



**RE-SOURCING**  
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## Responsible Sourcing: The Case for Business Competitiveness

**Abstract:** This is the first publication in a series of Briefing Documents to be published under the RE-SOURCING Project, aiming to provide interested stakeholders succinct information, discussions and analysis on a host of responsible sourcing issues. As responsible sourcing (RS) requirements increase for businesses in mineral and metals supply chains, this Briefing Document considers four stages of business engagement with RS practices and outlines why RS is going to be a key factor for firms to maintain and expand their operations and maintain their competitiveness. This Briefing Document summarises the findings from the 'State-of-Play – The International Responsible Sourcing Agenda' Report, drafted under the [RE-SOURCING Project](#) (2020).

The [RE-SOURCING Project](#) aims to build a global stakeholder platform for responsible sourcing. The project addresses the challenges facing businesses, NGOs, and policymakers in a rapidly evolving ecological, social business and regulatory world, through a collective, consultative, and industry & civil society driven approach. RE-SOURCING is funded by the European Commission's Horizon 2020 programme and runs from 1 November 2019 to 31 October 2023. The project is coordinated by the Institute for Managing Sustainability at the Vienna University of Economics and Business and supported by 10 international partners.

## 1. Introduction

Responsible Sourcing (RS) has emerged as a key operational requirement for many EU businesses, particularly those in the mineral and metal value chains. Initially, RS focused on businesses that dealt directly with Conflict Minerals, but now has expanded across all mineral supply chains. While the term has come into common usage, what exactly falls under ‘responsible sourcing’ and how it is executed, remains largely unstructured. Over the past decade, RS approaches have been developed by civil society, industry associations and regulatory bodies.

The common aim of RS approaches has been to address the negative economic, social and environmental impacts that were increasingly being raised by local communities, governments and civil society stakeholders. Addressing issues ranging from human rights abuse, corruption and bribery, pollution and climate impacts, RS approaches cover a diverse range of sustainability linked topics and provide guidance and tools for businesses to introduce and implement RS strategies.

This Briefing Document begins with the current definitions of RS and what they entail. It then shifts to a business perspective, briefly outlining a hierarchy of meeting RS principles that businesses exhibit in their conduct. The final section outlines the reasoning for EU firms to adopt RS as a means to maintain business competitiveness.

## 2. The Definition of Responsible Sourcing

RS is a culmination of several economic, social and environmental factors and can be considered as a means to deliver on a sustainable growth and development agenda. Initially, wider sustainability driven initiatives led to the emergence of more focused RS initiatives, setting out either voluntary or regulatory RS requirements. It is difficult to pinpoint how the need for RS emerged; safeguarding working conditions, protecting the environment and habitats and defending human rights etc. have been around for a long time. Similarly, the emergence of advocacy for RS practices from civil society organisations, governments, and international actors have an equally long history. However, over the past two decades, the impetus from a sustainability driven international agenda has incentivised a greater focus on RS practices.

RS is a contributory factor to a sustainable development and growth path, and influences firm operations and strategies. In general, RS has been defined by the International Chamber of Commerce (ICC) as ‘a voluntary commitment by companies to consider social and environmental considerations when managing their relationships with suppliers’.

For raw materials specifically, Brink et al (2019), based on extensive literature review, find no concrete definition for RS. Based on their analysis; they offer the following definition: ‘the management of social, environmental and/or economic sustainability in the supply chain through production data’. This definition combines two important dimensions of RS: the first is the management of internal business operations of a firm and the monitoring of supply chains. The second focuses on the collection of data and information, tracing the conditions at the location/origin of minerals and documenting the process from origin to smelter/manufacturer. Thus, within the raw materials sector, RS refers to how firms manage their own operations and procure-



**Responsible Sourcing involves both management strategies and data & information management**

ment practices to support sustainability and the information they collect to monitor and evidence the supply chain of minerals used in their products and services. While RS initiatives and practices have increased in number and scope, they are fragmented at this time. With the plethora of principles, guidelines, templates and reporting standards available to businesses, the adaptation of RS has been uneven. Part of the unevenness stems from the nature of the RS approaches themselves, where some only require commitments while others provide auditing templates. Of the 19 most commonly used RS approaches, Table 1 below indicates the range of RS compliance; from commitments in company policy, to full reporting on tracking of origin of materials that can be audited.

Given the range of RS approaches available to businesses, the next section looks at four hierarchical levels of commitments that businesses may adapt in their RS practices.

### 3. The Four Levels of Responsible Sourcing

A review of the existing RS approaches suggests there are four levels of engagement or stages for a business that has adopted RS practices.

#### 1. Commitment

This refers to the simplest form, where a company, in its official documentation, at the board level, acknowledges and commits to respecting the sustainability and responsible sourcing agenda and pledges to respect international conventions on RS. The commitment may be presented in a number of ways: from a company policy document to the inclusion of specific standards that the company will uphold. For example, Rio Tinto has published its commitments as a [supplier code of conduct](#).

*Table 1 Compliance requirements in RS Approaches*

Compliance requirements	Scheme
Sustainability commitments in company policies; Sustainability reporting requirements	<ul style="list-style-type: none"> <li>■ GRI</li> <li>■ MAC (Mining Association of Canada)</li> <li>■ ICMM</li> </ul>
Requires supply chain due diligence on conflict risks and human rights violation	<ul style="list-style-type: none"> <li style="width: 50%;">■ WGC (World Gold Council)</li> <li style="width: 50%;">■ CFSP (Conflict Free Smelter Programme)</li> <li style="width: 50%;">■ RCM (Regional Certification Mechanism)</li> <li style="width: 50%;">■ ITSCI (only 3T)</li> <li style="width: 50%;">■ LBMA (London Bullion Market Association)</li> </ul>
Requires traceability and tracking of origin of raw materials, i.e. mine or secondary source	<ul style="list-style-type: none"> <li style="width: 50%;">■ ASI</li> <li style="width: 50%;">■ CTC (Certified Trading Chains)</li> <li style="width: 50%;">■ Fairmined</li> <li style="width: 50%;">■ Fairtrade</li> <li style="width: 50%;">■ Fairstone</li> </ul>
Implementation of sustainability requirements beyond commitment and reporting (may include due diligence on conflict risks and human rights violations)	<ul style="list-style-type: none"> <li style="width: 50%;">■ IFC</li> <li style="width: 50%;">■ ASI</li> <li style="width: 50%;">■ IRMA</li> <li style="width: 50%;">■ RJC (Responsible Jewellery Council)</li> <li style="width: 50%;">■ Fairmined</li> <li style="width: 50%;">■ Fairtrade</li> <li style="width: 50%;">■ CTC</li> <li style="width: 50%;">■ Fairstone</li> </ul>

Source: [Sustainability Schemes for Mineral Resources: A Comparative Overview \(2017\)](#)



■ Four levels of Responsible Sourcing engagement for businesses: Commitment, Strategy, Compliance and Reporting

Other companies will choose to specify the principles they will uphold, such as BMW's [Group Code on Human Rights and Working Conditions](#). The weakest level of commitment is noted for some companies, which produce a guiding document, which in loose terms commits to respecting the sustainability agenda, without making commitments to any particular standard or guideline document, and no resulting strategy paper exists. This is often referred to as 'greenwashing', where the commitments are only on paper and having no actual influence on company behaviour.

Commitments are largely organised around guidelines, which stem from two sources: 1) a uniformed set of guiding principles for all firms to incorporate in their business strategies and 2) a set of standards specifically developed by industry associations for their members.

The [OECD Guidelines for Multinational Enterprises](#) (2011 Edition) is an example of the first set and focus on issues to be addressed by multinationals as part of their responsible business conduct – these principles remain voluntary, to be adapted in firm strategies. The principles address issues around human rights, employment and industrial relations, the environment, combatting bribery, tax extortion, protecting consumer interests etc. One aspect of responsible business conduct encourages firms to participate in industry wide efforts to coordinate shared common supplier policies and risk management strategies as well as dialogues on supply chain management. While responsible sourcing is not separately addressed, it is implied by the guiding principles.

The second set of guiding principles are found in specific industrial sectors. For example, automobile sector's **Drive Sustainability** has drafted common guidelines for the responsible sourcing of raw materials by its members – [The Global Automotive Sustainability Guiding Principles](#). These provide detailed guidance on environment sustainability, human rights and working conditions. Another version is found in cross-industry collaboration by the consumers of specific minerals. For example, in November 2016, the Chinese CCCMC launched the **Responsible Cobalt Initiative** (RCI) with support from the OECD, which brings together firms that use cobalt in their manufacturing operations

## 2. Strategy

Following a board level commitment, a company formulates a business and operational strategy to follow the principles it has signed up to. A business strategy covers a number of operational areas:

- **Procurement:** Considers where the business sources its materials and services and what standards apply to this procurement process.
- **Manufacturing:** Considers the businesses own operations and considers issues as wide as treatment of its employees and labour as well as GHG emissions and other environmental impacts.
- **Product stewardship:** Increasingly, product stewardship, particularly end of life management is being considered, where the company not only looks at how it manufactures its products, but also how the product will be recycled/reutilised at the end of its life.
- **Consumer relations & marketing:** Within the mineral and metals value chain, a number of companies are dealing with other manufacturers rather than end-con-

sumers. Considerations of working with partners within value chains to maintain sustainability practices throughout the chain are emerging.<sup>1</sup>

- **Local communities & host governments:** Where value chains cross international borders, strategies to work with local communities and host governments as stakeholders (rather than only considering shareholders in home country).

Within RS approaches, management strategies provide for factors a business should incorporate within its operations. For example, the **International Council on Metals and Minerals (ICMM)** in its guide to [responsible sourcing for the industry](#), blends management strategy with information-collection strategies. The objective is for member firms to build a reporting and assurance requirements framework, consisting of four themes to support RS practices: 1) mapping the value chain, 2) developing effective programmes and standards, 3) engagement with suppliers and other participants of the value chain and 4) data and information.

In some industrial sectors, these strategies take the form of operating standards. For example, the **Electronic Industry Citizenship Coalition** and its [Code of Conduct](#) specifically provide standards for employment in the electronics industry, requiring signatory firms to adhere to these standards as well as their next tier suppliers. The **Responsible Steel Standards** developed by [Responsible Steel](#), has developed standards for its members to cover environmental, social, governance, management, system, stakeholder engagement, and closure principles. The **Aluminium Stewardship Initiative (ASI)** works towards building stakeholder consensus in the aluminium sector around responsible practices and performance standards. The [ASI Standards](#) program is applicable to all stages of the aluminium production and transformation stages. Members are certified when they have met these standards.

### 3. Implementation/Compliance

Moving from designing an RS strategy to implementing one is often a resource intensive process (both human and financial resources). Once new systems have been drafted, or old systems adapted, implementation has to occur at all levels of the firm to be effective. A number of RS approaches directly address the implementation phase, by providing due diligence steps, monitoring and evaluation documents, reporting templates etc.

A good example is the **OECD Due Diligence Guidance for Responsible Mineral Supply Chains**. This approach provides for structured and specific risk identification actions for a business to undertake as part of its RS practices and is considered by many to be the de facto standard for most RS due diligence templates. EU directives, including the one on [EU Conflict Minerals](#) and [EU Non-Financial Reporting Directive](#) also make reference to this document. The due diligence was primarily developed to address minerals from conflict-affected and high-risk areas but has since expanded (its 3<sup>rd</sup> edition was published in 2016) to include recommendation on money laundering and terrorist finance. However, the primary aim of the guidance is to address human rights concerns within supply chains, with an emphasis on artisanal and small-scale miners (ASM) and 3TGs (tin, tungsten, tantalum and gold).

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<sup>1</sup> For example, the EU Horizon 2020 [SIMS Project](#) which brought together equipment manufacturers, IT firms and mining companies to develop sustainable mining practices.



The **ITSCI (Tin Supply Chain Initiative)** initiative developed by the ITRI ([International Tin Research Institute](#)) provides for similar due diligence undertaking, giving member firms due diligence guidance, encapsulating data collection, risk management and auditing functions. Another emerging example is the [LME Responsible Sourcing Requirements](#), which follow a similar risk identification approach. Based on a two-year consultative process, the LME is introducing responsible sourcing requirements for all metals (by brand) for delivery through the exchange. The first reporting period for firms is set for 2021 with audits (where required) to be carried out by the end of 2023.

#### 4. Reporting & Auditing

The reporting on measures taken and results achieved can be considered as the final stage of the RS process for businesses. There are three considerations within this stage:

1. **Company Reporting:** Usually taking the form of Annual Sustainability Reports, the company will publish, based on its internal reporting guidelines, its performance on sustainability, which will include RS factors.
2. **Reporting Standard:** A second approach, which often overlaps with the first, is reporting to a third-party standard. Here the company considers the template/reporting guidance provided by a third party and incorporates the guidelines in its reporting.
3. **Auditing & Certification:** A third approach requires auditing by a third-party, often incorporating a certification process. Third-party audits are relatively limited within the mineral and mining value chains; however, a number of RS approaches have begun to move in this direction.

A commonly used standardised reporting template is the [Global Reporting Initiative](#) (GRI). The GRI has been designed to report on the underlying question of 'how an organization contributes, or aims to contribute in the future, to the improvement or deterioration of economic, environmental, and social conditions at the local, regional, or global level'. Another emerging reporting template is the **Copper Mark**, by the [Responsible Minerals Initiative](#). It combines RS performance with verification, with the intended objective of providing 'assurance' of a company's RS practices. Other RS approaches combined the implementation and the reporting stages together. For example, the [Responsible Minerals Initiative](#) combines due diligence, management approaches and reporting, in a standardised reporting template. In addition its [Responsible Minerals Assurance Process](#) (RMAP) provides a set of standards and assessments that can be employed for auditing purposes.

Auditing, particularly third-party independent auditing, remains one of the weakest areas for most approaches to RS. Sustainability and RS reporting now commonly referred to as ESG indicators is still largely coming from companies rather than third-party auditing or independent reporting mechanisms (Morgan, 2020)<sup>2</sup>. Of the seven major assurance schemes that have auditing aspects and apply to large scale mining activities, an IGF (2018) review found that while six of the seven required third-party assessment, only four required third-party assessment as a key determinant of the assessment. As for third parties that conduct the assessment, only two out of the seven schemes (ASI & IRMA) formally accredited these parties.

<sup>2</sup> Morgan, Gareth (2020). [Trust, but verify](#). <accessed 21 August, 2020>

■ Responsible Sourcing is becoming essential for retaining business competitiveness. From meeting legal and regulatory obligations, financing requirements and managing reputational risk in communities and with consumers, EU businesses can no longer ignore non-compliance with RS practices.



#### 4. The Business Case for Responsible Sourcing

While a number of publications have made the ethical and business case for adapting sustainability and RS practices, this section looks specifically at the emerging business case for compliance and implementation of RS practices. As changes in management strategies and operations can have both a human and financial cost for firms, particularly SMEs, it is important to highlight the business competitiveness angle for firms.

There are a number of reasons for businesses to comply with responsible sourcing standards and practices<sup>3</sup>:

**Law & other regulatory requirements:** The first and foremost reason is for a business to meet legal obligations. For example, EU businesses which use conflict minerals must meet the requirements of the [EU Regulation on Conflict Minerals](#) that involves importers to adhere to the due diligence recommendations of the OECD Guidance. It is noted that the EU Conflict Minerals Regulation is only applicable for EU firms importing raw materials and does not focus on sourcing of semi-manufactured products that may include conflict minerals. Reporting requirements are also emerging under regulations, such as the [EU Non-Financial Reporting Requirements](#) which requires companies to disclose information on their operations and management of social and environmental challenges.

Other laws also include aspects of RS. For example, most comprehensive and well drafted environmental legislation would cover aspects of emissions, water management and protecting bio-diversity. Tax laws are increasingly addressing transparency concerns, while labour laws will cover issues related to treatment of labour unions, minimum wage rates and gender equality.

**Approval and permit conditions:** While particularly applicable for mining activity, approvals for permits normally include a range of conditions with RS aspects, that must be met for the permit to be granted. For example, water usage on licenced land area, infrastructure building permits relating to the resettlement of local communities, importation of goods dependent on local procurement conditions being met etc.

<sup>3</sup> Based on Joughin (2020): [Mining ESG: The Neglected Subject of Compliance](#). <accessed 21 August, 2020>

**Agreement terms and conditions:** Where mining or other investment activity is based on an agreement with the State (Mining Development Agreements) or permission for activity has been granted based on an agreement with local governments (local employment opportunities will be generated) a company must meet the conditions set under these agreements, that have allowed it to establish operations in the first place.

**Commitments made to stakeholders:** Commonly referred to as the Social Licence to Operate, which specifically addresses commitments made to local stakeholders, these assurances need to be met once the project comes on line. They can include community development expenditures, commitments to protect local biodiversity and the environment.

**Voluntary/Corporate Commitments:** Voluntary commitments by the company, either to international principles (such as the UN Human Rights Principles) or Industry Association Standards (such as the Automobile Association). A business that has committed to sustainability and RS linked principles is responsible to its shareholders to meet these commitments.

**Investor and Shareholder Pressure:** In addition to the five considerations listed above, the emergence of investor linked standards has also strongly emerged in the past five years. This refers to the industry standards being set by financial institutions as the basis of providing equity or debt financing for projects. These include the IFC's [Performance Standards](#), The [Equator Principles](#), The EIB's [Environmental & Social Standards](#) for its funding, BlackRock's [Sustainable Investing](#) strategy.

## 5. The Cost of non-compliance with RS practices

As legal, industry and voluntary requirements for businesses to meaningfully adapt RS practices increase, the cost of non-compliance can impact a business' ability to generate finance, meet customer requirements, access markets and remain competitive. As noted above, there are often regulatory requirements that must be met to continue operating (such as the EU Conflict Minerals Directive).

Investors are increasingly moving towards not only setting sustainability standards for the projects they finance, but also withdrawing funding from companies that do not meet standards. For example, the Norwegian Government Pension Fund withdrew its investments from Vale over its successive tailings dam failure in 2016 "due to an unacceptable risk that the company is contributing to or is itself responsible for serious environmental damage"<sup>4</sup>.

Given the integration of firms within global value chains, inclusion in these chains is becoming increasingly linked to compliance with standards set out by lead firms. For example, Apple publishes a list of cobalt refiners involved in its supply chain that have been verified by third-party auditors. Refineries that do not meet its standards have been removed from its supply chain<sup>5</sup>.

<sup>4</sup> 'Brazil Iron Ore, Power Giants Excluded from Norway's Wealth Fund'. [Bloomberg, 14 May, 2020](#). <accessed 30 August, 2020>

<sup>5</sup> 'Apple, Google, Microsoft, Tesla and Dell sued over child-mined cobalt from Africa'. [CBS News, 17 December 2019](#). <accessed 30 August, 2020>





As leading firms increasingly move towards manufacturing sustainable products, they are looking for those sustainability measures to be met at all stages of their value chain. For example, electric car producer Tesla has announced its procurement strategy to prioritise sustainably mined nickel for its batteries, as stated by their CEO Elon Musk: ‘Tesla will give you a giant contract for a long period of time if you mine nickel efficiently and in an environmentally sensitive way’<sup>6</sup>. With Tesla expected to target US, Europe and Chinese markets, a supplier unable to meet its RS requirements loses access to these markets as well.

## 6. Conclusion

Various strands of RS approaches, labour rights, financial transparency, local communities, pollution etc. are starting to merge into an overarching framework that businesses are more and more expected to commit to and implement. As noted above, a business may choose to commit to RS principles, but it will find its competitiveness lessened if it remains at this stage only. However, moving towards compliance and implementation is not an easy task in this still fragmented and evolving landscape. While guidelines and standards have been created, practices and reporting remain a key challenge for many firms across the EU.

The RE-SOURCING Project is designed to assist businesses in meeting these challenges. Based on our industry peer-learning and knowledge co-creation networks, the project objective is to assist EU firms, and the global value chains they operate in, to meaningfully adapt RS practices while maintaining and increasing their competitiveness. In doing so, the project will not only provide an online exchange and knowledge platform on all important and relevant aspects of RS in Europe and beyond, but RE-SOURCING will also organize a number of peer exchange and learning events that will enable the different stakeholder groups to engage in and make their case for RS!

<sup>6</sup> ‘Please mine more nickel’, Musk urges as Tesla boosts production. [Reuters, 23 July 2020](#). <accessed 30 August, 2020>

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