



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 13 March 2014  
(OR. en)**

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**Interinstitutional File:  
2014/0059 (COD)**

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**7701/14  
ADD 6**

**WTO 101  
COMER 87  
RELEX 228  
UD 83  
CODEC 782**

**COVER NOTE**

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From: Secretary-General of the European Commission,  
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 6 March 2014

To: Mr Uwe CORSEPIUS, Secretary-General of the Council of the European  
Union

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No. Cion doc.: SWD(2014) 53 final - PART 4/7

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Subject: COMMISSION STAFF WORKING DOCUMENT  
IMPACT ASSESSMENT  
PART 4 (Second part of Annex III to the Impact Assessment)  
*Accompanying the document*  
Proposal for a Regulation of the European Parliament and of the Council  
setting up a Union system for supply chain due diligence self-certification of  
responsible importers of tin, tantalum and tungsten, their ores, and gold  
originating in conflict-affected and high-risk areas

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Delegations will find attached document SWD(2014) 53 final - PART 4/7.

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Encl.: SWD(2014) 53 final - PART 4/7



Brussels, 5.3.2014  
SWD(2014) 53 final

PART 4/7

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**setting up a Union system for supply chain due diligence self-certification of responsible importers of tin, tantalum and tungsten, their ores, and gold originating in conflict-affected and high-risk areas**

{COM(2014) 111}  
{SWD(2014) 52}

## ANNEX III (cont.)

## 3 The Survey

## 3.1 The iPoint Conflict Minerals Platform (iPCMP)

Chapter 3.3 presents the results of the survey conducted with users registered for the iPoint Conflict Minerals Platform (iPCMP). The iPCMP, which was launched in September 2012, is an on-demand software solution which enables companies to collect, manage, aggregate and report Conflict Minerals information, and meet the requirements of their customers and the regulatory authorities. Table 10 illustrates the cost benefits of software solutions that facilitate automatized data collection, management, aggregation and reporting processes such as the iPCMP as opposed to manual, Excel-based data management. The table is based on a calculation conducted by one of our customers, a large, > €2 billion-revenue, globally operating automotive component supplier headquartered in Europe.

Table 10: Cost efficiency of software solutions such as the iPCMP as opposed to Excel-based manual data management

Activity	Excel	iPCMP
Number of customer requests	5	5
Number of affected suppliers	129	129
Estimated effort per supplier (in minutes)		
Write to supplier	3	0,05
Control response	30	0 <small>(displayed automatically)</small>
Review data	60	20
Have data completed if required	30	10
Review data again	30	10
Aggregate data	60	0,1
Include new suppliers in CM process	60	50
Manage supplier requests	10	1
Manage dates annual update	5	1
Estimated effort customer report (in minutes)		
Compile supplier responses for customer	60	20
Create customer report	60	20
Send customer report to customer	30	5



Manage customer reports	10	1
Manage dates annual update and general customer communication	60	30
Total supplier reports (in minutes)	37.152	11.887
Total customer report (in minutes)	1.100	380
<u>Total minutes</u>	38.252	12.267
<u>Total hours</u>	638	204
<u>Total days (with 8h workday)</u>	80	26



The iPCMP, which is based on the EICC-GeSI data collection template, was developed in close cooperation with the AIAG (Automotive Industry Action Group) and a working group with representatives from AIAG member companies — including automotive industry OEMs and suppliers such as Bosch, Chrysler Group, and Ford. However, the iPCMP is specifically designed as a cross-industry solution, addressing and used by companies from a wide range of industry sectors from around the globe. Furthermore, a governance committee ensures that members have a strong say concerning the alignment of iPCMP with their business interests.<sup>12</sup>

Currently, the iPCMP is tailored for compliance with Section 1502 of the U.S. Dodd-Frank Act (DFA 2010) and the related final ruling by U.S. Securities and Exchange Commission (SEC 2012). However, iPoint's software has been supporting customers for over a decade in complying with various national, international and supranational regulations and directives subject to constant change and country- or state-specific implementation provisions, such as the EU Directive on the Restriction of the Use of Certain Hazardous Substances, RoHS (with similar directives in China and California), or the EU Regulation on the Registration, Evaluation, Authorisation and Restriction of Chemicals REACH (in preparation in China and Korea). Due to its up-to-dateness and adaptivity, iPoint's software can be tailored to support companies headquartered in other countries, regions, continents or economic and political unions such as the EU and directly affected by new or similar regulations or directives concerning the responsible sourcing of selected minerals from conflict-affected and high-risk areas.

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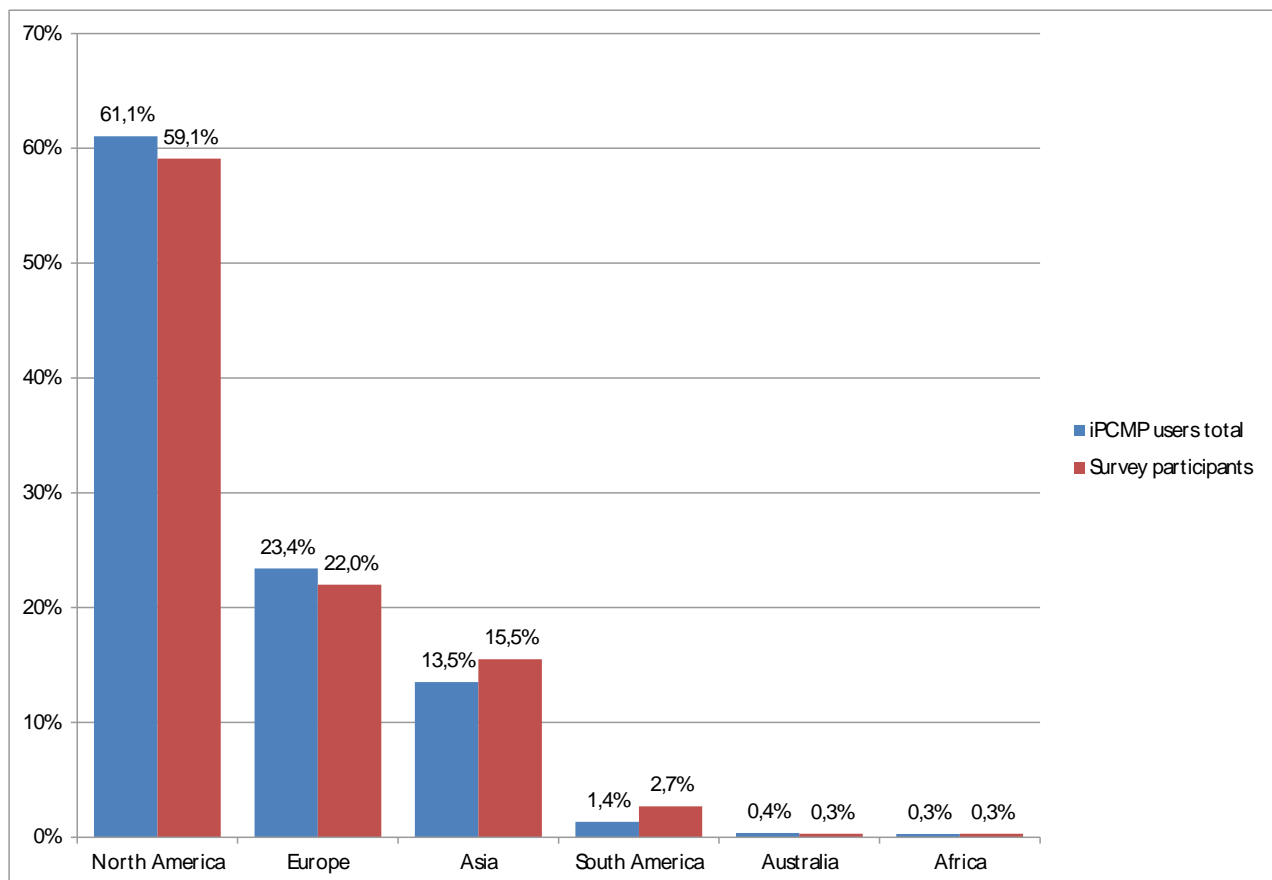
<sup>12</sup> For further information on the iPoint Conflict Minerals Platform, visit <http://www.conflict-minerals.com/>



### 3.2 The iPCMP user survey: Objective, sample, questionnaire construction

The key objective of the iPCMP user survey was to obtain statistically useful information concerning due diligence compliance costs of selected operators in relation to the responsible sourcing of selected minerals from conflict-affected and high-risk areas.

The data were collected via online questionnaire. The survey invitation was sent out between July 4<sup>th</sup>, and July 9<sup>th</sup>, 2013, to all of the users registered with the iPCMP at that point of time. As of September 7<sup>th</sup>, 2013, the survey's closing date, 330 iPCMP users have participated in the survey, the results of which are listed below. iPoint does not request or systematically gather detailed, survey-relevant data of the registered iPCMP users (e.g. on company size, industry sector, main product categories etc.). Therefore, no information can be provided on statistical population and the degree of representation of the sample – with the exception of the iPCMP users' location. Figure 19 illustrates that there are hardly any differences regarding the locations of the iPCMP users in total and of the survey respondents,<sup>13</sup> which may be taken as an indication that the sample is, in fact, representative.



<sup>13</sup> Note that the data concerning the iPCMP users in total are from the point the survey started (July 2013).



Figure 19: Representativity of the sample,  
using the example of iPCMP total users' and survey participants' locations

The questionnaire consists of 17 single choice, multiple choice, close-ended and open-ended questions. Furthermore, there is a comment box for additional remarks at the end of the survey and also at the end of some of the 17 questions. These comments, which can be found in the annex (cf. Annex 14ff.), were not corrected as regards spelling mistakes. However, entries which allow the identification of specific persons or companies have been anonymised for confidentiality reasons.

The survey questions focus on different aspects which may serve as variables for further EIA calculations. The questionnaire was created on the basis of existing Conflict Minerals-related studies, surveys, as well as other relevant publications by international and supranational institutions and organizations, notably the European Commission, the OECD, and the UN.<sup>14</sup>

Specifically, the survey questions address the following 12 areas:

a) Location of companies' headquarters (question 1)

The survey participants had 7 options to choose from:

- Africa
- Asia
- Australia
- Canada
- Europe
- South America
- USA.<sup>15</sup>

b) Operational regions of the companies (question 2)

The respondents were able to make multiple choices from a given selection of 6 options:

- Africa
- Asia

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<sup>14</sup> These include, among others: EC 2013; OECD 2013a; OECD 2013b; SRZ 2013; Tulane University 2011.

<sup>15</sup> Unlike area b) / question 2 concerning the operational regions of the companies, Canada and the USA were not clustered under the category "North America". This is due to the fact that the USA already has a Conflict Minerals law in force which affects all publicly-traded U.S. companies, whereas currently (September 2013), Canada is still in the process of discussing the introduction of a similar legislation designed to ensure Canadian companies are not using Conflict Minerals in their supply chain.



- Australia
- Europe
- North America
- South America.

c) Company size (question 3)

The company size was measured in staff headcount. The respondents had 6 options to choose from:

- < 50 employees
- < 250 employees
- < 1.000 employees
- < 5.000 employees
- < 10.000 employees
- > 10.000 employees

These options, which were partially modelled around the official EC company size definition, not only allow a clustering of small companies, medium-sized companies, and large companies. They also enable the differentiation of companies according to their annual turnover.<sup>16</sup> Thereby, the following simplified employee headcount to annual turnover-relation could be used (Table 11):<sup>17</sup>

Table 11: Employee headcount to annual turnover-relation

Head-count	Annual Turnover US\$	Annual Turnover €
< 50	≤ US\$ 13.000.000,00	≤ € 10.000.000,00
< 250	≤ US\$ 65.000.000,00	≤ € 50.000.000,00
< 1000	≤ US\$ 260.000.000,00	≤ € 200.000.000,00
< 5.000	≤ US\$ 1.300.000.000,00	≤ € 1.000.000.000,00

<sup>16</sup> Cf. EC 2005; EC 2013. Note that these publications define SMEs rather than large enterprises. However, if one inverts the EC definition, one can determine a large enterprise as a business having EITHER a headcount of > 250 employees and an annual turnover of > €50 million; OR an annual balance sheet total of > €43 million.

<sup>17</sup> The annual turnover estimates are based on EC 2005, p. 14; EC/ESTAT 2013a; EC/ESTAT 2013b; Stat. Bundesamt 2013.





		00		0,00
<		2.600.000.000		2.000.000.00
10.000	≤ US\$	,00	≤ €	0,00
>		2.600.000.000		2.000.000.00
10.000	> US\$	,00	> €	0,00

d) Industry and main economic activities according to the ISIC code (question 4)

Here, the survey participants had to provide information on their industry sector, or more specifically, on their main economic activities according to ISIC (International Standard Industrial Classification of All Economic Activities) by choosing from a given list of economic activity areas:<sup>18</sup>

- Mining and quarrying (ISIC – B) with the area Mining of metal ores
- Manufacturing (ISIC – C) with the areas Manufacture of wearing apparel; Manufacture of basic pharmaceutical products & pharmaceutical preparations; Manufacture of rubber & plastics products; Manufacture of other non-metallic mineral products; Manufacture of basic metals; Manufacture of fabricated metal products, except machinery & equipment; Manufacture of computer, electronic and optical products; Manufacture of electrical equipment; Manufacture of machinery and equipment n.e.c.; Manufacture of motor vehicles, trailers and semi-trailers; Manufacture of other transport equipment; Manufacture of furniture; Other manufacturing; Repair and installation of machinery and equipment
- Construction (ISIC – F) with the areas Construction of buildings; Civil engineering; Specialized construction activities
- Wholesale and retail trade; repair of motor vehicles and motorcycles (ISIC – G) with the areas Wholesale & retail trade and repair of motor vehicles & motorcycles; Wholesale trade, except of motor vehicles & motorcycles; Retail trade, except of motor vehicles & motorcycles
- Other (comment field for free text entries).

<sup>18</sup> Cf. UN 2008. In order to minimize the effort for completing the survey, the choices were narrowed down, since ISIC also includes areas which are not using Conflict Minerals, such as Forestry and logging (A-02), Manufacture of beverages (C-11), Sewerage (E-37), or Real estate activities (L.68).



e) Reasons for exercising due diligence for the 3TG (questions 5-7)

The questions belonging to this section focus on whether the respondents were affected by the U.S. Conflict Minerals law – i.e. Section 1502 of the Dodd-Frank Act and the related SEC ruling – directly, as an SEC issuer (filer), or indirectly, e.g. due to a customer request. Specifically, this section contained the following questions:

- Are you an SEC issuer (filer)? (*question 5*)
- If you are an SEC issuer (filer), are you preparing a Conflict Minerals report for your company as a whole or as a legal entity? (*question 6*)
- If you are not an SEC issuer (non-filer), why are you preparing a Conflict Minerals Report? (*question 7*)
  - Customer request
  - Expecting customer request
  - Voluntary basis
  - Other (please specify)

f) Companies' position in the supply chain (question 8)

The survey participants could choose from 8 options:

- OEM / End-product manufacturer
- Tier 1 / Semi-finished manufacturer
- Tier 2
- Tier 3
- Tier 4-n
- Trader<sup>19</sup>
- Smelter
- Other

g) Number of active suppliers (question 9)

The respondents had eight options to choose from:

- <500
- <1.000
- <2.500
- <5.000

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<sup>19</sup> Due to a transcription error, the option "Trader" was presented twice as an option in the online questionnaire. In the Summary of results (cf. 3.3.2.6), the answers on this doubly present item were merged.

- <7.500
- <10.000
- <20.000
- >20.000

This question aims at determining the economic impact in all the tiers of the supply chain. If one relates the number of suppliers to a company's respective position in the supply chain (identified via question 8), one receives another important variable for an EIA.<sup>20</sup> However, one also needs to take into account three critical factors identified by Tulane University (2011): 1) supplier overlap/mutuality; 2) exclusion of suppliers that do not provide Conflict Minerals materials, parts or components, and 3) smaller companies have fewer suppliers.<sup>21</sup>

h) Metals used in the products or manufacturing processes of the companies (question 10)

The respondents could make multiple choices from a given selection of 4 options, which correspond to the current definition of "Conflict Minerals", i.e. of minerals and their derivatives determined by the US Secretary of State to be financing conflict in the Democratic Republic of the Congo or an adjoining country:<sup>22</sup>

- Tantalum
- Tin
- Tungsten
- Gold

i) Department responsible for Conflict Minerals Reporting (question 11)

The respondents could select one or more of the following 10 options:

- Compliance
- Corporate Responsibility
- EH&S
- Engineering
- Legal
- Procurement
- Purchasing
- QM (quality management)

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<sup>20</sup> Cf. Tulane University (2011): "A central issue in the discussion of economic impact is the number of suppliers to every issuer." (p. 12)

<sup>21</sup> Cf. Tulane University 2011, p. 12f.

<sup>22</sup> Cf. DFA 2010, 1502(e)(4); SEC 2012, p. 39f.



- Supply Chain
- Other / Cross-functional team (please specify)

j) Main product category (question 12)

The survey participants entered their main product category as free text. iPoint subsequently allocated the answers to corresponding 4 digit HS codes, i.e. codes of the WCO's Harmonized Commodity Description and Coding System (HS).<sup>23</sup>

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<sup>23</sup> iPoint deliberately refrained from requesting the respondents to select the relevant HS codes themselves in order to keep their effort for completing the survey low.



## k) Estimated effort for Conflict Minerals Reporting (question 13)

Here, the survey participants were requested to provide information on the estimated initial (one-time) as well as ongoing (annually recurring) internal and external expenditures for Conflict Minerals reporting at their company for seven areas:<sup>24</sup>

13. What is the estimated effort for Conflict Minerals Reporting at your company for the following areas?		
	Initial costs (US\$)	Ongoing costs (US\$/year)
1. INTERNAL: Strengthening of internal management systems and processes in order to fulfill CM due diligence	<input type="text"/>	<input type="text"/>
2. INTERNAL: IT systems and software (Validation, new or revised (industry participation) systems)	<input type="text"/>	<input type="text"/>
3. EXTERNAL: IT systems and software (Purchase, external maintenance)	<input type="text"/>	<input type="text"/>
4. EXTERNAL: 3rd Party Consulting, 3rd Party Training	<input type="text"/>	<input type="text"/>
5. EXTERNAL: 3rd Party Audits	<input type="text"/>	<input type="text"/>
6. INTERNAL: Gathering information / Reporting (estimation)	<input type="text"/>	<input type="text"/>
7. EXTERNAL: Gathering information / Reporting (estimation)	<input type="text"/>	<input type="text"/>
Comments		
<input type="text"/>		

As regards the initial costs, the survey participants were presented 10 options, ranging from <5.000 US\$ to >5.000.000 US\$.<sup>25</sup> Concerning the ongoing costs, the respondents had 12 options to choose from, ranging from <1.000 US\$ to >5.000.000 US\$ p.a.<sup>26</sup>

The determination of these seven cost items described in detail below (see i. to vii.) was based on various guidelines and studies, notably OECD's "Five-Step Framework for Risk-Based Due Diligence in the Mineral Supply Chain"<sup>27</sup> and related publications<sup>28</sup> as well as Tulane University's

<sup>24</sup> According to Tulane University (2011), the initial implementation of many of the internal efforts can be regarded as "sunk costs" in the economic sense in that they are one-off costs in exchange for services which cannot be thereafter sold or the value otherwise recuperated. Once the management systems are [in] place, the codes of conduct have been revised, the new procedures are instituted, etc., the recurring cost of operating same is very low compared with the initial implementation." (p. 35). Tulane University (2011) describes „internal costs“ as "in-house" human resources that may already exist within the individual companies (effectively diverting internal resources)", whereas external costs are defined as "money outflows" or "resource outflows – money paid to 3rd parties for consulting, IT systems and audits." (p. 33f.)

<sup>25</sup> <5.000; <10.000; <25.000; <50.000; <100.000; <250.000; <500.000; <1.000.000; >1.000.000; >5.000.000 US\$.

<sup>26</sup> <1.000; <5.000; <10.000; <25.000; <50.000; <100.000; <250.000; <500.000; <750.000; <1.000.000; <5.000.000; >5.000.000 US\$/year.

<sup>27</sup> Cf. OECD 2013a, p. 19-52; OECD 2013b, p. 17-19.

<sup>28</sup> E.g., SRZ 2013.



“A Critical Analysis of the SEC and NAM Economic Impact Models and the Proposal of a 3rd Model” (Tulane University 2011).

- i. Cost Item 1. INTERNAL: Strengthening of internal management systems and processes in order to fulfil CM due diligence

The first cost item focuses on internal aspects, i.e. on efforts related to establishing (internal) company management systems and processes in view of performing Conflict Minerals (CM) supply chain due diligence, including

- reviewing and revising current policies/ procedures/ controls/ compliance manuals (locating where/ which policies, departments and functions will be impacted);
- adopting and implementing CM company policies/ procedures/ controls/ manuals for the supply chain of minerals originating from conflict-affected and high-risk areas and communicating them to suppliers and the public;
- assembling an internal Conflict Minerals rule compliance team to develop a programme that implements this policy and oversees due diligence processes;
- ensuring availability of resources necessary to support the operation and monitoring of these processes;
- setting up a system of controls and transparency over the mineral supply chain by creating a process to engage relevant first-tier suppliers and request information, incl. data gathered by first-tier suppliers about their own supply chains;
- strengthening company engagement with suppliers, such as incorporating expectations regarding disclosure into supplier contracts, specifications, or other documents;
- establishing a company or industry-wide grievance mechanism as an early warning risk-awareness system.

- ii. Cost Item 2. INTERNAL: IT systems and software (Validation, new or revised (industry participation) systems)

This cost item concerns all internal (in-house) efforts related to IT systems and software. This includes human resources for validating and testing new 3<sup>rd</sup> party or the revision of existing in-house IT systems and software necessary



for tracking, exchanging, collecting, aggregating, storing, and reporting CM-related data from suppliers and maintaining auditable records for the regulatory authorities.

iii. Cost Item 3. EXTERNAL: IT systems and software (Purchase, external maintenance)

This cost item concerns all external efforts connected with IT systems and software, that is IT-related resource outflows such as

- the purchase of IT systems and software necessary for tracking, exchanging, collecting, aggregating, storing, and reporting CM-related data from suppliers and maintaining auditable records for the controlling/regulatory authority, and
- the external maintenance of these IT systems and software by 3rd parties.

iv. Cost Item 4. EXTERNAL: 3rd Party Consulting, 3rd Party Training

This cost item is related to all resource outflows connected with consulting and training by 3rd parties. Specialist outside consultants can, for example, assist companies in

- analysing the supply chain and supply chain risk,
- developing and assessing the effectiveness of the CM compliance programme and related due diligence procedures,
- advising on and implementing enhancements to IT systems
- preparing compliance policies, supplier communications, questionnaires, certifications and contract modifications
- reviewing and advising on incoming materials from suppliers and customers and
- preparing CM rule disclosure.

Specialist outside trainers or training institutes can, for example, be contracted to conduct training sessions on CM regulations and rules for relevant personnel.



v. Cost Item 5: EXTERNAL: 3rd Party Audits

This cost item, which is also external, involves expenditures related to supporting the development and implementation of independent 3<sup>rd</sup> party audits of supply chain due diligence at identified points in the supply chain, e.g. of smelters' / refiners' sourcing and due diligence practices for responsible supply chains of minerals from conflict-affected and high-risk areas.

vi. Cost Item 6: INTERNAL: Gathering information / Reporting (estimation)

This cost item concerns all internal efforts for gathering CM-related data across the supply chain as well as documenting and reporting the information to the regulatory authorities. The reporting process also involves the integration of the collected information into annual sustainability or corporate responsibility reports and the (proactive) communication with the public on the issue of minerals from conflict areas, e.g. via CSR reports or the company website.

vii. Cost Item 7: EXTERNAL: Gathering information / Reporting (estimation)

This cost item concerns all external efforts for gathering CM-related data across the supply chain, documenting and reporting the information to the regulatory authorities, and communicating the CM-related due diligence practices and data to the public. This cost item also includes fees to industry associations for external analyses.

1) Expected social and economic impact of Conflict Minerals due diligence on conflict-affected and high-risk areas, for local operators and communities as well as for the underlying conflicts themselves (questions 14-17)

The survey participants were first asked whether they expected that Conflict Minerals due diligence would have a social or economic impact (positive or negative) on conflict-affected and high-risk areas (with Yes / No answer options, including a comment box, cf. questions 14 and 16). Following this, they were asked to note down their concrete expectations regarding the social or economic impact for local operators and communities as well as for the underlying conflicts themselves in a free text box (questions 15 and 17), whereby the answers to these questions were subsequently clustered by iPoint.







### 3.3 Summary of results

#### 3.3.1 Main findings

The main, and at the same time, most striking finding of the survey was that the majority of the participants reported relatively low cost efforts for Conflict Minerals reporting, with expenditures predominantly estimated at € 13 500 for initial efforts (74%) and at € 2 700 for ongoing efforts (63,8%) – despite the fact that only 17% of the respondents worked at small companies with less than 50 employees. The lower and upper limit of the selectable range of costs was based on economic impact models related to the U.S. Conflict Minerals Reporting legislation (Tulane University 2011). In retrospect, the survey should have proceeded from a much lower minimal limit and from much smaller cost option intervals, since this would have provided far more differentiated and precise findings concerning the estimated efforts for Conflict Minerals reporting. Nevertheless, the cost-related results of the iPCMP user survey depicted in chapter 3.3.2.11 are, in fact, far more differentiated and precise than other existing Conflict Minerals reporting-related studies and estimates.

Other important findings of the survey include:

- Company size and Conflict Minerals reporting expenditures: There was a relatively balanced ratio between survey respondents representing small and medium-sized enterprises (SMEs), i.e. companies with less than 250 employees, and large enterprises with 250 employees and more (45% vs. 55%). Not surprisingly, a higher percentage of SMEs as opposed to large companies reported overall initial costs estimated at € 13 500 (85,1% vs. 66,2%) and overall ongoing costs estimated at € 2 700 (73,9% vs. 55,5%).
- Main economic activities: More than two-thirds of the respondents (67%) had their main economic activities in the manufacturing industry (ISIC C), with over a quarter (27,4%) of these respondents economically active in the Manufacture of fabricated metal products, except machinery & equipment (ISIC C-25) and another quarter (23,6%) active in Other manufacturing (ISIC C-32).
- Position in the supply chain, number of suppliers: With nearly half (44%) being a Tier 1 / semi-finished manufacturer, followed by a almost equally large group (43%) that was either an OEM / End-product manufacturer (22%) or a Tier 2 (21%), the majority of the respondents had a further downstream position in the supply chain. Thereby, not surprisingly, the further downstream a company was and the larger the company, the more active suppliers it had.



- Department responsible for Conflict Minerals reporting: No single department is solely in charge of this new compliance area, i.e. Conflict Minerals reporting lies in the responsibility of many departments, with the purchasing (35%) and the QM departments (24%) represented most frequently in these cross-functional teams.
- Main products: Within the framework of the Harmonized Commodity Description and Coding System (HS) of tariff nomenclature, nearly a third of the respondents' products can be allocated to Machinery/Electrical (30,4%; HS 84-85), followed by Transportation (25,3%; HS 72-83) on a two-digit level. On a four-digit level, products of the area "parts & access[ories] for motor vehicles" dominated (18,1%; HS 8708), followed by "transmission shafts, bearings, gears etc, parts (5,5%; HS 8483).



### 3.3.2 Detailed results

#### 3.3.2.1 Location of headquarters

More than half of the participants (55,8%) worked at companies headquartered in the USA, followed by those headquartered in Europe (22%) and Asia (15,5%). A smaller portion of the survey participants had their headquarters in Canada (3,4%) and South America (2,7%), with those headquartered in Africa and Australia ranking last (0,3% respectively). (Figure 20) This USA-dominated result is not surprising since the iPCMP is currently tailored to support companies affected by U.S. Conflict Minerals laws,<sup>29</sup> directly impacting publicly-traded U.S. companies which then pass the reporting requirements through their global supply chain.

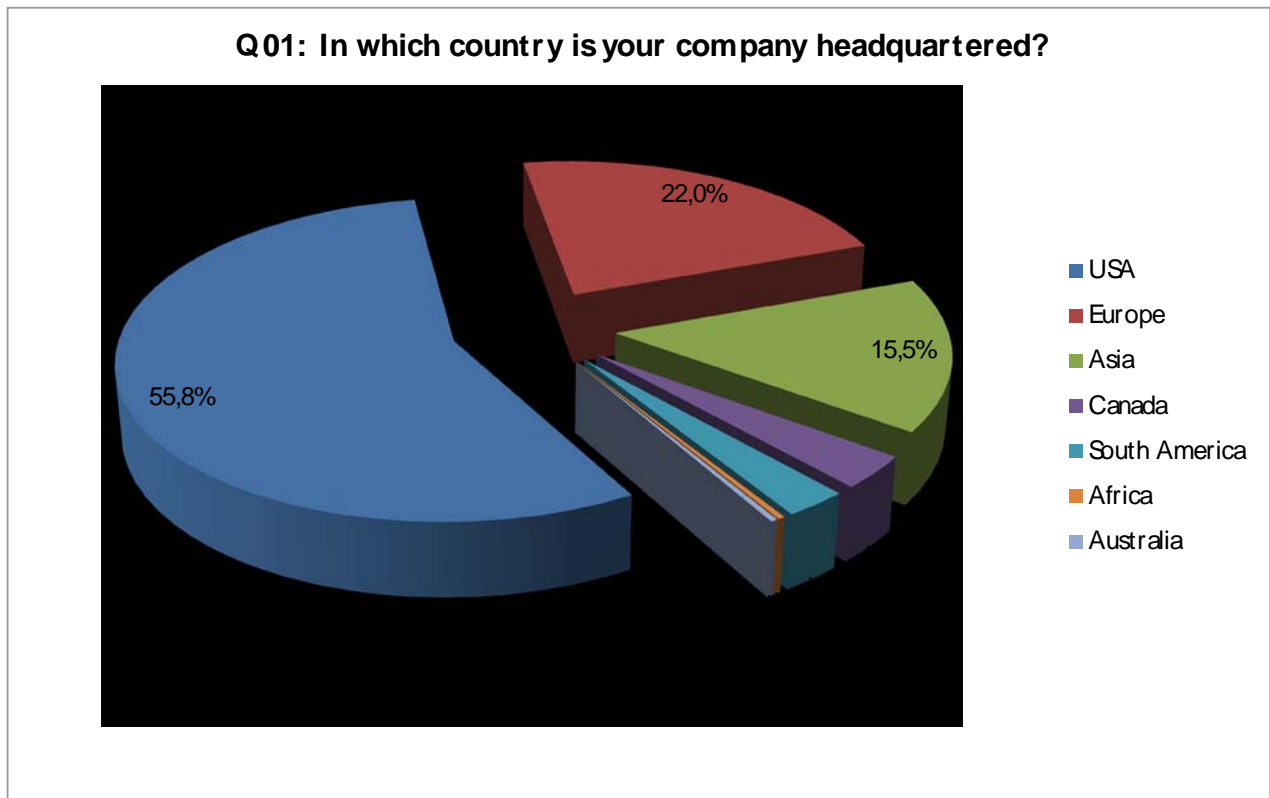


Figure 20: Location of headquarters (iPCMP user survey, Q01)

<sup>29</sup> i.e. by the U.S. Dodd-Frank Act and the related SEC ruling.



### 3.3.2.2 Operational regions

Asked about the regions in which their company operates, the respondents listed North America most frequently (81%), followed by Asia (50%) and Europe (46%). Less than a third indicated that they operate in South America (29%), Australia (14%), and Africa (9%). (Figure 21)

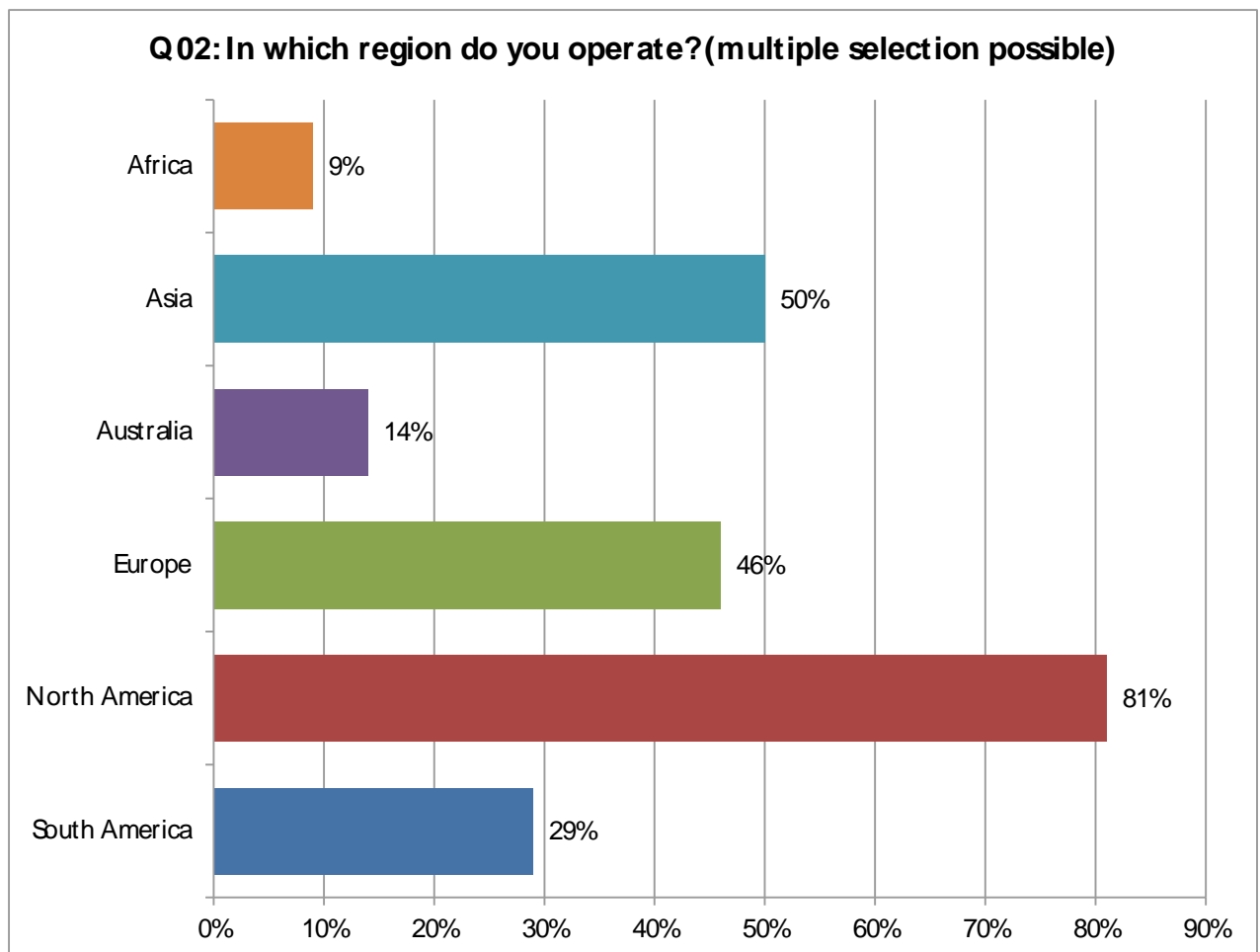


Figure 21: Operational regions (iPCMP user survey, Q02)



### 3.3.2.3 Company size

Slightly more than half of the survey participants (55%) worked at large enterprises with 250 employees and more. The remaining respondents (45%) represented small and medium-sized enterprises (SMEs), i.e. companies with less than 250 employees (Figure 22).

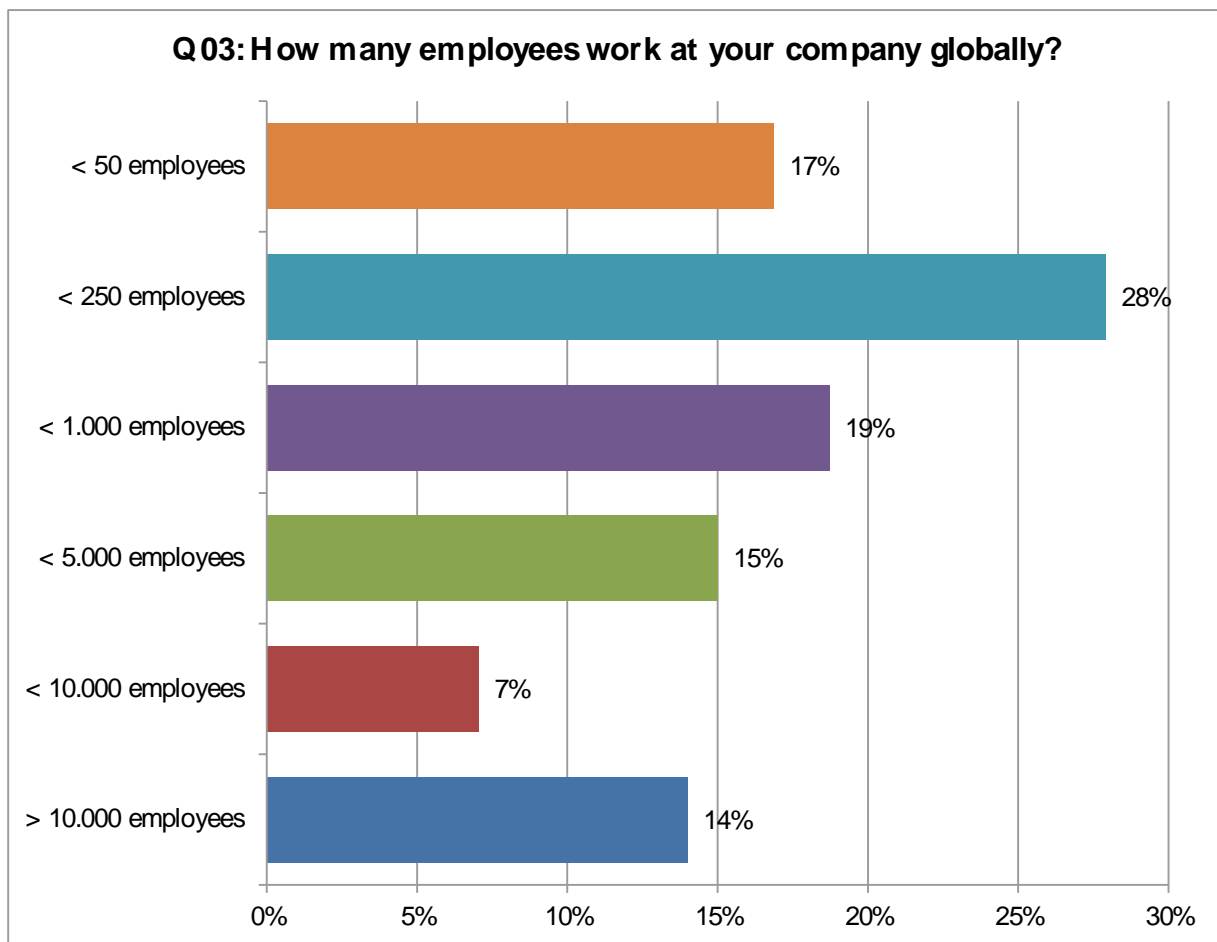


Figure 22: Company size (iPCMP user survey, Q03)

Of course, this relatively even distribution does not reflect market realities. “In the enlarged European Union of 25 countries,” for example, “some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises.”<sup>30</sup> We interpret these findings as follows: First, as several surveys have revealed, many companies are still in the early stages of their Conflict Minerals compliance efforts, have not yet begun gathering information needed to meet the reporting requirements of the SEC, or are still determining if the rule even applies to their products.<sup>31</sup> Secondly, the larger a company, the more likely it

<sup>30</sup> EC 2005, p. 5.

<sup>31</sup> Cf. IHS 2013; PWC 2013.



is that the necessary in-house structures (i.e. separate departments, staff, and supply chain expertise) for monitoring new compliance-related developments around the globe as well as for coordinating the creation and implementation of compliance programmes etc. are already available. This, of course, accelerates Conflict Minerals compliance efforts, since companies do not have to reinvent the compliance wheel and can make recourse to existing structures and procedures. Therefore, the slight ‘under-representation’ of SMEs in the iPCMP user survey could be due to the fact that companies of this size do not yet have the necessary structures and procedures to drive Conflict Minerals compliance efforts.<sup>32</sup>

#### 3.3.2.4 Industry and main economic activities according to the ISIC code

Over two thirds (67%) worked in Manufacturing (ISIC, Section C). Nearly a quarter of the survey participants (22%) selected the option “Other”, naming a wide range of economic activities, whereby the automotive sector stood out here as most frequently mentioned area (cf. Annex 14ff.). The remaining participants were either active in Wholesale and retail trade; repair of motor vehicles and motorcycles (ISIC, Section G; 5%), Construction (ISIC, Section F; 4%), or Mining and quarrying (ISIC, Section B; 2%). (Figure 23)

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<sup>32</sup> This is also reflected in the iPCMP survey: Asked which department was responsible for Conflict Minerals Reporting at their company (*question 11*), one respondent which worked at a small enterprise (< 50 employees) replied: “we don’t have a department that handles that.” Cf. 3.3.2.9 and Annex 20).



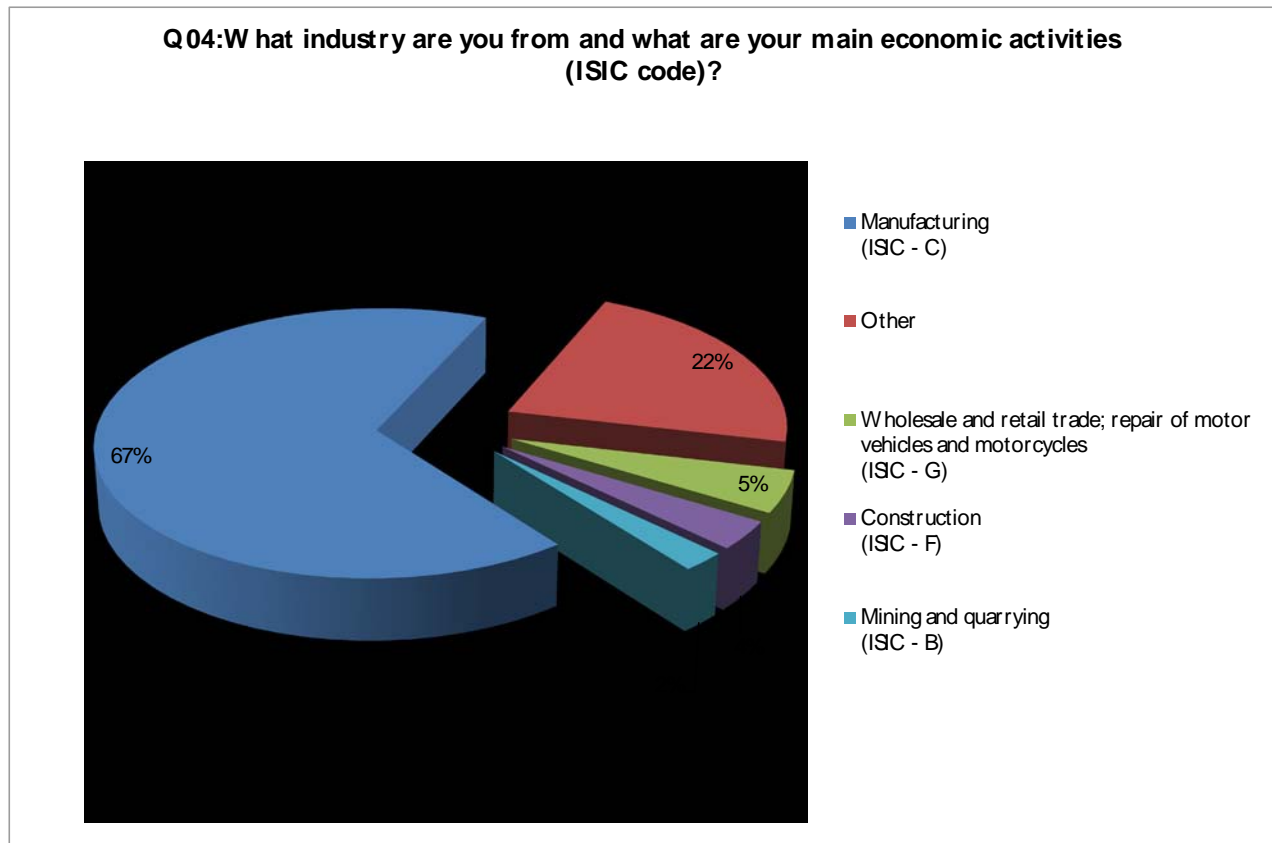


Figure 23: Overview of industries / main economic activities according to ISIC code (iPCMP user survey, Q04)

More than half of those who chose Manufacturing specified that their main economic activities lie either in “Manufacture of fabricated metal products, except machinery & equipment” (ISIC C-25; 27,4%)<sup>33</sup> or in “Other manufacturing” (ISIC C-32; 23,6%).<sup>34</sup> (Figure 24)

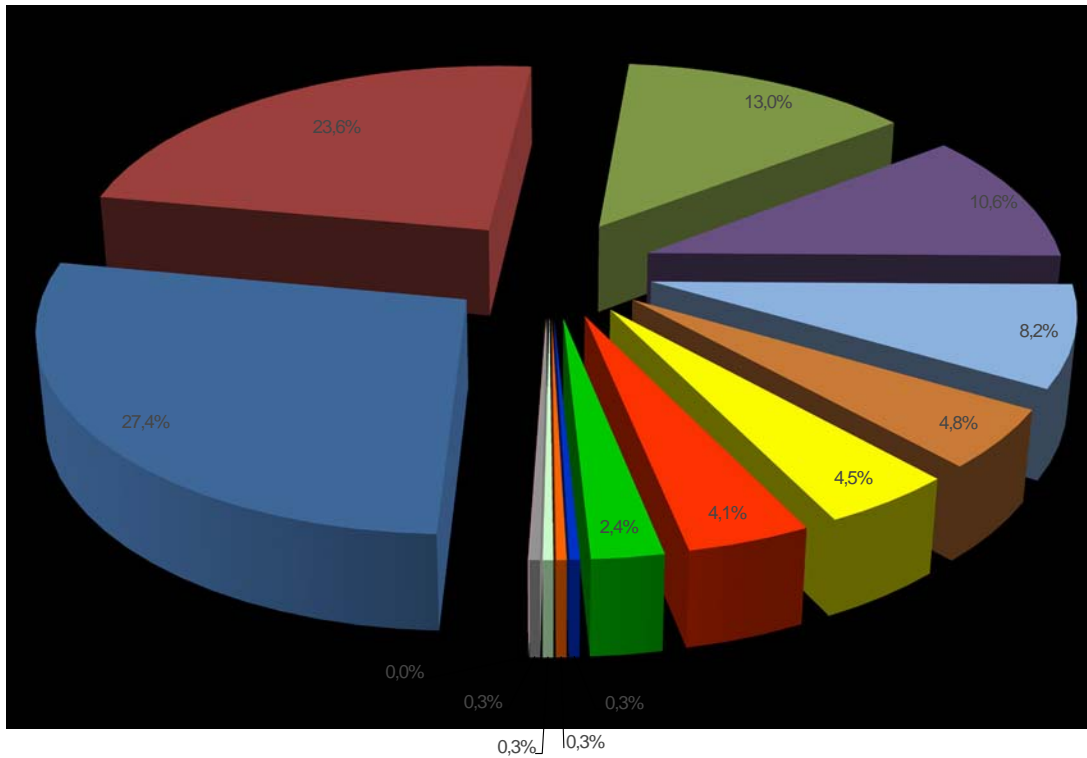
<sup>33</sup> The division “Manufacture of fabricated metal products, except machinery & equipment” of the ISIC Manufacturing section consists of three groups: Manufacture of structural metal products, tanks, reservoirs and steam generators (251), Manufacture of weapons and ammunition (252), Manufacture of other fabricated metal products; metalworking service activities (259). (cf. UN 2008, Section C, Division 25).

<sup>34</sup> The division “Other manufacturing” of the ISIC Manufacturing section consists of six groups: Manufacture of jewellery, bijouterie and related articles (321), Manufacture of musical instruments (322), Manufacture of sports goods (323), Manufacture of games and toys (324), Manufacture of medical and dental instruments and supplies (325), and Other manufacturing n.e.c. (329). (cf. UN 2008, Section C, Division 32).





**Q04: What industry are you from and what are your main economic activities (ISIC code)?**  
 Details on manufacturing section (ISC - C)



- Manufacture of fabricated metal products, except machinery & equipment (ISC C-25)
- Other manufacturing (ISC C-32)
- Manufacture of rubber & plastics products (ISC C-22)
- Manufacture of motor vehicles, trailers and semi-trailers (ISC C-29)
- Manufacture of electrical equipment (ISC C-27)
- Manufacture of machinery and equipment n.e.c. (ISC C-28)
- Manufacture of computer, electronic and optical products (ISC C-26)
- Manufacture of basic metals (ISC C-24)
- Manufacture of other transport equipment (ISC C-30)
- Manufacture of wearing apparel (ISC C-14)
- Manufacture of other non-metallic mineral products (ISC C-23)
- Manufacture of furniture (ISC C-31)
- Repair and installation of machinery and equipment (ISC C-33)
- Manufacture of basic pharmaceutical products & pharmaceutical preparations (ISC C-21)

Figure 24: Industries / main economic activities – Details on manufacturing sector (iPCMP user survey, Q04)

The remaining half of the responses paint a more fragmented picture, with the main economic activities unevenly scattered across the following 11 areas: “Manufacture of rubber & plastics products” (ISIC C-22, 13%), “Manufacture of motor vehicles, trailers and semi-trailers” (ISIC C-29, 10,6%), “Manufacture of electrical equipment” (ISIC C-27, 8,2%), “Manufacture of machinery and equipment n.e.c.” (ISIC C-



28, 4,8%), “Manufacture of computer, electronic and optical products” (ISIC C-26, 4,5%), “Manufacture of basic metals” (ISIC C-24, 4,1%), and Manufacture of other transport equipment (ISIC C-30, 2,4%), with a vanishingly low percentage (0,3% respectively) active either in “Manufacture of wearing apparel” (ISIC C-14), “Manufacture of other non-metallic mineral products” (ISIC C-23) “Manufacture of furniture” (ISIC C-31), or “Repair and installation of machinery and equipment” (ISIC C-33). (Figure 23) None of the respondents working in Manufacturing had their main economic activities in “Manufacture of basic pharmaceutical products & pharmaceutical preparations” (ISIC C-21, 0%), which is not surprising, since the 3TG are obviously not essential to products in this area.

### 3.3.2.5 Reasons for exercising due diligence for the 3TG

#### 3.3.2.5.1 Directly affected by US Conflict Minerals law

Only a small part of the respondents (16%) were an SEC issuer (filer) and thus directly affected by the Conflict Minerals reporting requirements of the U.S. Dodd-Frank Act and related SEC rules (Figure 25).

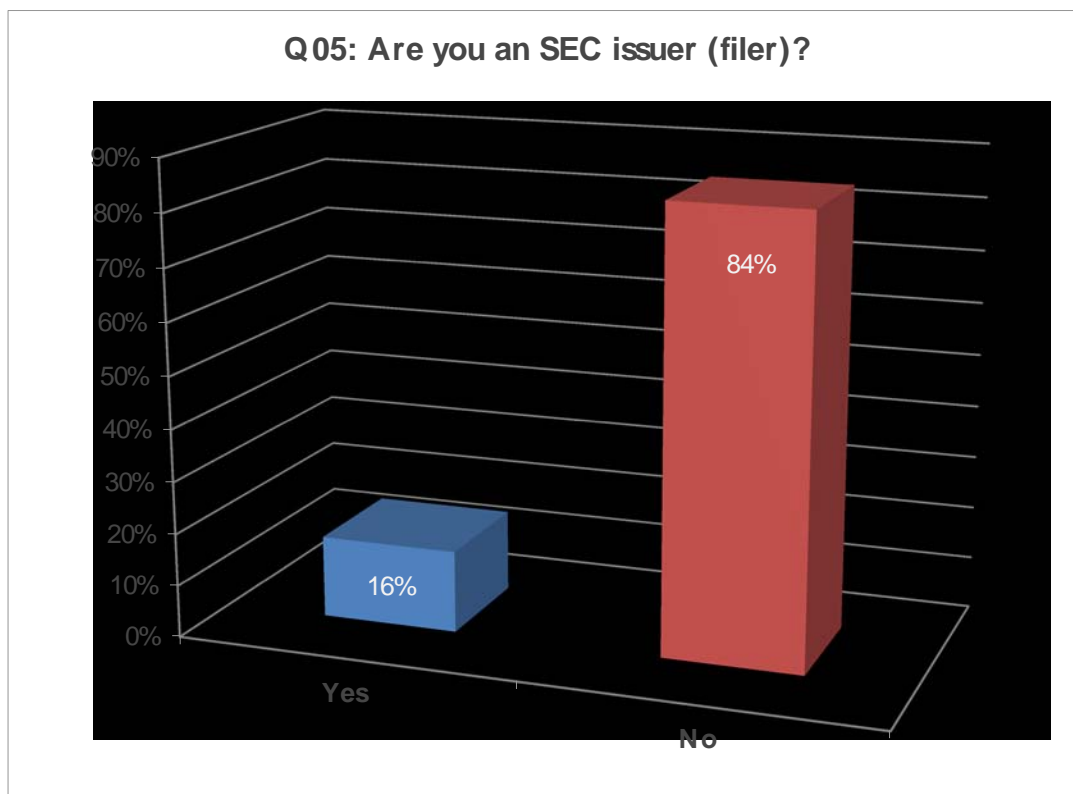


Figure 25: SEC issuers and non-issuers (iPCMP user survey, Q05)



Of those respondents indicating that they were an SEC filer, over three-quarters (78%) stated that they were preparing a Conflict Minerals report for their company as a whole and not as a legal entity of their whole company (Figure 26). One of the respondents remarked in this context: “Our subsidiary, a legal entity headquartered in the US, will report to our non-USA parent. The parent is the SEC issuer and will manage CM policy and file form SD.” (cf. Annex 15 for all of the comments on this question)

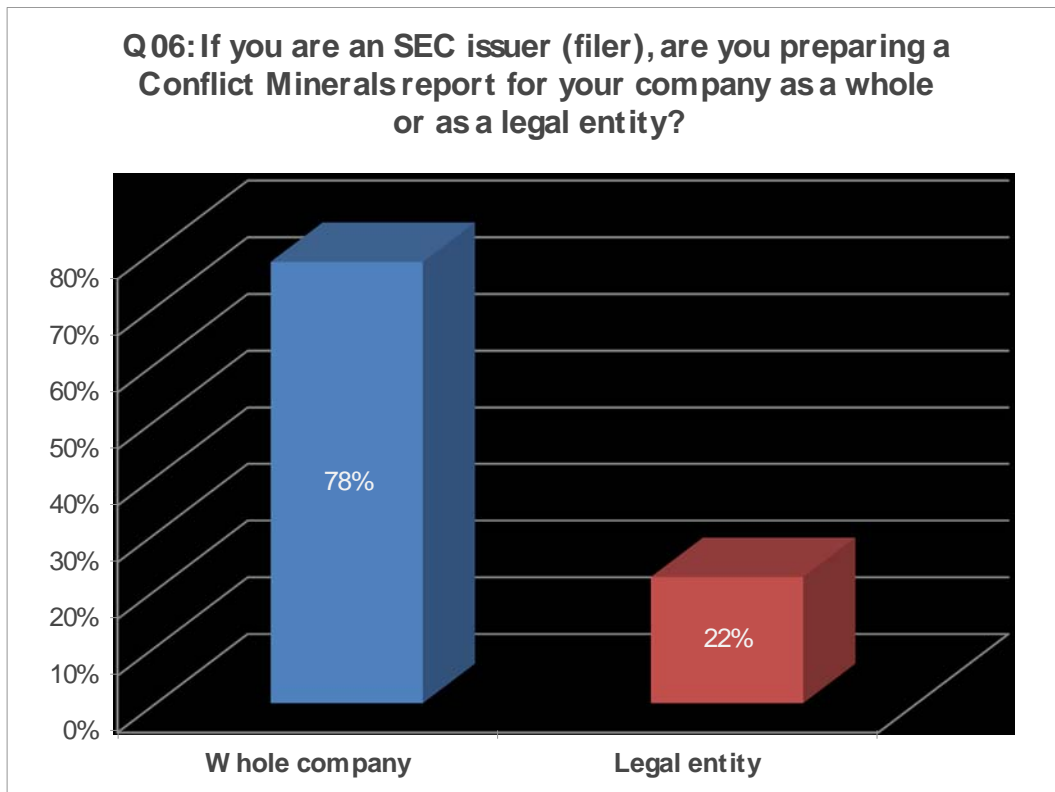


Figure 26: Impacted by Conflict Minerals reporting requirements as company or legal entity (iPCMP user survey, Q06)

### 3.3.2.5.2 Indirectly affected by US Conflict Minerals law

The majority of the respondents (84%) was not an SEC issuer (filer) and thus not directly affected by the U.S. Conflict Minerals reporting requirements of the Dodd-Frank Act and related SEC rules (Figure 25). Asked why they were preparing a Conflict Minerals report, the bulk of these (non-filer) respondents (94%) indirectly affected by the US Conflict Minerals law was preparing a report due to a customer request (86%) or in anticipation of a customer request (8%). (Figure 27) These results indicate that the companies directly affected by the US regulations, i.e. the publicly-traded companies under SEC jurisdiction, are passing the reporting requirements through their global supply chains, whereby similar



effects can be expected from a possible European initiative on responsible sourcing of minerals originating from conflict-affected and high-risk areas.

Very few respondents (4%) were preparing a Conflict Minerals report voluntarily. Those preparing a report solely on a voluntary basis (1%) were all SMEs located further downstream: two were >50 and <250 employee OEMs headquartered in the U.S., one was a <250 employee Tier 1 headquartered in Asia, and one was a <50 employee Tier 2 based in Europe. The vanishingly low group of respondents that chose the option “Other” (2%) provided specifications for preparing a Conflict Minerals report, ranging from “we re not preparing a conflict minerals report. We are only responding to customer inquiries” to “the SEC issuer without English capability” to “also compliance with company’s own responsible sourcing policies and procedures” (cf. Annex 16)

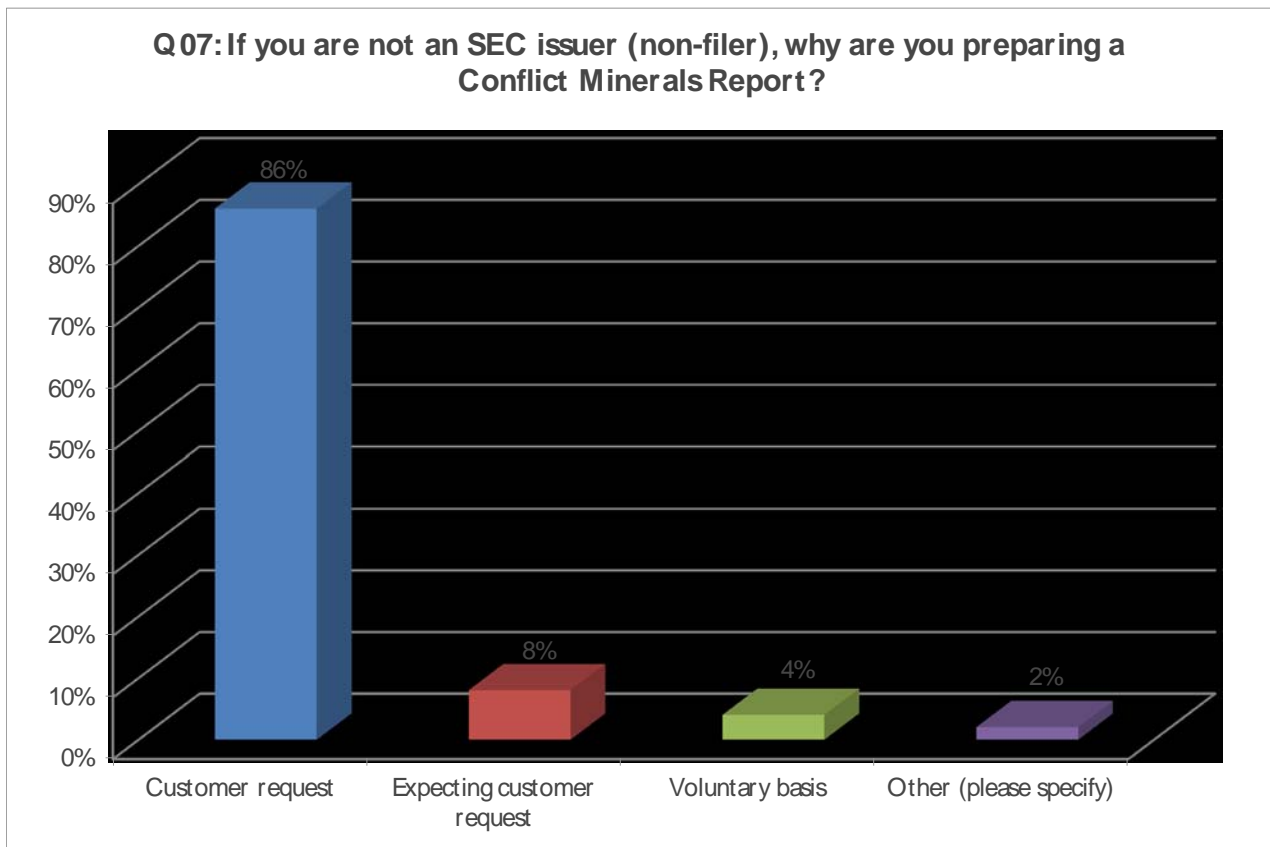


Figure 27: Reasons of non-filers for preparing a Conflict Minerals report (iPCMP user survey, Q07)



### 3.3.2.6 Position in the supply chain

The majority of the survey participants was further downstream, with nearly half of the respondents (44%) being a Tier 1 / semi-finished manufacturer, followed by a nearly equally large group (43%) that was either an OEM / End-product manufacturer (22%) or a Tier 2 (21%). A significantly smaller percentage (8%) was either a Tier 3 (4%), a Tier 4-n (1%), or a Trader (3%), whereby none of the participants represented Smelters (0%). (Figure 28)

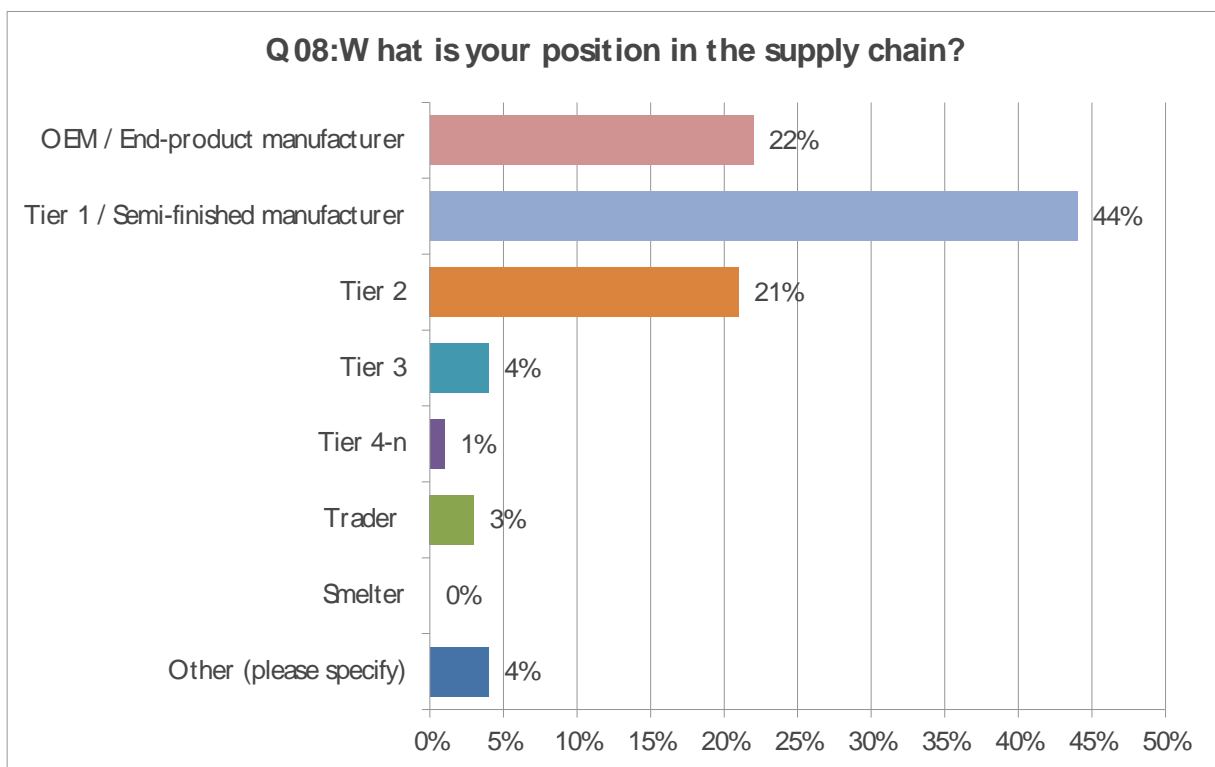


Figure 28: Position in the supply chain (iPCMP user survey, Q08)

These findings are not surprising, since the iPCMP with its many automatized functionalities specifically appeals to companies that have many suppliers, which are usually found in OEM, Tier 1 and Tier 2 position. That the option “Smelter” was not chosen by any of the respondents lies in the nature of the iPCMP (smelter detection and management is one central functionality of the platform, which is based on the EICC-GeSi Conflict Free Smelter Program).

Those that chose the option “Other” specified their choice, for example, by explaining that they had two or more different positions in the supply chain (e.g. “Tier 2 as well as trader“, “Mainly Tier 1 but also Tier 2 in some cases“, “We are both an OEM and a Tier 1 supplier”) or that they were a distributor, some also



used the comment box to detail their activities (e.g. “manufacture of Bearings, sleeves and circles”) and/or to repeat or paraphrase their position in the supply chain (e.g. “component manufacturer”, “We supply completed units which are added to a vehical”). (cf. Annex 17)



### 3.3.2.7 Number of active suppliers

Almost three quarters (71%) of the respondents had fewer than 500 active suppliers (Figure 29).

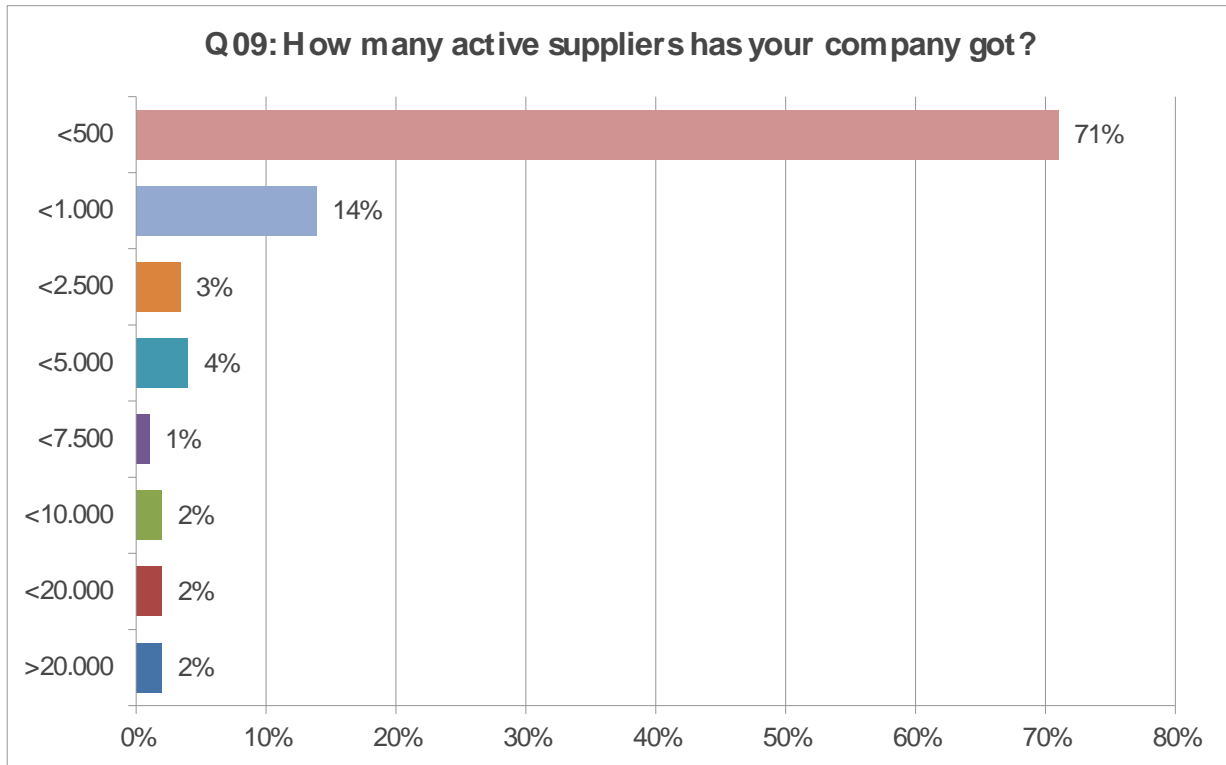


Figure 29: Number of active suppliers (iPCMP user survey, Q09)

Not surprisingly, the survey also revealed that a) the further downstream a company was and b) the larger the company, the more active suppliers it usually had (Figure 30 and Figure 31).



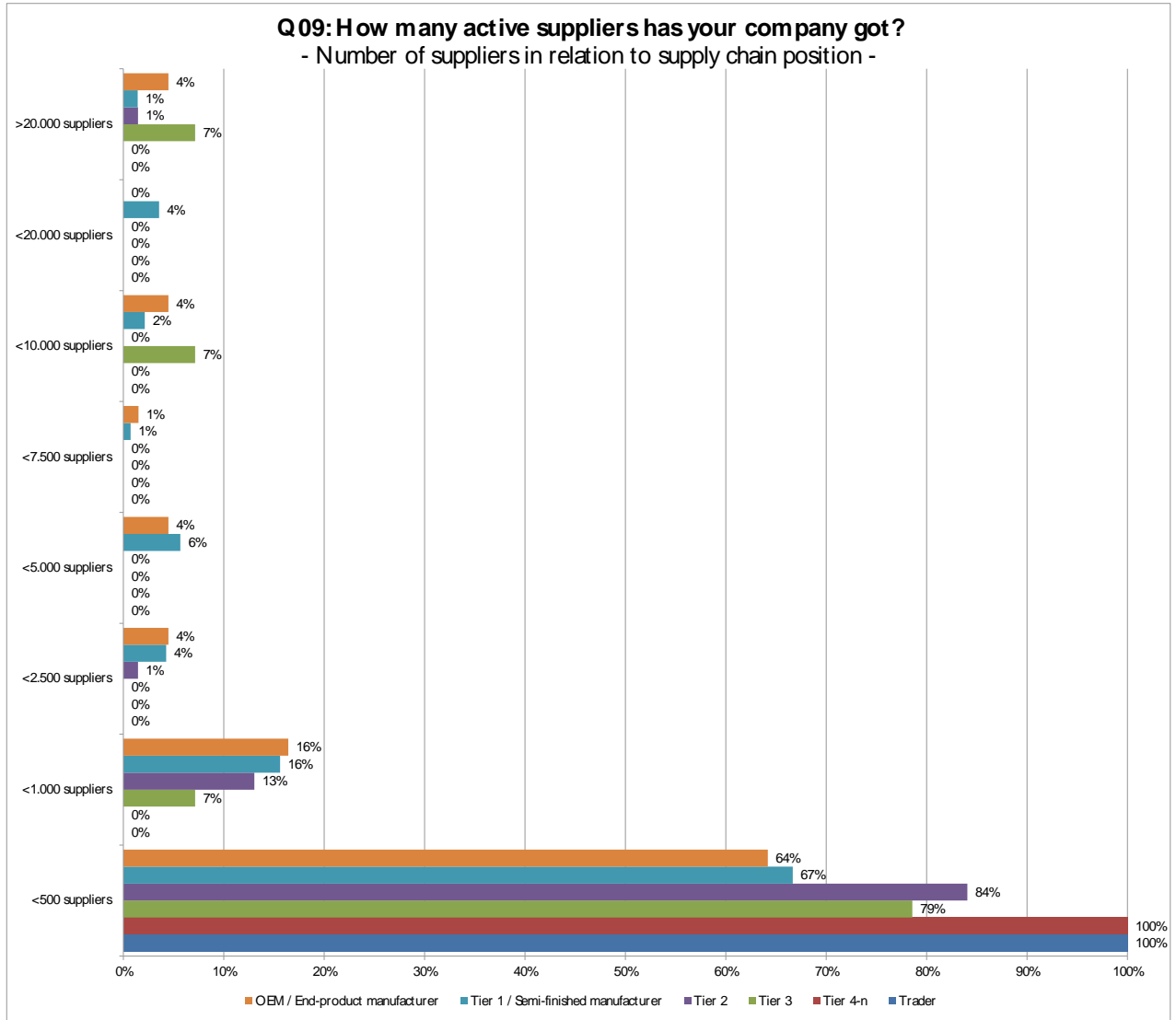


Figure 30: Number of active suppliers in relation to supply chain position (iPCMP user survey, Q09)





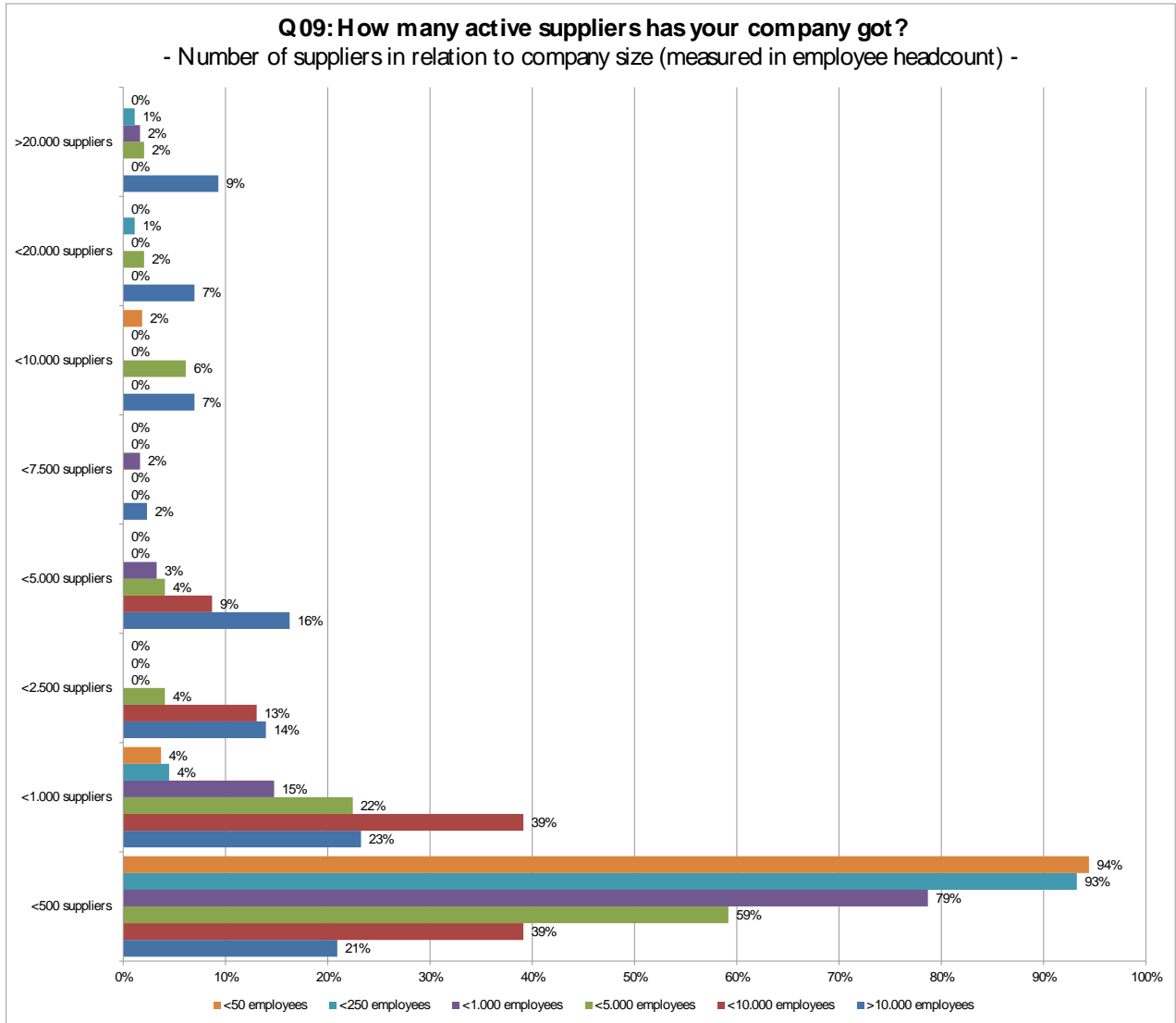


Figure 31: Number of active suppliers in relation to company size (iPCMP user survey, Q09)

However, some of the respondents did not seem to have reliable numbers of their suppliers on hand, which was reflected in comments such as “unknown at this time”, “Too many for 1 person to realistically chase”, “Is there something to win?”, or “In this context as well as in context of question 3 this is our product line only. Globally our company employs more than 10 000 staff, but for that I could not estimate the amount of suppliers.” (cf. Annex 18)

### 3.3.2.8 Metals used in the products or manufacturing processes of the companies

Tin is the dominant metal used by the respondents in their products and/or manufacturing processes (94%), followed by gold (52%), tungsten (47%), and tantalum (38%). (Figure 32) This result is not surprising if one takes into account that tin also ranks first concerning the world production of the 3TG, whereas Tantalum comes last (Figure 33).

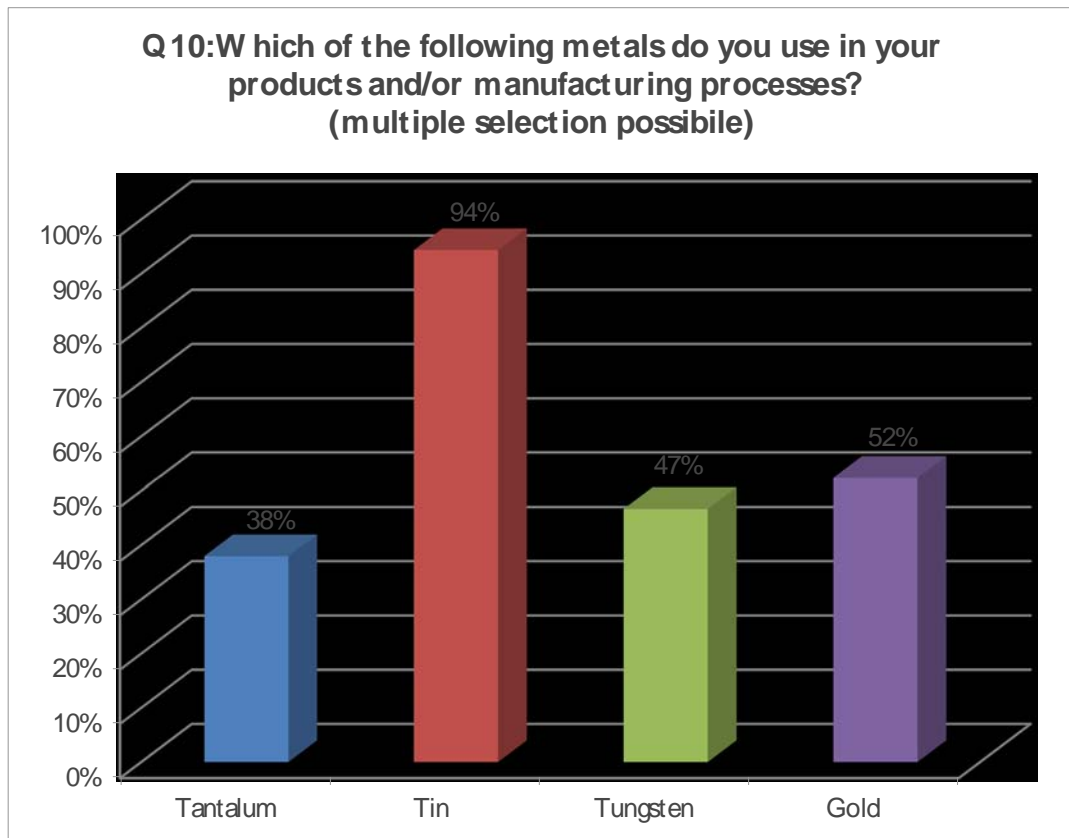


Figure 32: Metals used in products and/or manufacturing processes (iPCMP user survey, Q10)



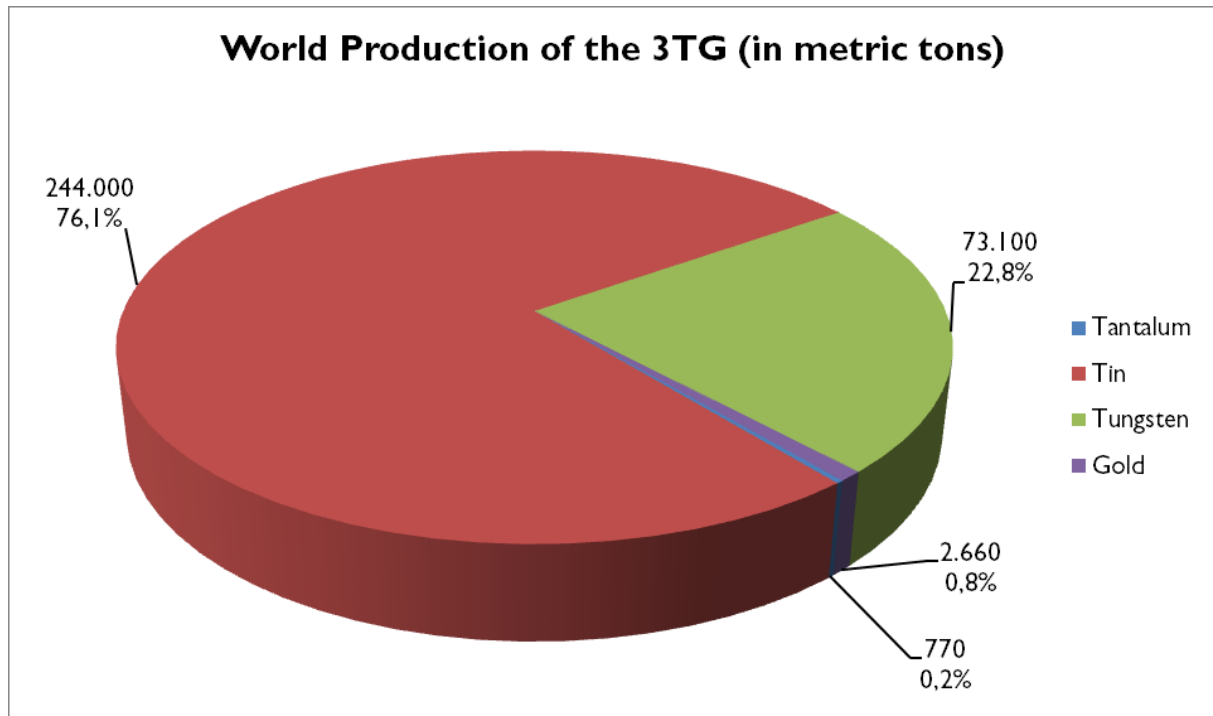


Figure 33: World Production of the 3TG (Data Source: USGS 2013a,b,c,d)

However, half of the respondents that used the comment box for further remarks indicated that they do not use any of the 3TG in their products and/or manufacturing processes. Others stated that their products only contained very low quantities of these metals,<sup>35</sup> whereas some respondents mentioned that they didn't know whether any of these metals were used in their products and/or manufacturing processes at this time, were still waiting for their first supplier reports or for completion of their due diligence process to provide accurate answers. (cf. Annex 19 for all of the comments on this question) The latter type of answers yet again implies and confirms the study-proven<sup>36</sup> fact that many companies are still in the early stages of their Conflict Minerals compliance processes.

<sup>35</sup> It would be very easy to exclude micro and small companies with a de minimis clause for employees, or in analogy to the 1-ton limitation in the REACH Regulation, for example a limitation on more than 100 kg cumulated 3TG per year (purchased volume).

<sup>36</sup> Cf. IHS 2013; PWC 2013.



### 3.3.2.9 Department responsible for Conflict Minerals Reporting

The survey revealed that the responsibility of Conflict Minerals reporting lies in the hands of many departments, i.e. no single department is solely in charge of this new compliance area, whereby the purchasing (35%) and the Quality Management (QM) departments (24%) were selected most frequently. (Figure 34)



Figure 34: Department(s) responsible for Conflict Minerals reporting (iPCMP user survey, Q11)

When specifying the option “Other / Cross-functional team”, the respondents either detailed the composition of their cross-functional team (e.g. “Cross-functional steering committee with Legal/Compliance and Supply Chain”), named individual departments not included in the options, with Sales listed most frequently in this context, or indicated that their company had not yet determined which department(s) would be responsible for Conflict Minerals reporting (cf. Annex 20).

