ASI and Chain of Custody

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So how can I buy/sell ASI aluminium?

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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:

- Supply chain management/due diligence
- Ethical/responsible sourcing
- Material provenance
- 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*

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What is a Chain of Custody …

- System: comprises a set of technologies, procedures and documents that are used to provide relevant information on the chain-of-custody through each step of the supply chain.
- Standard: sets out minimum requirements for the design and operation of a chain-of-custody system, for the purposes of certification.
- Certification: is independent assurance that a chain-of-custody system meets a standard.
- Claim: is a representation about the chain-of-custody of a product made to purchasers of that product.

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Drivers and Benefits

- Values and efficiencies:
  - Reducing risk
  - Operational efficiencies
  - Securing supply
  - Supplier selection and relationships
  - 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
  - Ensuring security of natural resources

United Nations Global Compact, A Guide to Traceability, 2014

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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

United Nations Global Compact, A Guide to Traceability, 2014

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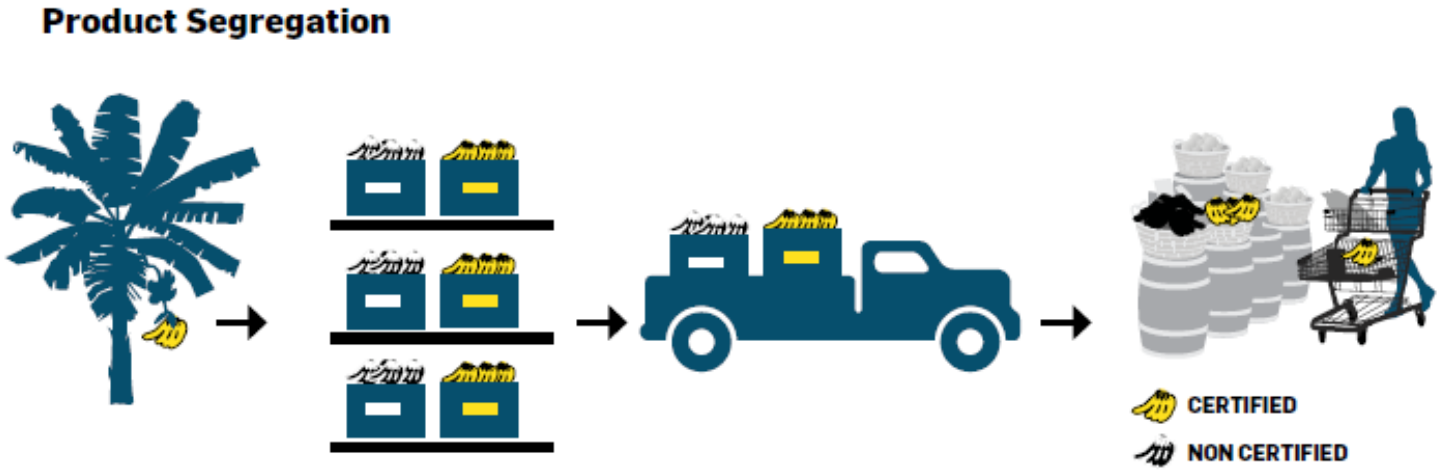
Types of CoC Systems – Product Segregation



United Nations Global Compact, A Guide to Traceability, 2014

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Production segregation

Advantages	Disadvantages
No mixing with uncertified materials – 100% of product from certified sources	Cost and resource intensive, sometimes requiring access to advanced technology
In identity preservation approach, know the origin of products	Companies must know all suppliers and ensure verification at every step
Meet consumer expectations eg organic foods	May be unachievable in complex or long supply chains

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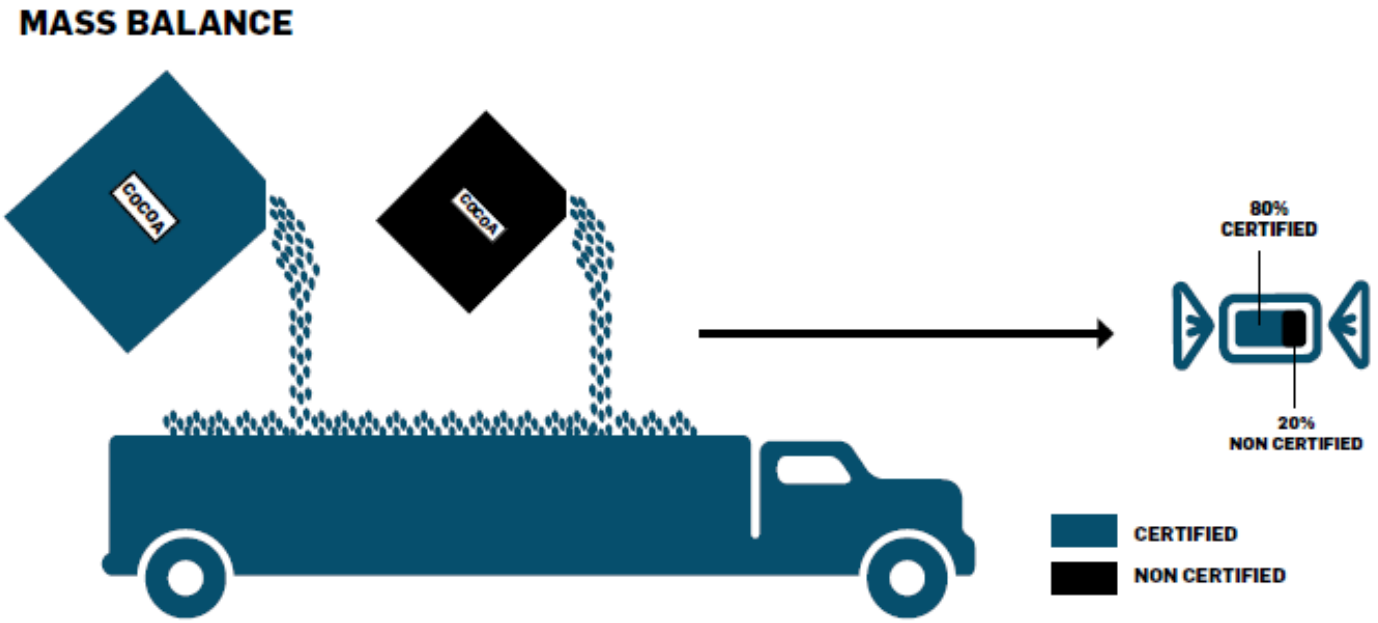
Types of CoC Systems – Mass Balance



United Nations Global Compact, A Guide to Traceability, 2014

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Mass balance

Advantages	Disadvantages
Certified and uncertified products can be mixed, with controls that volume certified in = volume certified out	Administrative segregation requires more oversight from certification scheme than segregation model
Better application to supply chains where physical segregation is impossible	Where no clear 'choke point', multiple mass balances performed at multiple stages of supply chain eg metals
Enables chain of custody programs to scale up to ideally achieve impact with less costs	May not be sufficient drivers for scaling up the certified volume sufficiently

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Types of CoC Systems – Book and Claim

Book and claim

Advantages	Disadvantages
Material can move freely through the supply chain, and claims are supported by centrally traded certificates	Perceived as the 'weakest' model for raw materials (though credible and legitimate for energy)
Trade is between production at one end and consumption at other end of supply chain, not necessarily requiring participation of middle	No linkage with actual flow of material through supply chains (though mass balance has limited connection with physical material too)
Significantly lower cost of implementation for companies than segregation/mass balance approaches	For long and complex value chains, may be difficult to decide which actors should participate (eg mine/smelter?, end-users/suppliers?)

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CoC Claims

- Product segregation: 100% certified material (in some CoC approaches, from known origin).

- Mass balance: contains on average/at least X% certified material (for one transformation stage, where known) or supports sustainable production / responsible sourcing (likely where there are multiple transformation stages).

- Book and claim: supports sustainable production / responsible sourcing (claims are decoupled from physical material).

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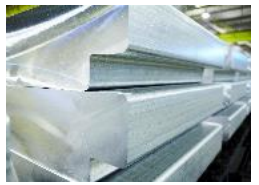
The aluminium value chain

Bauxite mining

Alumina production



Primary aluminium production

Semi-fabrication

Product manufacture

Product use

Refining and re-melting of scrap

Scrap collection

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ASI CoC Standard

Must:

- Complement the Performance Standard and provide incentives for implementation
- Create a framework for responsible sourcing through the aluminium value chain
- Address the two potential starting points for aluminium in supply chains: primary (mined) and secondary (recycled)
- Not require ASI members to trade with each other (anti-competition law) – individual business choice, so CoC must deliver value

ASI CoC Standard – standards setting

- **Drafts 1 and 2** developed with Standards Setting Group (SSG) convened by IUCN, during 2014 to early 2015

- **Draft 1**: public comment period held during July to September 2014:
  - 115 comments from 8 commenters
- **Draft 2**: currently available on ASI website

- **Draft 3:** work is underway on a further revised draft ….
  - New ASI Standards Committee to agree the next public consultation draft and timing for this
  - Proposing a CoC/Claims Working Group

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ASI CoC Standard – draft 2 to draft 3

Chain of Custody Management and Controls

- Management System and Controls
  - *Management systems required to support implementation of the CoC Standard at the business level*
  - *Can usually be integrated into existing management systems relevant to managing sales, sourcing and inventory*
- Internal Material Controls
  - *Controls to record and reconcile the input and output of CoC Aluminium under mass balance approach*
  - *Reconciliation can be at one facility or across multiple facilities which are all under the control of the Entity*
- Outsourcing Contractors and Service Companies
  - *While encouraged to become CoC Certified in their own right, there can be challenges for long or flexible supply chains / small business*
  - *Option to outsource processing or manufacturing of CoC Aluminium to non-CoC Certified Outsourcing Contractors.*

ASI CoC Standard – draft 2 to draft 3

Systems to Confirm Chain of Custody Starting Points

In the case of aluminium these are either primary (mined) or secondary (recyclable) materials. The CoC Standard does not plan to require differentiation of these sources in subsequent CoC transfers.

- Eligible Bauxite
  - *Eligible Bauxite must comes from mines certified against the ASI Performance Standard*
- Eligible Recyclables
  - *Suppliers of Recyclable Materials subject to due diligence to avoid supplies from illegitimate sources*

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ASI CoC Standard – draft 2 to draft 3

CoC Documentation and Claims

- Issuing CoC Documentation
  - *Since mass balance is based on administrative segregation, providing and recording relevant information is essential.*
  - *Entities usually issue chain of custody information by integrating it into usual shipment processes eg sales invoices or shipping documentation.*
- Receiving CoC Documentation
  - *Similarly, Entities that receive chain of custody information from suppliers can usually integrate it into inventory management systems.*
  - *Checking and recording relevant information supports the continued administrative segregation of CoC Aluminium.*
- Traders, Retail and Claims
  - *Requirements for entities that don't transform CoC Aluminium*
  - *Claims beyond standard CoC Documentation must be in accordance with ASI Claims Guide.*

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ASI CoC Standard – draft 2 to draft 3

Due Diligence for non-CoC supply chain risks

Mass balance permits mixing of CoC and non-CoC Aluminium. Based on feedback, propose to not set requirements at this stage for non-CoC Material, but require all Entities to increase their awareness of supply chain risks and mitigate and monitor any identified risks in supply chains of non-CoC aluminium.

- Policy for responsible sourcing of Aluminium
  - *Referring to criteria 2.4 (responsible sourcing) and 9.9 (conflict-affected and high risk areas) in ASI Performance Standard*
- Assess risks of non-compliance with policy
  - *Assess suppliers of non-CoC aluminium*
  - *Take action to prevent or mitigate the risks*
- Complaints mechanism
  - *As per criteria 3.2 in the ASI Performance Standard*
  - *In CoC standard, expand beyond own operations to include concerns about practices in the entity's aluminium supply chain*

Claims for mass balance model

- Administrative not physical segregation
- But still a credible CoC system that can achieve scale
- Claims must be appropriate, not misleading

Content X

Contains
Made with

Purchasing ✓

Sell
Purchase
Buy
Source
Support
Contribute

Claims for book and claim model

- Same kinds of claims as mass balance model
- Significantly reduced administration and audits costs that can be invested elsewhere

- More broadly, how to tie into a supply chain due diligence approach?
  - Focus on entities and practices, rather than the material
  - Recognising that metal is an element, so no difference in physical quality (compared to say organic food)
  - Tie back into an understanding of ASI's desired impact

Questions for implementation - discussion

- What kind of claims are desired by upstream producers and downstream users?
- How feasible will a CoC standard be for complex products, long / flexible supply chains, small businesses?
- Is the implementation (supply chain participants) and oversight (ASI) scalable?
- How would repeated mass balance calculations work over successive transformations and entities?
- Could a book and claim model work, at least as part of an initial transition?
- **How can ASI best incentivise implementation of the Performance Standard through the value chain?**
- Other?

So how can I buy/sell ASI aluminium?

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Close and thanks

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