



# **Conflict Minerals – A Supply Chain Check for Electronic OEMs**

**Abstract**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 is a financial regulatory reform agenda, which was signed into law on July 21, 2010. According to the Dodd-Frank Wall Street Reform and Consumer Protection Act, conflict minerals include columbite-tantalite (coltan), cassiterite, gold, and wolframite or their derivatives. The term also applies to any other mineral or derivatives determined by the U.S. Secretary of State, that is under conflict in the Democratic Republic of Congo (DRC) or any adjoining country.

This reform includes regulations on conflict minerals, which are likely to either directly or indirectly impact the supply chain of companies across various industrial segments. The bill necessitates new requirements to the companies that are reporting to the Securities and Exchange Commission (SEC) with regard to the origins of the gold, tin, tantalum and tungsten in the products which are self-manufactured and those which sign up contracts to have their products manufactured by others. The primary objective of this bill is to remove the presence of conflict minerals in the supply chain and ultimately cease funding to armed rebel groups in DRC that benefit from mining it.

**What are Conflict Minerals?**

**Tin**

It is primarily mined as cassiterite and used as a solder on circuit boards, electronic gadgets, etc. The DRC accounts for around 6 to 8% of tin produced globally; armed rebel groups are estimated to earn nearly USD 85 million per year by mining tin.

**Tantalum**

Columbite-tantalite is refined into tantalum and used in various electronic applications, like tantalum capacitors. The DRC is the major producer of tantalum and accounts for nearly 15-20% of the global

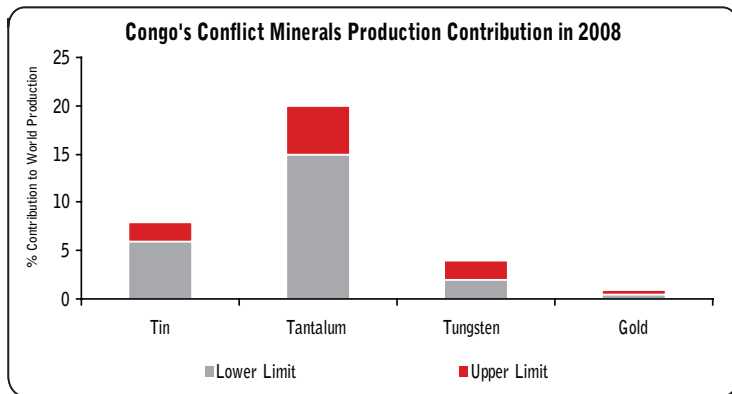
market share; it is therefore considered a critical player. Despite its marginal contribution to the total production of tantalum, Eastern DRC is considered a prime source for most conflict minerals.

**Tungsten**

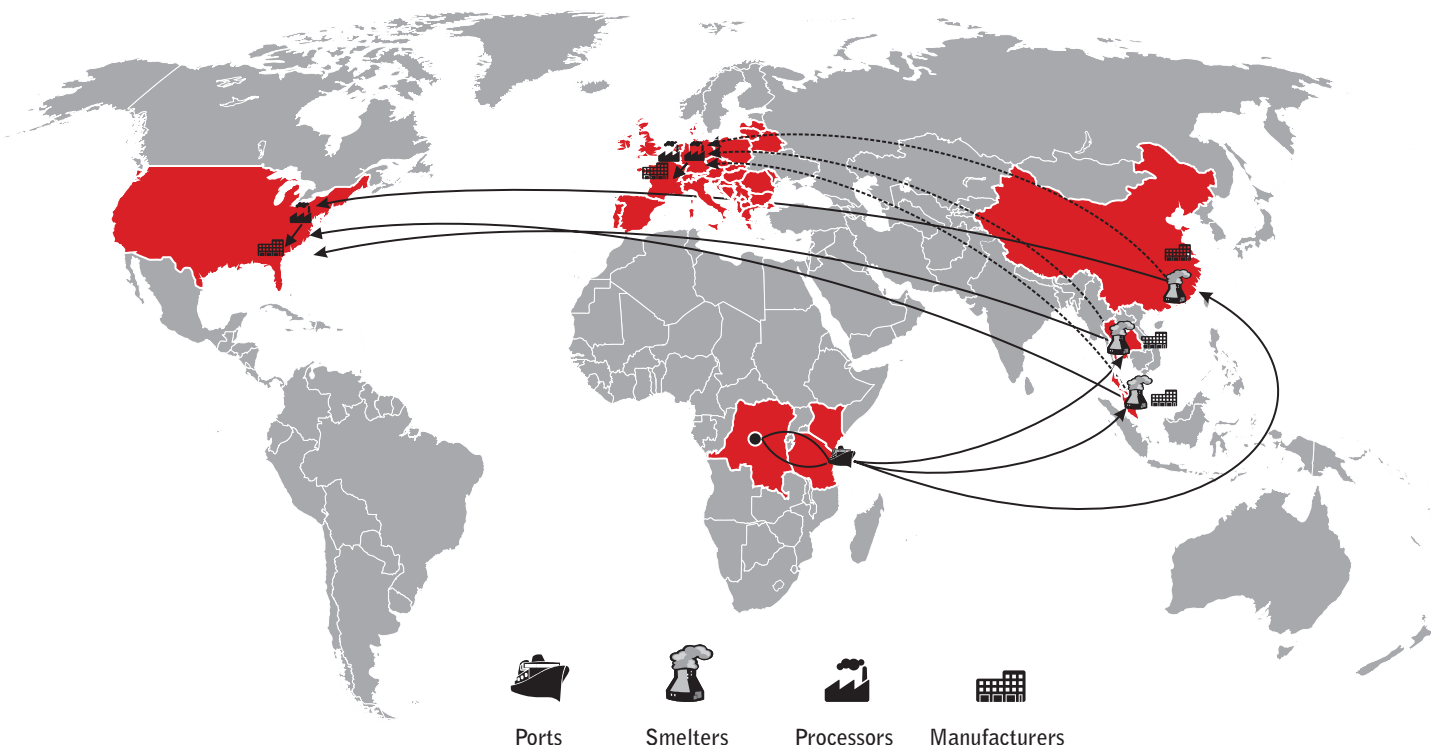
Wolframite is a critical source for tungsten and is used in tungsten industrial cutting equipment and cell phones. Conflict regions of the DRC are estimated to account for 2 to 4% of tungsten produced globally; armed groups are estimated to earn USD 2 million a year from these mining activities.

**Gold**

This conflict mineral is used in the electronics industry. Conflict regions of the DRC contribute to 1% of the gold produced globally; armed rebel groups are estimated to earn million dollars by mining gold.



**Conflict Minerals Supply Chain**





## Code of Conduct Signed by the DRC Mining Industry

In order to reduce fraud and increase transparency, stakeholders in the DRC mining sector have signed a code of conduct. The key action items include:

- All artisanal miners and mineral traders must obtain permits from provincial governments
- Miners must sell only to authorized buyers that operate at prominent construction sites
- Selling within sites of exploitation is prohibited
- Miners can work only in authorized areas
- Minerals must be traded for domestic or foreign currency and must not be bartered
- Traders must disclose their accounts to provincial mining officials and provide all contact details of their customers
- A prohibition on the employment of children in mines
- Civil society groups will inform the local population about any new measures undertaken.



## International Efforts

- Strong international assistance was required to control illegal trading of minerals by armed groups in the DRC due to the leadership constraints faced by the Congolese Government.
- Efforts by various countries towards this cause were unsuccessful in the beginning due to political hurdles. In 2006, the United Nations formed a committee which recommended the imposition of sanctions. However, this idea was dropped after a UN report highlighted the possibility of a humanitarian crisis which could arise as a result of sanctions.
- The German government and G-8 countries developed the concept of Certified Trading Chains (CTC) to control illicit mining. However, the UN and the US were sceptical about this approach as they expected huge challenges in the areas of logistics, costs and political pressure.



## Effect of the Financial Reform Bill

The US law is believed to have been the trigger due to which President Kabila banned artisanal mining. This bill resulted in job losses, decline in cash flow, and affected many business sectors. As a result, it forced the unemployed population to join armed rebel groups to eke out a living. These workers continue to actively participate in the illicit conflict mineral network, thus creating a lack of security in these areas.

## Conclusion

The recent bill forced electronic OEMs to analyze its supply chain to ensure compliance with the new law. The law is not aimed at banning conflict minerals if they originate from the DRC. Manufacturers can still source conflict minerals from the DRC or any adjoining country, but are likely to face liability on failure to disclose their sourcing practices.



Sources: sdexec, itri, ropesgray

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