ASI Chain of Custody and Claims Working Group – Call 3 Meeting Notes

16 July

Agenda

1. Welcome and introductions (5 min)
2. Streamlined CoC – evolution of the current Standard (30 min)
    a. Feedback on pre-read
    b. ASI Material data reporting
3. Considerations of alternate CoC Models (50 min)
4. Close and next steps (5 min)

Participants

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Johanne Milliard
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Daniil Ukhanov
Juliana Silva
Khaled Largui
Melanie Williams
Julio Oliveira
Yeoh Kerlee
Manuel Sobreviela Pena
Marcel Pfitzer
Marientina Lazaidou
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Piet Wiet
Tegan Hoddy
Marilyne Cormier
Jasminka Jaksic
Alina Theissen - Hageresch

Discussion Notes:

1. Welcome and introduction

- ASI presented the agenda for the meeting, which focuses on proposed streamlining of the current Chain of Custody model plus a discussion of alternate chain of custody models.
- ASI shared an overview of actions from the previous meeting on 11 June.

2. Streamlined Chain of Custody proposal

- ASI clarified that the streamlining of the current CoC model does not impact the discussion in the second part of the call, which will look at alternate (additional) chain of custody models.
- The aim of streamlining is to reduce duplication, simplify, and reduce the burden of implementation and auditing – it would not affect the core elements or rules of the current mass balance group level CoC accounting model.
- It was clarified that the streamlined CoC model would not change the controls or the permitted claims compared to the current ASI CoC Standard V2, as both would continue to be a group mass balance model. With a potential to add a site-level, if it would provide an added value to the current offering.

- ASI shared a summary of key points from the Working Group feedback that was added to the draft on Sharepoint ahead of the call. Participants raised following points:
    - From downstream perspective, a more rigorous CoC model may provide additional transparency.
    - Suggestion to proceed with a site-level model, as a next step towards transparency.
    - Suggestion to have a risk based approach for on due diligence for Outsourcing Contractors.
    - If due diligence applies to non-CoC scrap, this should be clearly noted.

All other comments which were not mentioned during the call or submitted after are included in the DRAFT Streamlined CoC Standard ASI_CoC Claims_WG_16_July_Streamlined COC.docx

- One participant had invited views from the Working Group on whether there is a parallel for ASI to the Forest Stewardship Council (FSC), where the mass balance CoC model evolved to help address concerns to prevent contamination with illegally logged wood:
    - It was noted that aluminium from companies using child labour might be a similar issue in the aluminium sector.
    - It was noted by one participant that exclusion of some materials from the CoC would imply more of a segregation CoC model.
    - ASI responded that it is important to understand the risk appetite of ASI's Membership and the sector, and then thinking through how the CoC model can evolve to address these – it will be useful to maintain that risk based approach.
- ASI clarified that the Sharepoint draft (Streamlined CoC proposal) will remain open for comments after the Working Group call for anyone to add further suggestions. ASI_CoC Claims_WG_16_July_Streamlined COC.docx

3. Annual reporting requirements

- ASI explained that the purpose of annual reporting on CoC (ASI) and non-CoC material was for ASI to be able to track annual flows of CoC and non-CoC material. This feeds into the visualization of the Material Flows available publicly on the ASI website.
- It also supports credibility of the CoC implementation by allowing potential discrepancies in mass balance to be detected.
- Reporting is currently annual, and covers inputs and outputs at each stage of the value chain, reported separately for each material type (e.g. bauxite, alumina, etc):
    - ASI (CoC) and non-ASI aluminium
    - Intra-Entity flows of material within the unit of certification
    - Positive Balances carried over to the next year, and Internal Overdraw
- Reporting can require a lot of data points especially for large or integrated companies.
- Any issues raised by ASI from annual reporting are passed to CoC auditors to be checked up on during the next audit cycle.
- ASI checks the data at two levels – Entity level and system level (aggregated mass balance across sector). However, in some cases non-compliances or errors have been reported later, which shows potential weaknesses in auditing/ verification approach.

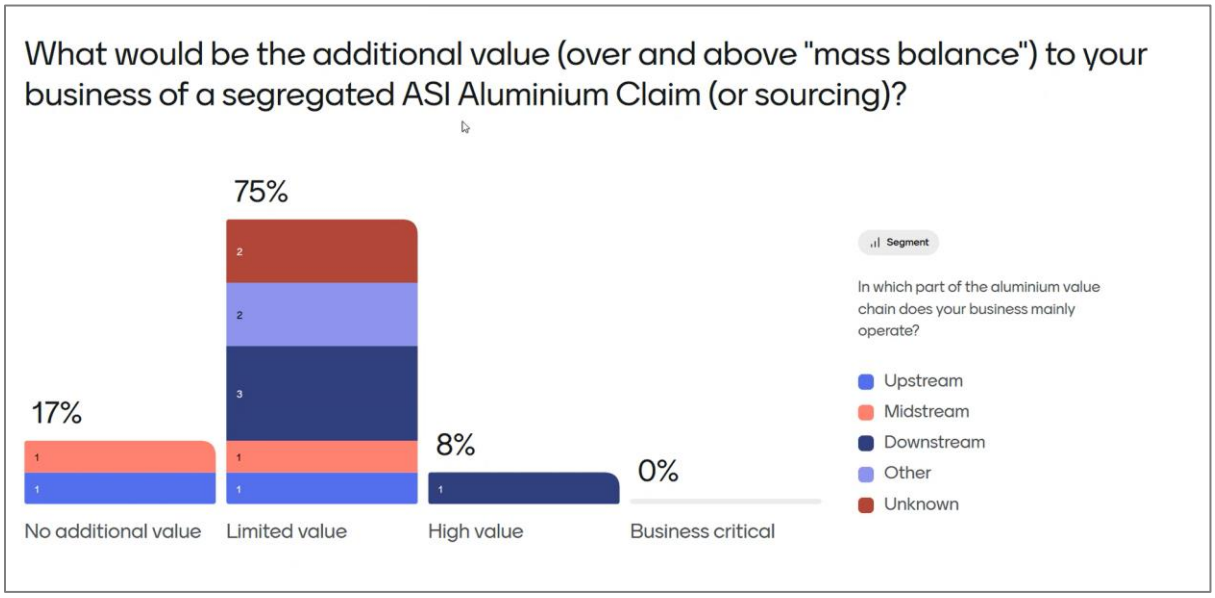
- It was noted that although there have been isolated errors picked up, so far there is no evidence of major or systemic fraud or deliberate substitution within the chain of custody system.
    - Compared to other schemes and CoC models – this may in part be due to the fact that ASI aluminium does not generally carry additional value (compared to other certified products).
    - Heterogeneity of CoC scopes can make auditing more challenging.
- It was noted by a participant that the auditor's role is not to verify every data point [ASI applies a sampling approach rather than full data verification]. If data quality issues arise, the ASI system should respond using a risk-based approach. Potentially increasing sampling or audit frequency. Systemic errors affecting overall reporting should be addressed early, as this is an assurance insight relevant at the system level, not specific to the Chain of Custody.
- There will be trade-offs between amount of data required/ burden of annual reporting and the level of visibility and trust in the mass balance CoC system
    - **ACTION** – ASI will write a one pager outlining the data currently requested (broken down by individual data points, with commentary on purpose of each). Working Group Members are asked to review this and provide feedback on:
    - the burden of collection/reporting of each data point,
    - perceived necessity for ASI to collect.

4. Exploring alternate CoC models

- ASI opened the discussion with some input from the group through Mentimeter, starting with asking WG participants to map their position in the value chain.
- ASI briefly explained the high-level overview of common chain of custody models, including group mass balance, site level mass balance, segregation and identify preservation
    - The controlled mass balance model relates to the scheme having some type of additional controls on the non-certified material. Usually, a defined (by a Scheme owner) set of minimum legal or sustainability requirements.
- ASI's current CoC model (ASI CoC Standard V2) is a controlled group mass balance
    - It was clarified that the 'controls' in the current ASI CoC relate to the Due Diligence requirement that must be carried out on non-ASI (CoC) material.
- Working Group was asked to rate the value and effort/ burden of alternate CoC models
    - It was clarified that for example site mass balance could be in addition to current group mass balance, not replacing it.
    - It was raised by a participant that it is important to have a way to harmonize models between site and group mass balance.

SEGREGATION MODEL

- Participants were asked about the additional relative value of a segregation CoC model, compared to current group mass balance



- When asked to comment on the value of the segregated model:
    - From a downstream perspective, regulators might ask companies to prove that there is no forced labour in their products/ supply chain. So, being able to have confidence that there is no non-certified products would be additional value
    - It was suggested that perhaps streamlined mass balance CoC could be a basic offering CoC level, and something like segregation could be a more advanced / rigorous option for CoC (tiered levels).
- One participant suggested that ASI might consider hosting a shared IT platform where each Entity is reporting the material volumes. This would avoid the need for each Entity to develop its own system, offering a more streamlined and efficient solution for reporting and segregation management.
- From a Smelter perspective, it was clarified that due to the nature of the process it is very difficult to segregate certified material. It was explained that when alumina arrives at a port near a smelter, it is loaded onto a hopper that feeds directly into the Smelter, which needs to be continuously fed to keep the smelter running (e.g. continuous processes, not batch processes).
    - So, in this context, segregation for smelter would also require suppliers of alumina to be segregating.
    - Due to the nature of continuous processes, if a Smelter could segregate input material (e.g. in separate hoppers), it would not be possible to maintain this segregation throughout the processing.
- It was asked whether segregation model would require physical separation of ASI certified material compared to non-ASI material. Yes, under a segregation model, this would be required – there could be mixing between ASI certified aluminium from different sources, but not with non-ASI material.
- One Upstream participant shared that in their view, this would not be possible – there is no ability nor reason to physically segregate these materials as from a chemical/ molecular structure, they are the same materials.

- To be able to exclude material from a specific source (e.g. forced labour) this could be solved from an exclusion type of approach, with a list of things you would need to avoid. Entities would need to do the Due Diligence to avoid sourcing from those restricted sources – would be easier than imposing a segregated chain of custody model on everyone.
- ACTION: ASI to review the list of specific Due Diligence controls applicable to ASI and non-ASI material, and present these in a one-pager for Working Group consideration as potential inclusions in the CoC Standard or its Guidance.

ACTIONS

Annual Reporting

ASI will write a one pager outlining the data currently requested (broken down by individual data points, with commentary on purpose of each). Working Group Members are asked to review this and provide feedback on:

a. the burden of collection/reporting of each data point,

b. perceived necessity for ASI to collect.

Due Diligence

ASI to review the list of specific Due Diligence controls applicable to ASI and non-ASI material, and present these in a one-pager for Working Group consideration as potential inclusions in the CoC Standard or its Guidance.