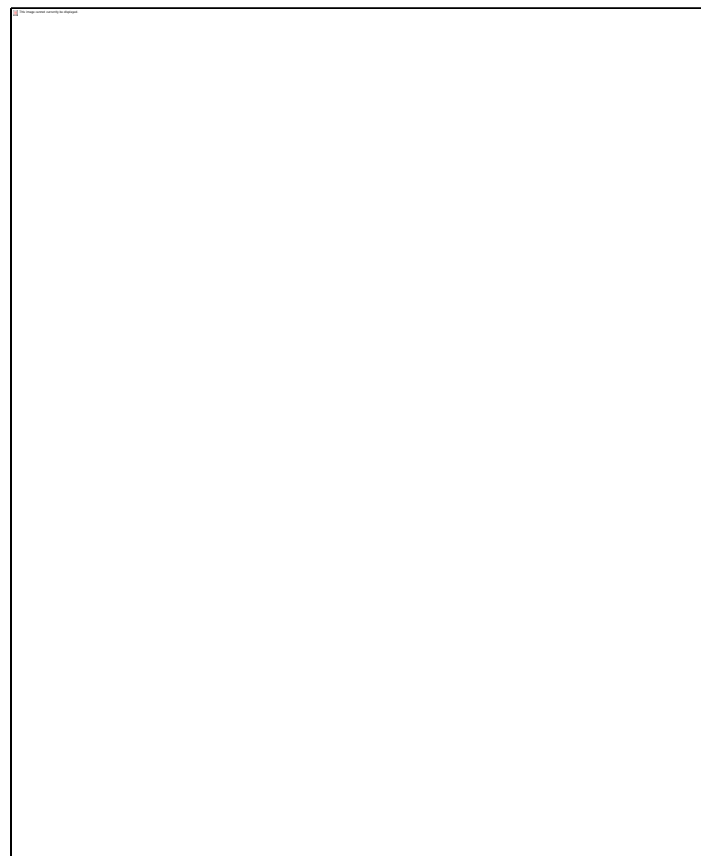
November 2016

Antitrust Compliance Policy

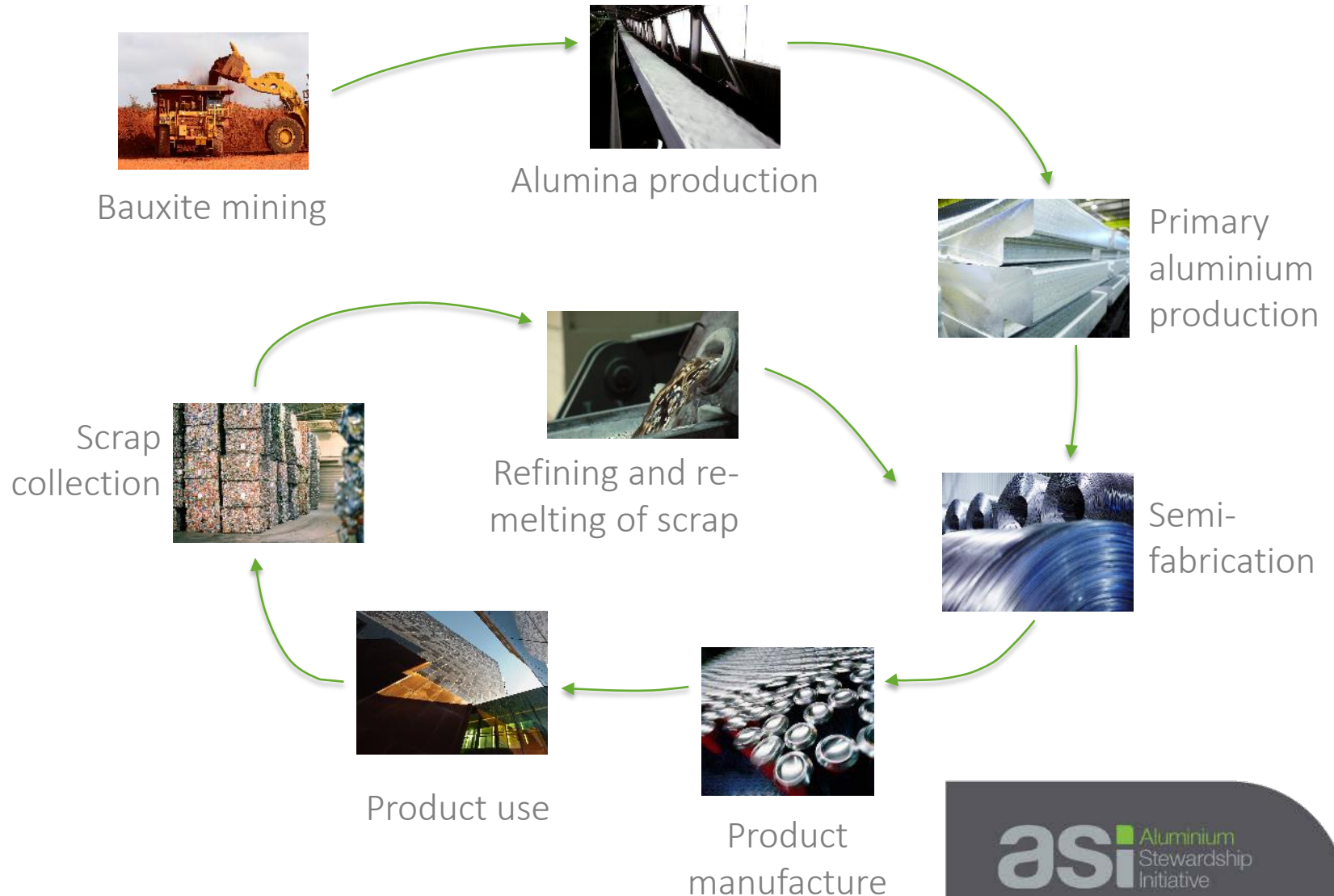
Attendees are kindly reminded that the ASI is committed to complying with all relevant antitrust and competition laws and regulations and, to that end, has adopted an Antitrust Policy, compliance with which is a condition of continued ASI participation.

Failure to abide by these laws can potentially have extremely serious consequences for the ASI and its participants, including heavy fines and, in some jurisdictions, imprisonment for individuals.

You are therefore asked to have due regard to this Policy today and indeed in respect of all other ASI activity.



The aluminium value chain



ASI's mission and desired impacts

To recognise and collaboratively foster responsible production, sourcing and stewardship of aluminium.

Standards	Uptake	Reputation
<ul style="list-style-type: none">• Sustainability and human rights principles are increasingly embedded in aluminium production, use and recycling	<ul style="list-style-type: none">• Companies increasingly invest in and reward improved practices and responsible sourcing for aluminium	<ul style="list-style-type: none">• Aluminium continues to improve its sustainability credentials with stakeholders

ASI certification program

ASI Standards –what are the requirements for participants in the aluminium value chain

Assurance – how compliance is assessed and certification administered

Who carries out audits and are they working properly

What can members claim and is ASI certification having an impact

Performance Standard ✓

Guidance -
Performance Standard

Chain of Custody
Standard ✓

Guidance – Chain of
Custody Standard ✓

Assurance Manual
("the rules") ✓

Assurance Platform
("the toolkit")

Auditor Accreditation
Procedures ✓

Auditor Oversight
Procedures

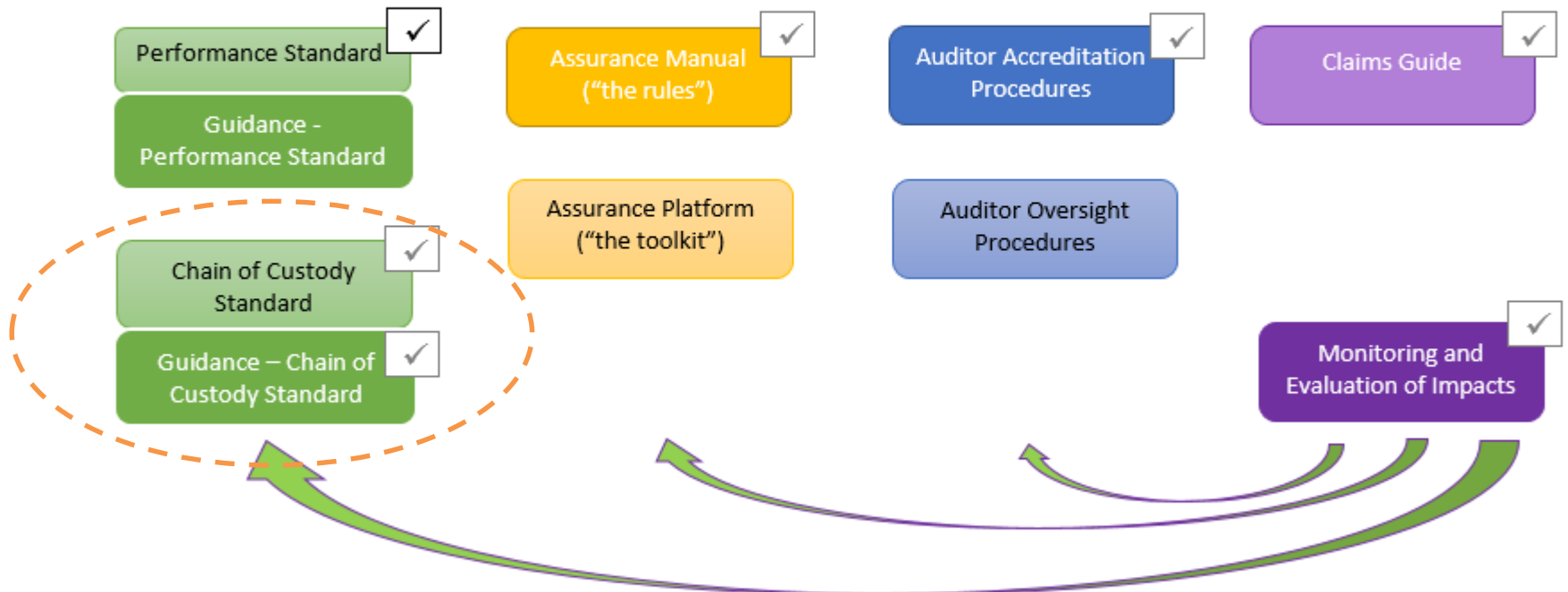
Claims Guide ✓

Monitoring and
Evaluation of Impacts ✓

✓ = Completed

✓ = Draft

Future revisions



What does Chain of Custody mean ...

A number of related but distinct terms are used for efforts to advance sustainability objectives in supply chains, including:

- Responsible sourcing
- Supply chain due diligence
- Traceability
- **Chain of custody**
 - *The custodial sequence that occurs as ownership or control of the material supply is transferred to each custodian along the supply chain to the final customer*

For ASI, the overall aim of a Chain of Custody Standard is to recognise and reward uptake of the ASI Performance Standard, through diverse aluminium supply chains.

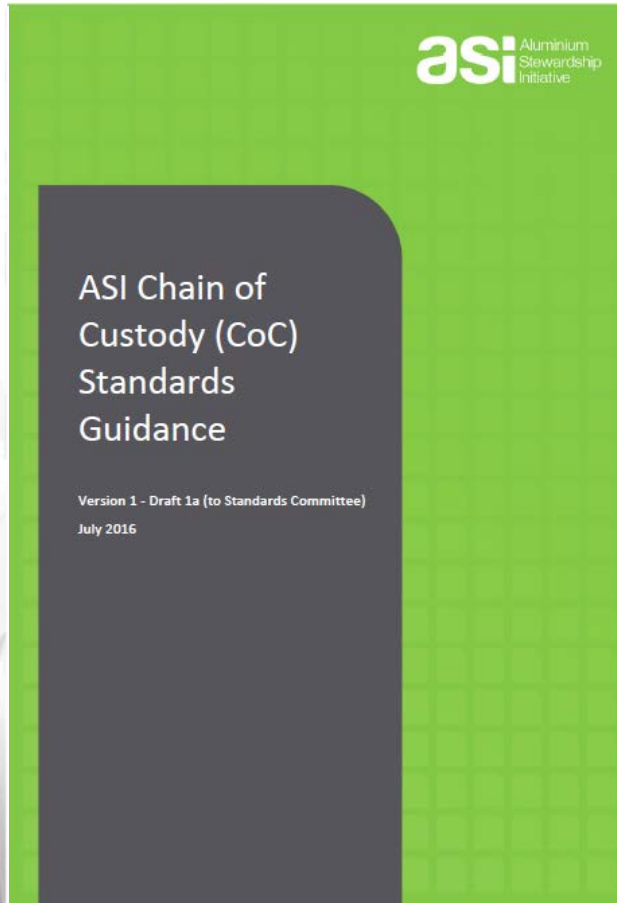
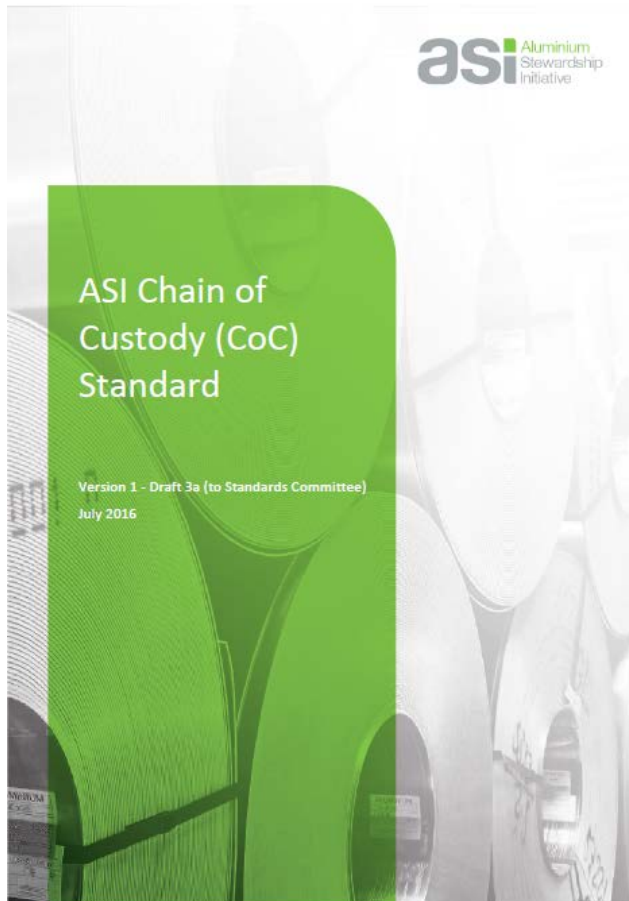
Drivers and Benefits

- **Values and efficiencies:**
 - Leverage responsible practices
 - Reducing risk
 - Supplier selection
 - Reputational benefits
- **Stakeholder expectations:**
 - Demands for more product information
 - Ensuring sustainability claims are true
- **Regulation:**
 - Meeting legal requirements
- **Global alignment:**
 - Standardisation of expectations, processes and systems

Challenges

- **Supply chain complexity:** the longer and more complex the supply chain, the greater the number of actors with different systems, requirements and ability to engage
- **Availability and scale of certified product:** it takes time and effort to build participation across supply chains to an appropriate scale for uptake and impact
- **Costs for all supply chain actors:** requires investment in systems and processes, and co-ordination between different supply chain actors
- **Technology support:** central to increasing efficiency and verifiability and reducing costs, but focus needed on ensuring security and equitable access to systems

ASI Chain of Custody Standard and Guidance



Other relevant documents:

- ASI Claims Guide
- ASI Assurance Manual
- Audit protocols
- ASI Performance Standard (plus Guidance) – *will be re-issued in this style and format in late 2017.*

CoC Standard has 12 sections in 3 parts

General CoC Management

1. Management System and Responsibilities

2. Outsourcing Contractors

Confirming Eligible Input

3. Primary Aluminium

4. Recycled Aluminium

5. Casthouses

6. Post-Casthouse

7. Due Diligence

CoC Accounting, Documentation and Claims

8. Mass Balance Percentage System

9. Issuing CoC Documents

10. Receiving CoC Documents

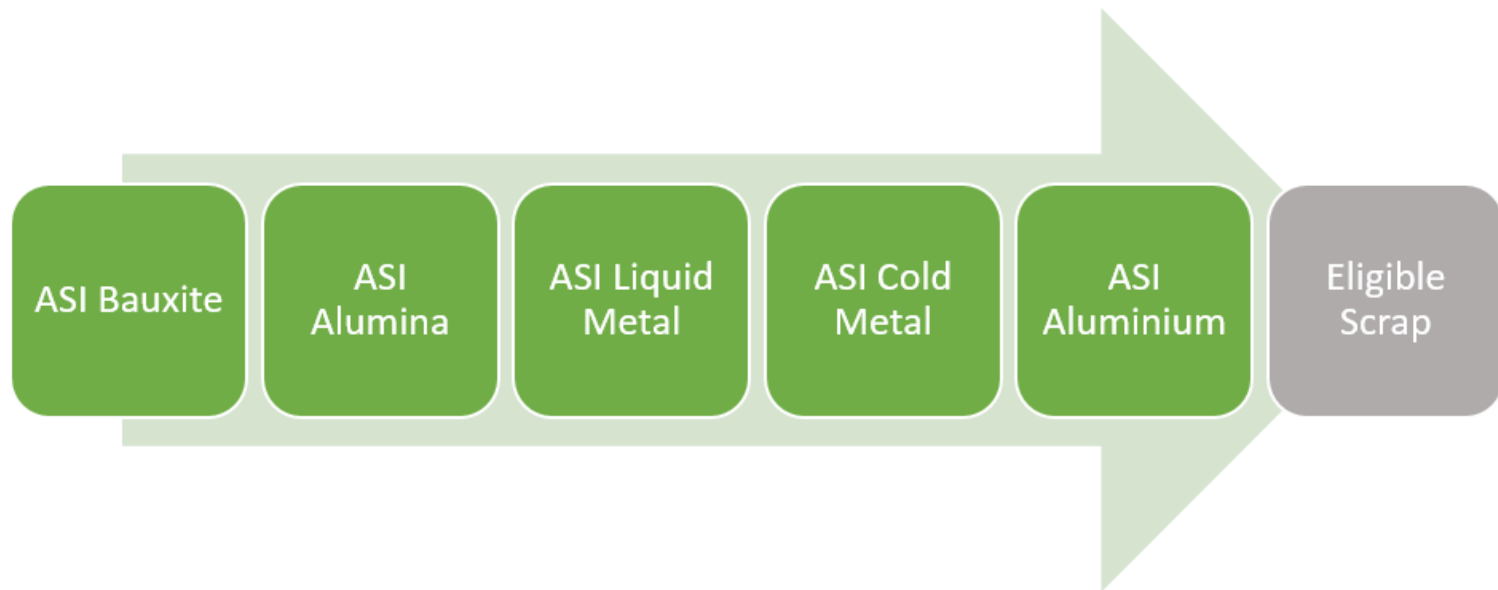
11. Market Credits System

12. Claims and Communications

Overview of CoC Standard – key principles

1. Drives implementation of the ASI Performance Standard.
2. Can be sought at a Business or Facility level.
3. Addresses both Primary Aluminium and Recycled Aluminium.
4. Focuses on systems for the eligibility and flow of CoC Material.
5. Also requires due diligence towards Non-CoC Material and Recyclable Scrap.
6. Proposes making two CoC systems available:
 - A Mass Balance System would allow for CoC Material to be mixed over a defined period, and at any stage in the supply chain. Follows the physical flow of material from primary/secondary starting points through to downstream users and requires material accounting systems to be audited at each successive step.
 - A Market Credits System would allow certified Casthouses to allocate ASI Credits (non-physical) that are linked back to physical ASI Aluminium produced at a Casthouse. Can be used where difficult for downstream companies to build an unbroken chain of custody under the Mass Balance System.

CoC Material is a collective term for

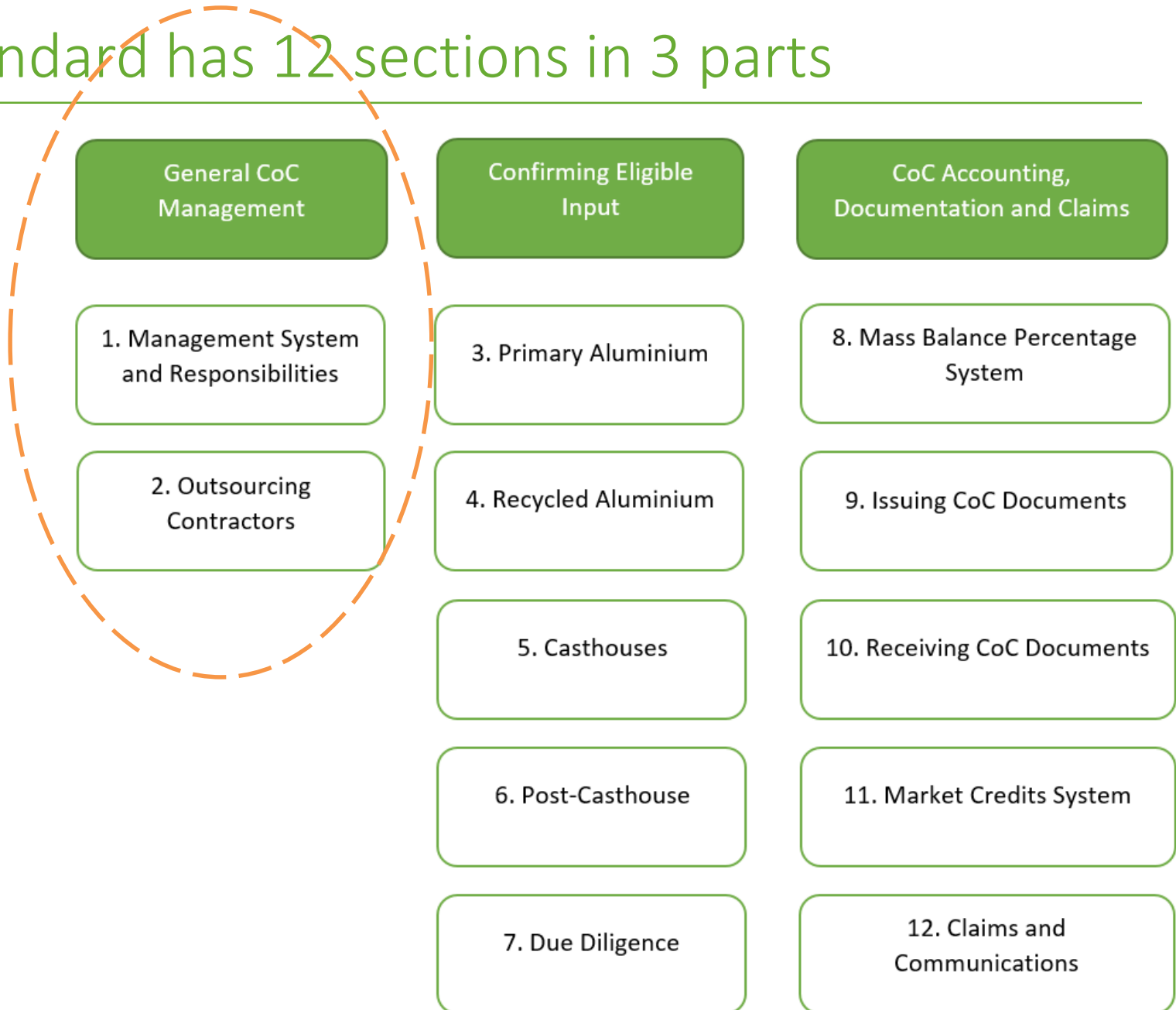


Defined stages in CoC Standard

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



CoC Standard has 12 sections in 3 parts



1. Management systems

General elements of a management system to implement the CoC Standard

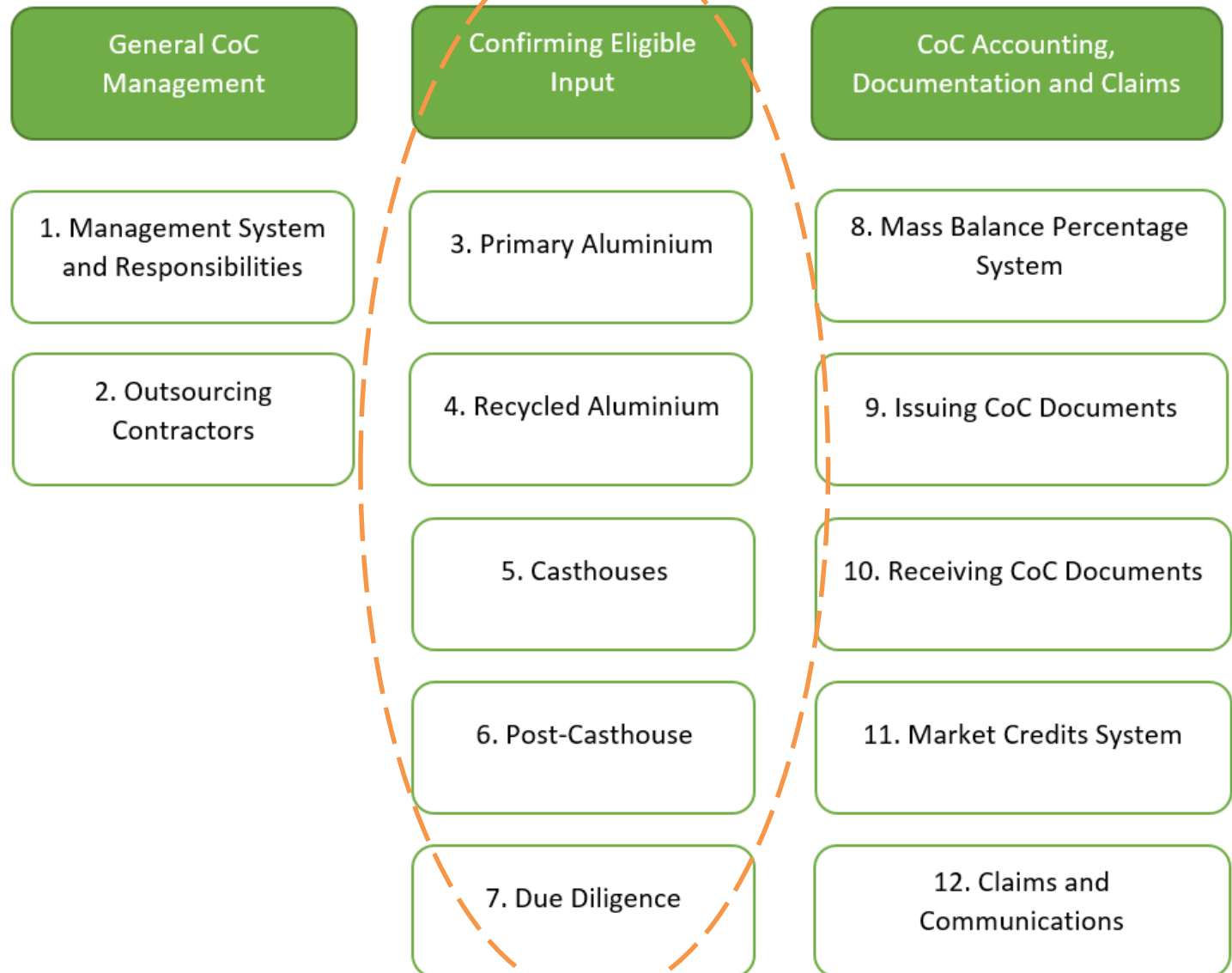
- Be an ASI member in good standing – comply with our complaints mechanism
 - Have an effective management system that is regularly reviewed and updated
 - Responsible manager, communications and training, record-keeping
 - Annual reporting to ASI – enables oversight (eg to avoid fraud) and aggregate evaluation of impact measures over time
-
- *Can integrate these requirements into existing management systems relevant to managing sales, sourcing and inventory.*

2. Outsourcing contractors

Can include some non-CoC Certified contractors under your certification

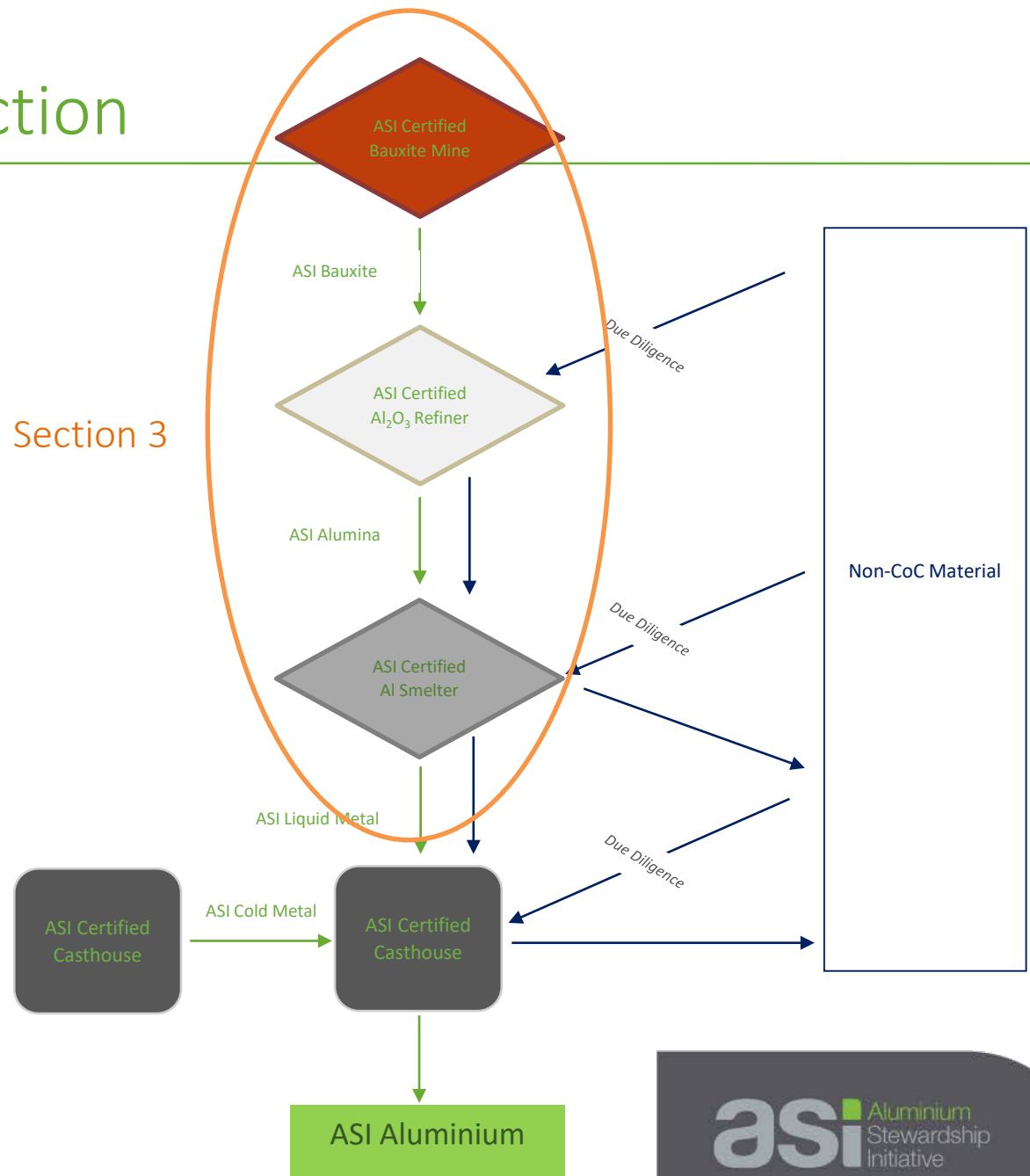
- For contractors that take custody of your CoC Material but aren't CoC Certified, can include them under your certification under conditions
 - You still have legal ownership or control of the Material
 - No further outsourcing
 - You assess the risks and determine them acceptable
- Outsourcing contractor provides info on their output quantities which you can verify and record
- *Not needed for companies such as warehouses and transportation companies that maintain segregation on behalf of their clients as an essential part of their service, and do not physically change the material they store and/or ship.*

CoC Standard has 12 sections in 3 parts



Primary production

Section 3

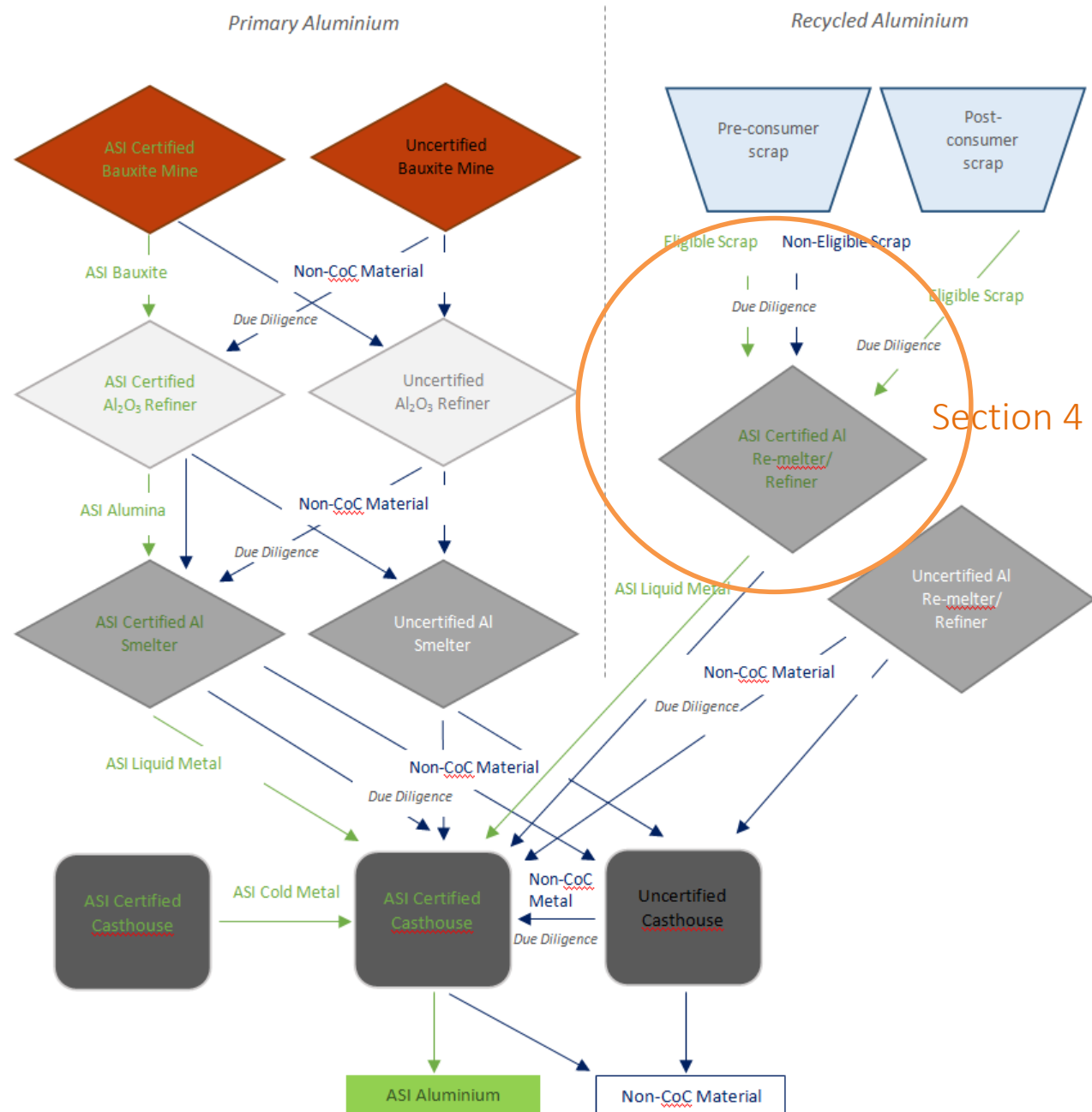


3. Primary Aluminium

Bauxite mining, alumina refining, aluminium smelting stages

- Must be certified against the ASI Performance Standard and CoC Standard to start/continue the CoC
- Potential to recognise other 'responsible mining standards'
- *The point of the CoC Standard is to incentivise uptake of the Performance Standard, so as to foster responsible production, sourcing and stewardship of aluminium.*

Recycled

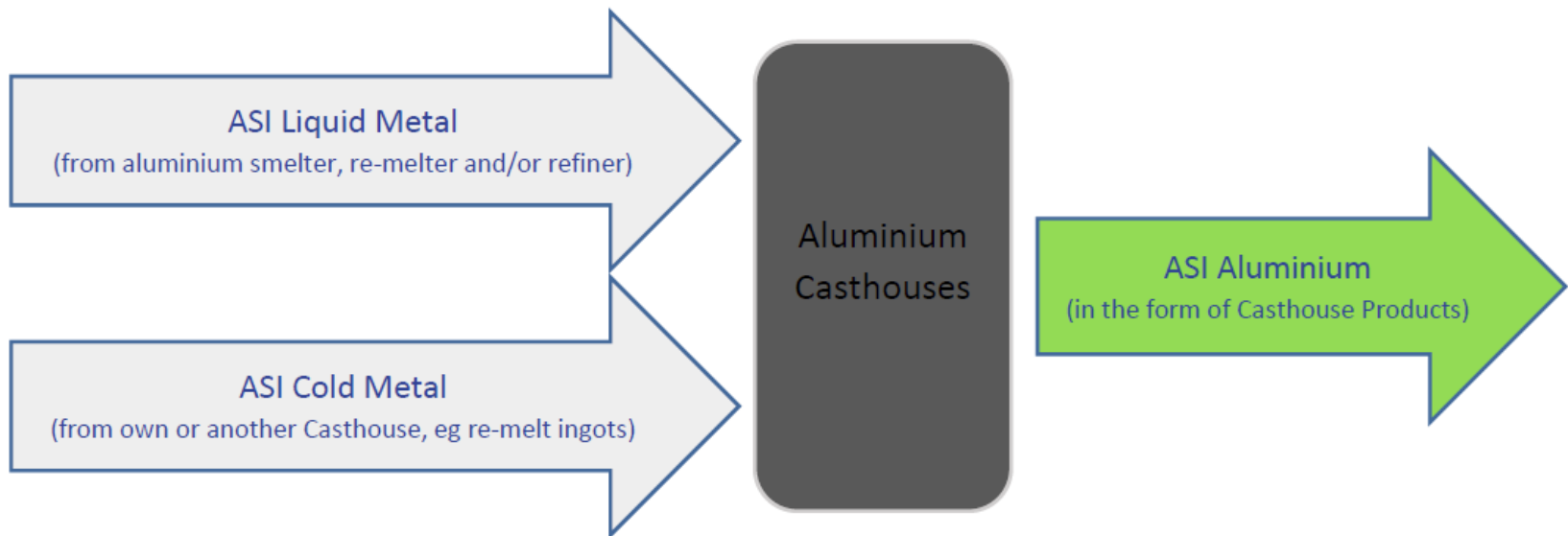


4. Recycled Aluminium

CoC starts with re-melters/refiners of recyclable scrap aluminium

- Must be certified against the ASI Performance Standard and the CoC Standard to start/continue the CoC
- Determine what is Eligible Scrap =
 - Pre-consumer scrap that has come from a CoC Certified entity
 - Post-consumer scrap, subject to due diligence (section 7)
- Address money laundering risks
 - Record supplier details
 - No cash transactions over USD10,000
- *Applies 'know your customer' principles to suppliers of scrap material*

Casthouse (Primary/Recycled)



5. Casthouses

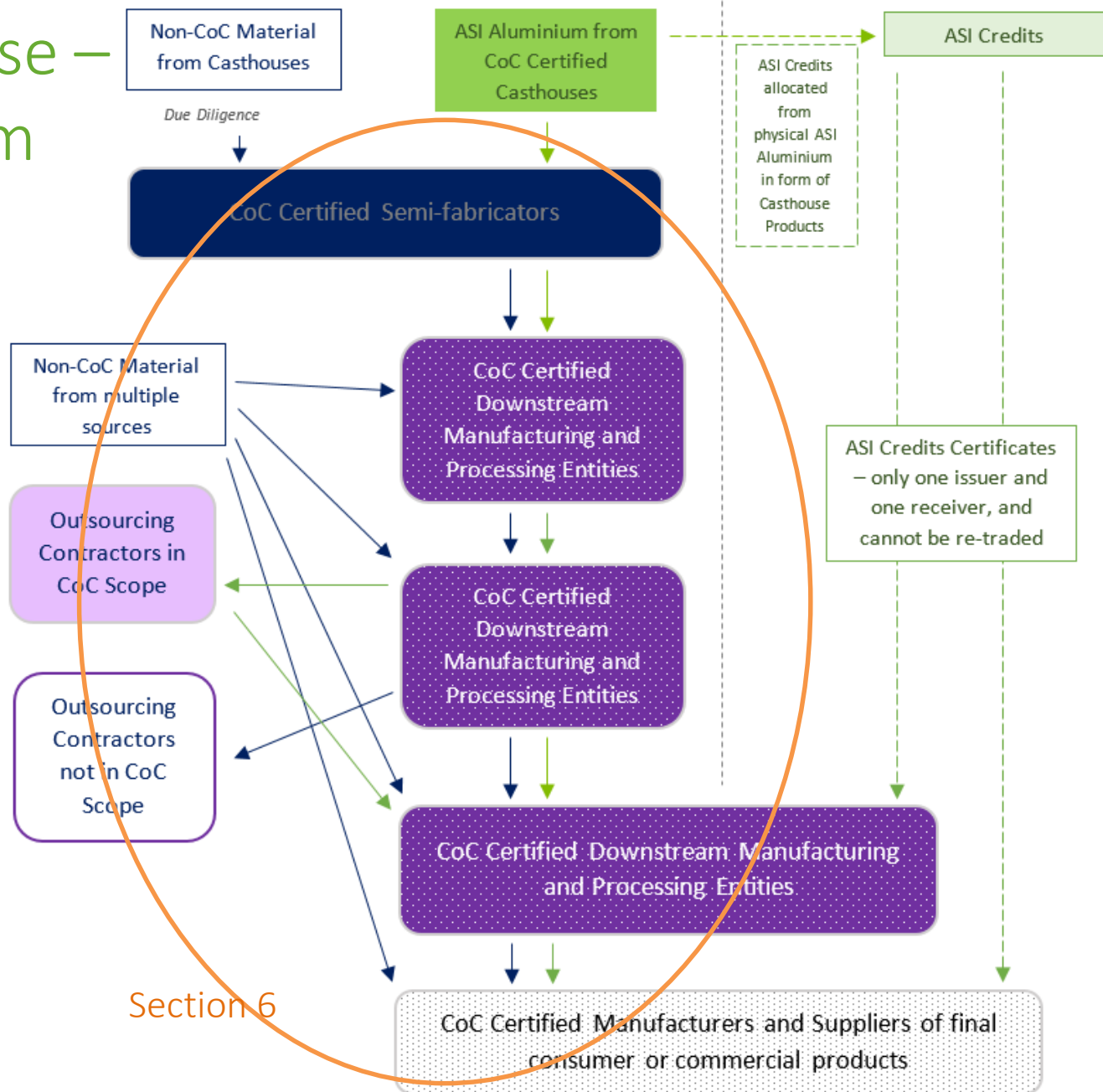
Casthouses are the point at which aluminium is formed into usable (or reusable) metal for subsequent material conversion and/or manufacturing.

- Must be certified against the ASI Performance Standard and CoC Standard to continue the CoC
- Keeps records of batch/ID numbers of physical metal that has been designated 'ASI Aluminium'
 - These are linked to your Material Accounting Period and also the input CoC Material for that period
- *This is why Casthouses are considered the 'choke point' of the supply chain*

Post-Casthouse – ASI Aluminium

Physical aluminium – Mass Balance System

Non-physical – Market Credits System



Section 6

Green arrows indicate ASI Aluminium and dark blue arrows indicate Non-CoC Material (to which due diligence must always be applied). Green dashed arrows indicate ASI Credits on the non-physical side.

6. Post-Casthouse and ASI Aluminium

Casthouse Products are destined for a wide range of semi-fabrication pathways and subsequent material conversion, downstream manufacturing and use. Supply chains from the Casthouse onwards ('Post-Casthouse') are often highly diverse and/or fragmented.

- Must be certified against the ASI Performance Standard (within deadline) and CoC Standard to continue the CoC
- ASI Aluminium is sourced from another CoC Certified Entity – directly or indirectly via metals trader/warehouse
- *Certification against the Performance Standard can be within the applicable deadline (2 years from joining) – not pre-requisite for CoC Certification unlike up to and including the Casthouse.*

7. Due Diligence

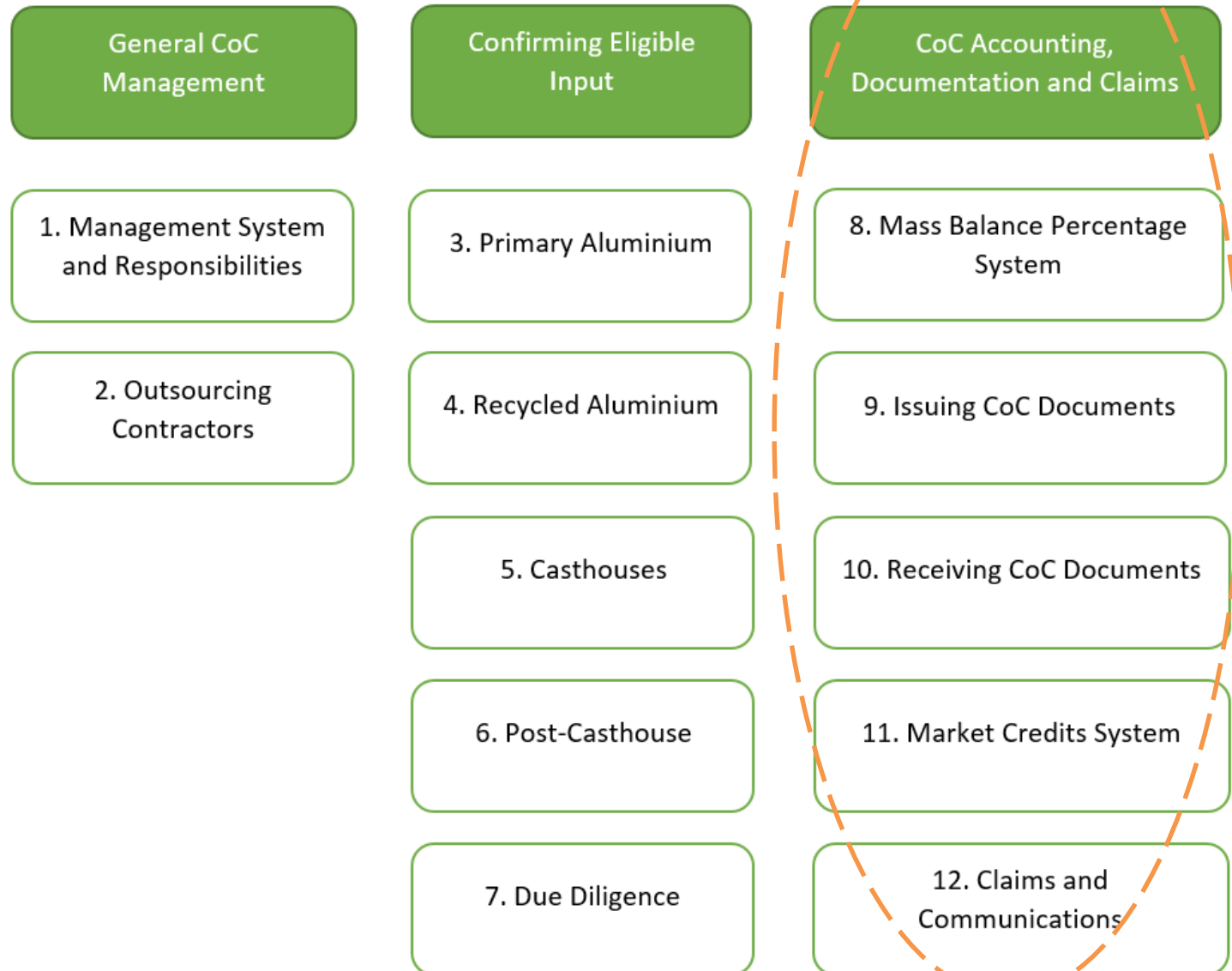
Conduct due diligence of suppliers of Non-CoC Material and Recyclable Scrap Material for potential environmental, social or governance risks.

- Due diligence = policy + risk assessment, mitigation + complaints mechanism
- Aligns with OECD Due Diligence Guidance, which in April 2016 was extended as applicable to 'all minerals and metals'
- Identifies linkages with criteria in Performance Standard
 - Responsible sourcing policy
 - Anti-corruption
 - Human rights due diligence
 - Conflict affected and high risk areas
- *This aligns with ASI's mission to promote responsible sourcing. It does not preclude you from sourcing from non-ASI suppliers.*

Overview and rationale for due diligence

- **What:**
 - CoC Standard sets out process elements (policy, risk assessment, complaints mechanism).
 - Aligns with requirements already agreed in the Performance Standard.
 - 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.
 - Production & Transformation members will already be implementing these under the Performance Standard. It extends the responsibility to Industrial Users – because they are 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 has 12 sections in 3 parts



Mass balance system – Glossary definitions

Mass Balance System	<p>Requires each successive Entity with Custody of CoC Material to be CoC Certified, and allows for CoC Materials in an Entity's custody to be mixed with Non-CoC Materials over a defined Material Accounting Period, at any stage in the aluminium supply chain. The Input Percentage of CoC Material is used to calculate the Output Quantity of CoC Material.</p> <p>Note that the CoC Standard stipulates that the output of CoC Material cannot be allocated as 'partially CoC' – so if 20% of output is 'CoC', that 20% is 100% CoC (and not all output is "20% CoC").</p>
Material Accounting Period	<p>A period of time, not longer than 12 months, during which CoC Material, Eligible Scrap and/or ASI Credits inputs and outputs are accounted for and reconciled.</p>
Material Accounting System	<p>Part of the Entity's Management System used for controlling and accounting for the inputs and outputs of CoC Material and ASI Credits. They may be stand-alone systems or integrated with purchasing, inventory, accounting, or other systems.</p>

8. Mass Balance System

Mass Balance allows for CoC Materials to be mixed with Non-CoC Material over a defined period, at any stage in the value chain. The Entity's Material Accounting System is used to record and calculate the percentage-based input and output of CoC Materials.

- Material Accounting System
 - Record inputs and outputs of CoC and Non-CoC
 - Also record breakdown of inputs of Recyclable Material into post-consumer/pre-consumer
 - Set a material accounting period: 12 months or less
- Input Percentage: formula for percentage in = percentage out
- Output designated as ASI is a proportion of total



😊 Yes:

6 units of CoC Material

6 units of Non-CoC



😞 No:

12 units of "50%
CoC Material"

8. Mass Balance System

Allow for Overdraw / Positive Balance to be carried over the Period, under conditions.

- Internal Overdraw, focus is to avoid this being abused
 - Only allowed for 'force majeure' situation (examples in Guidance) and where it relates to a forward contract
 - Restriction on amount (propose 20% of total input for period)
 - Restriction on time – must be made up in following period
- Positive Balance
 - Could arise where supply of CoC Material is higher than demand
 - A Positive Balance generated in one period can be carried over to the next, but that carry-over Balance must be drawn down or expire at the end of that next period.

9. Issuing CoC Documents

The Mass Balance System is supported by accurate CoC information accompanying shipments of CoC Material. In the CoC Standard, the set of required CoC information is referred to as CoC Documents (a template is in Appendix 1).

- Sets out what must be included eg supplier and receiver, type and quantity of material.
- Can often integrate this information into your usual shipment processes, such as sales invoices or shipping documentation.
- Additional sustainability data (eg GHG emissions) and/or other supplementary information may also be included in CoC Documents at the business' discretion, but must be accurate and verifiable.

Template – CoC Document

Can be new
stand-alone
document or
integrated in
current
documentation
eg sales /
shipping

ASI CoC Document			
The information provided in this CoC Document is in conformance with the ASI CoC Standard.			
Date of issue:	29 July 2016	Reference number:	98904280
Issuing Entity		Receiving Customer	
Name of company:	The 1886 Smelting Company	Name of company:	Rollers United
Address:	2 Hall-Herault Avenue, Crystal Falls, QC, Canada	Address:	Lot 1100, Metals Park, Dearborn, MI, USA
ASI CoC Certification number:	C00037	ASI CoC Certification number (if applicable):	C00059
Responsible person:	Anne-Laure Martin	Responsible person:	Matthew Johnson
CoC Material – Type (check which applies)			
	ASI Bauxite		
	ASI Alumina		
	ASI Liquid Metal		
	ASI Cold Metal		
X	ASI Aluminium		
CoC Material			
Form of Material	Weight or item count of CoC Material in shipment:	Weight or item count of total shipment:	Unit of measurement
Rolling slab	2000	2000	Tonnes
Sustainability Data (optional)			
Cathouse – average GHG intensity for ASI Aluminium (tonnes CO ₂ –eq per tonne Al)		5.7	
Post-Cathouse – average GHG intensity for ASI Aluminium (tonnes CO ₂ –eq per tonne Al)			
Post-Cathouse – ASI Certification status (for ASI Performance Standard)			
Supplementary information (optional)			
Our responsible sourcing policy is available at www.1886smelting.com/responsiblesourcing			

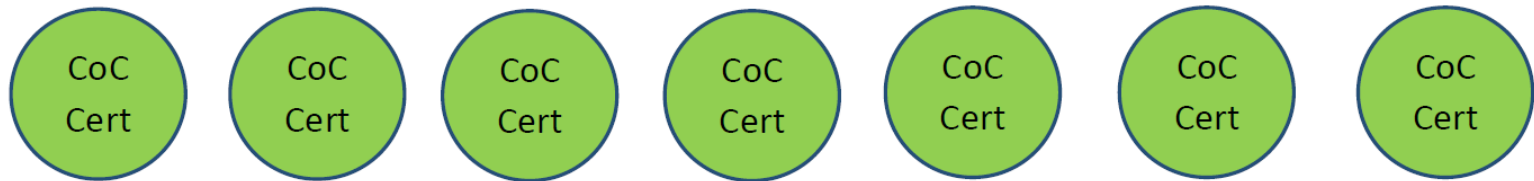
10. Receiving CoC Documents

Entities that receive CoC Material will also receive CoC Documents issued by their suppliers. Checking and recording this information supports the accuracy and reliability of the Mass Balance System.

- Check the info supplied is complete and aligns with the shipment.
- Periodically check on the ASI website that the supplier's CoC Certification is still up to date.

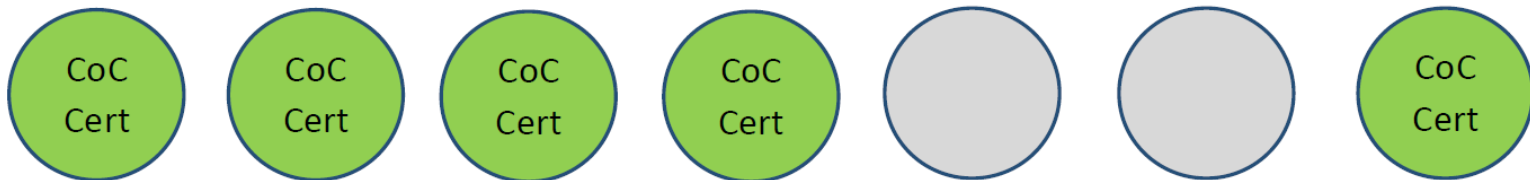
Market Credit System – background

- Goal of a CoC standard is to connect the flow of material throughout a supply chain.
- To source ASI Aluminium as a physical supply under the Mass Balance system, every step of the supply chain (that is, each entity and/or facility handling CoC Material) must be CoC Certified as per the CoC Standard



Upstream production ←-----→ Industrial user

- If there is a break in the chain of CoC Certified Entities at any stage, then the CoC status of the material ends and cannot reach the last Entity



Upstream production ←-----→ Industrial user

Market Credits System - proposal

- 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 upstream, as part of a transition to Mass Balance.*
 - *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.*

11. Market Credits System

- CoC Certified Casthouse allocates ASI Credits from physical ASI Aluminium (Casthouse Products) produced under the Mass Balance system.
- Can't double count physical sold as ASI Aluminium and also sell the same material as 'ASI Credits' to someone else.
- ASI Credits can't be carried over. However ASI Aluminium can be carried over as a Positive Balance – Casthouse would simply hold off on allocating to Credits.
- Post-Casthouse Entity receives ASI Credits from the Casthouse via a Certificate.
- ASI Credits are decoupled from the physical material and cannot be re-traded, allocated back to products or otherwise claimed as 'ASI Aluminium'.
- *Casthouses are able to allocate excess supply of physical ASI Aluminium via Credits, thus creating a market for their certification while demand is still growing.*
- *Data on volumes of ASI Credits will be a lead indicator for future demand of physical ASI Aluminium.*

Template – ASI Credits Certificate

ASI Credits Certificate			
<i>The information provided in this Certificate is in conformance with the ASI CoC Standard. ASI Credits may not be re-traded. ASI Credits may not be allocated to physical products or otherwise claimed as ASI Aluminium.</i>			
Date of issue:	30 July 2016	Reference number:	38905840
Issuing Entity		Receiving Customer	
Name of company:	The 1886 Smelting Company	Name of company:	Earhart Aircraft
Address:	2 Hall- <u>Heroult</u> Avenue, Crystal Falls, QC, Canada	Address:	Lot 21, Amelia Rd, Jacksonville, FA, USA
ASI CoC Certification number:	C00037	ASI CoC Certification number:	C000107
Contact email:	asicredits@1186smelting.com	Contact email:	purchasing@earhart-aircraft.com
Quantity of ASI Credits			
2500 tonnes			

12. Claims and Communication

All marketing and communications claims, beyond what is contained in CoC Documents or ASI Credits Certificates, are to be consistent with the assurance provided by the relevant ASI Standards and with the ASI Claims Guide.

- For claims about products, their sources and/or practices, which have an expressed or implied link with ASI Certification follow the ASI Claims Guide
- *CoC Certified Entities are encouraged to communicate with their customers and consumers about their support for responsible supply chains.*

Summary

For ASI, the overall aim of a Chain of Custody Standard is to recognise and reward uptake of the ASI Performance Standard, through diverse aluminium supply chains.

Seeking feedback on draft CoC Standard and Guidance, particularly:

- Market Credits System – risks and benefits?
 - Is the Standard practical and accessible?
 - Does the Guidance answer your questions about implementation?
 - Are there other issues / situations that need to be considered?
-
- *Comment period open until December 23!*
 - *We look forward to your comments and questions*

Thank you

Email: info@aluminium-stewardship.org

Website: <http://aluminium-stewardship.org/asi-standards/chain-of-custody-standard/>