



ASIA PERSPECTIVE

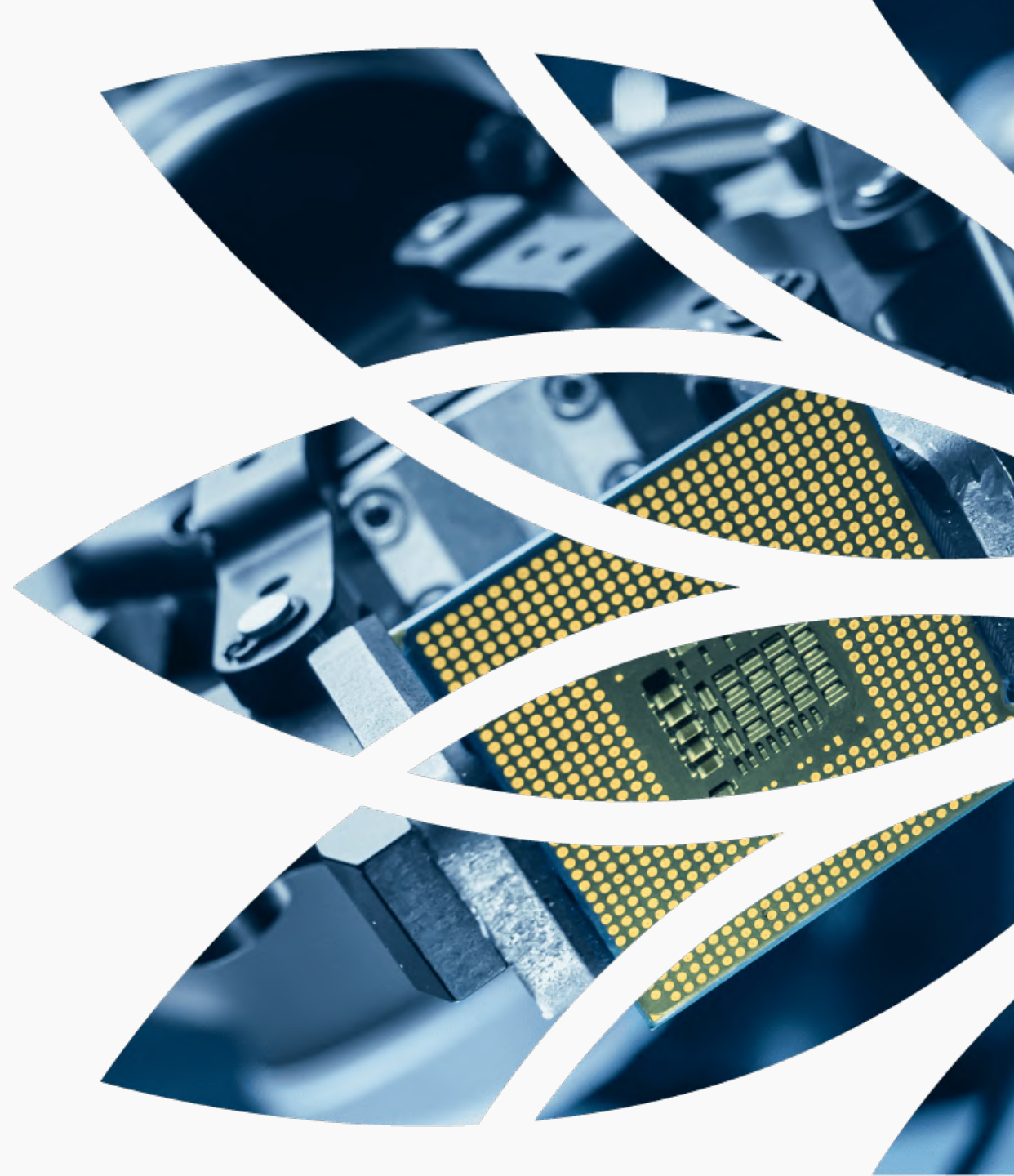
# Due Diligence: Conflict Minerals

An Asia Perspective Introduction

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# Conflict Minerals – What it is, and why is it important to your business?

## Conflict Minerals and 3TG

- Conflict minerals are natural resources that are extracted in a way that fund or prolong a conflict in the area where they are mined.
- The most common conflict minerals are Tin, Tungsten, Tantalum and Gold, called 3TG, and are widely used in everyday goods such as consumer electronics.
- As of January 2021, the EU introduced a new law regulating the sourcing of 3TG, which require proper due diligence to ensure responsibly sourced minerals.
- However, 34% of companies who use 3TG minerals cannot identify their suppliers, which is why Asia Perspective has designed a thorough methodology to help our clients understand the origins of their mineral sources.

## Conflict Minerals' Are Smuggled Through Complicated Supply Chains



- A large part of the world's conflict minerals are sourced in The Republic of Congo and neighboring countries,.
- The mining of 3TG minerals in the area help fund the rebel and militia groups, and heavily abuse the human rights.



- The minerals are smuggled out of Congo through complex supply chains.
- Most of the minerals end up in processing factories in East Asia to be turned into e.g. electronic parts.



- Ultimately, the 3TG minerals end up in the end products.
- Almost all electronics use components with 3TG minerals.



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# Risk Assessment Framework

Our on-the-ground team can assist you to carry out a risk assessment by reviewing the entire supply chain



## Conflict Risks at Mines

- ✓ Risks that you are sourcing from or linked to any party committing serious abuses associated with the extraction, transport, or trade of minerals, including:
  - Any forms of forced or compulsory labor
  - Any forms of inhumane and degrading treatment
  - Other human rights violations



## Conflict Risks at Trading centers & Transportation Routes

- ✓ Risks that you are providing direct or indirect support (e.g. making payment or providing assistance) to non-state armed groups or public or private security forces, who illegally control and extort money at mine sites, trading centers, or transportation routes.



## Conflict Risks Associated With Suppliers

- ✓ Risks of an inadequate, inaccurate, and fraudulent chain of custody and/or traceability information.

## Information for Risk Assessment

### Some typical information that will be collected to evaluate risks:

- ✓ Mine of mineral origin
- ✓ Quantities, dates, and method of extraction
- ✓ Locations where minerals are consolidated, traded, processed, upgraded, and exported
- ✓ Transportation routes
- ✓ Governmental taxes and fees
- ✓ Ownership and organizational structure of exporters
- ✓ Record of any serious abuses committed by any party involved in the supply chain
- ✓ Record of any direct or indirect support to non-state armed groups or public or private security forces
- ✓ Record of any irregularity, fraud, and misrepresentation

# Conflict Mineral Due Diligence Methodology

Through tight collaboration, Asia Perspective has the capabilities to assist you in understanding the origin of your components



## Aligning the Risk Assessment Framework

- Open dialogue with client’s management on relevant company policy, targets, environmental guidelines and current understanding of current potential conflict minerals
- Formulation of requirements and prerequisites for the due diligence
- Preparation of questionnaires and structure for conducting the due diligence on-site to validate provided information on mineral sources is true
- Set up of risk assessment framework for the due diligence



## On-site Visit, Evidence Collection & Verification

- Collect and review supporting documents to confirm management’s statements
- On-site visits at supplier company to verify the information provided and further evaluate set criteria
- Conduct interviews with the suppliers’ management team to further understand the suppliers’ mineral sourcing procedure and their conflict mineral compliance program
- Discussions with on-site ground staffs to validate management provided information



## Reporting & Suggested Improvements or Changes

- Benchmark all supplier data against defined risk assessment framework, evaluating conflict mineral risks of the suppliers
- Exclude any suppliers that are considered high-risk, based on backed up reasoning found during the information collection process
- Build strategies and action plans to mitigate identified risks (if any)
- Gather all information and findings in a structured report for the client’s review

- ✓ **Established structure of the project process**
- ✓ **A detailed list of requirements, criteria, and risk assessment framework**

- ✓ **Collect primary information and documents from management and staffs at company site**

- ✓ **A list of qualified suppliers that meet the desired conflict mineral policy**
- ✓ **Identified potential risks and solutions to mitigate those**

# Collection and Validation of Supporting Documents

Asia Perspective collects supporting documents from both the client and supplier sides and validate their credibility through different techniques

## Supporting Document from The Client

- ✓ A complete list of products manufactured during the audit period

## Supporting Documents from Suppliers

- ✓ Documents supporting the determination that products do/do not contain conflict minerals, such as:
  - Bill of Materials
  - Specification Sheet
  - Material Safety Data Sheets
- ✓ Documents that prove the linkage of a specific product/component with inputs from the company’s suppliers, such as:
  - Linkages in product databases
  - Purchase Order History
- ✓ Completed Conflict Mineral Survey (CMS) designed by Asia Perspective to collect information about the sourcing of 3TG minerals used in the products, including mineral origin, transport, and trade.

Supplier Code	Supplier Name	Product	Country of Origin	SKU No.	Parts Description	Document Checklist		
						Material Safety Standard	Purchase Order History	Conflict Mineral Survey (CMS)
SUXX	A	Product A	China	6160709390	Part A1	✓	✓	
				8298497115	Part A2	✓	✓	
				390707494	Part A3		✓	
SUXX	B	Product B	China	141135614	Part B1	✓	✓	✓
				5049751334	Part B2	✓	✓	
				8306225834	Part B3			
SUXX	C	Product C	Indonesia	9363292451	Part C1	✓	✓	✓
				1233913499	Part C2	✓	✓	
				5866165668	Part C3	✓	✓	
SUXX	D	Product D	Vietnam	4280000371	Part D1	✓	✓	✓
				5863688215	Part D2	✓	✓	
				4385516107	Part D3	✓	✓	

## Output by Asia Perspective

- Asia Perspective validates provided information from suppliers through a variety of methods, including on-site audits, interviews with suppliers’ management team and ground staffs, as well as utilizing public records and network connections.
- The information is then used for benchmarking against the defined risk assessment framework as designed together with the client in previous stage.



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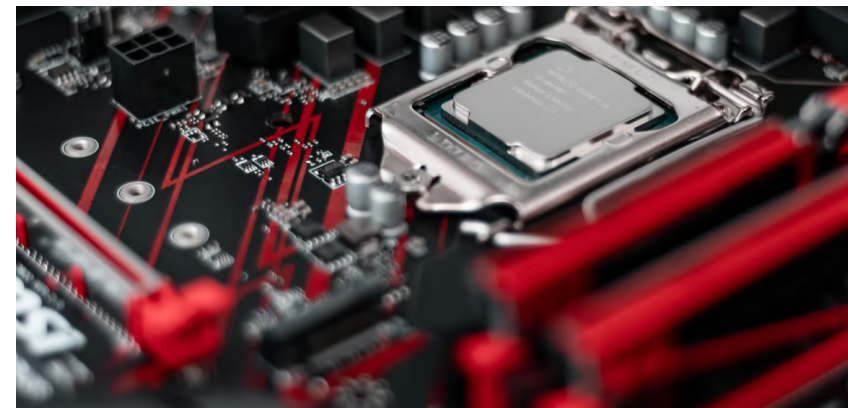
# Chinese Consumer Electronics Manufacturer – Conflict Mineral Due Diligence

The client, a Chinese manufacturer of consumer electronics, needed to conduct a due diligence on its suppliers to ensure alignment with its conflict mineral policy. Moreover, the client wanted to assess potential risks along the deeper down the supply chain, which consisted of many un-defined sub-suppliers.

As a trusted independent third-party, Asia Perspective offered on-the-ground support for the due diligence, based on a defined set of criteria and risk assessment framework. Subsequently, a risk mitigation plan was designed to help the client prepare for future operations.

## Approach

- Based on a clear understanding of the client's existing policies, Asia Perspective formulated requirements and prerequisites for the due diligence, setting up a risk assessment framework.
- Asia Perspective team carried out the risk assessment by reviewing the entire supply chain through primary information and documents from suppliers' management and staff, which were directly collected at supplier sites and further confirmed with several layers in the value chain.
- All supplier data and findings were benchmarked against the defined risk assessment framework, identifying potential risk areas.
- Lastly, final recommendations were presented to the client, including a list of qualified suppliers according to their policy on conflict minerals, a clear description of the risks and challenges, and a step-by-step action plan to mitigate them.



## Results

- A list of suppliers that meet the requirements of conflict mineral policy was finalized.
- As a result of Asia Perspective's on-site due diligence, the client had a clear overview of potential risks that might occur along the supply chain.
- The client was advised to address and mitigate potential risks that might jeopardize its future operations with a step-by-step action plan.
- Asia Perspective was asked to provide ongoing support to monitor the action plan and report the implementation of conflict mineral policy.



# Nordic Industrial Cooling Company – Sub-supplier Due Diligence

The client, a Nordic company in industrial cooling, wanted to acquire a Vietnamese production partner. However, the company wanted to ensure that the acquired company did not have any conflict minerals or other unethical processes in their supply chain.

The client contacted Asia Perspective for support in performing a due diligence on the sub-supplier to identify any potential unethical material or risks in the supply chain. Asia Perspective conducted a full supply chain assessment, identifying two sub-suppliers that was labelled risky and required follow-up actions.

## Approach

- Asia Perspective, together with the client's management team, formulated clear expectations and requirements based on the client's existing policies. Based on that, a risk assessment framework and questionnaire for the due diligence was formulated.
- The team collected documents and conducted interviews at the company's headquarters to analyze the entire supply chain, analyzing information such as regulatory compliance, raw material origin and transportation routes to identify any potential risks.
- The collected data was benchmarked against the pre-set risk assessment framework to evaluate the sub-suppliers.
- Asia Perspective also created a step-by-step risk mitigation strategy and action plan to assess the identified suppliers that could pose potential risks.



## Results

- The client was presented with a comprehensive evaluation of the target company's processes and supply chain.
- Thanks to Asia Perspective, the client got a deep understanding of the target company's entire supply chain and potential risks among its sub-suppliers.
- The client was advised to further investigate two sub-suppliers through on-site visits, which the client chose to do themselves.
- With Asia Perspective's strategy and action plan, the client had a clear method for the on-site visits and could successfully proceed with its acquisition.

# European Mining Machinery Producer – Target Customer Due Diligence

The client, a European mining machinery company, was considering an expansion of a product line on the Chinese market. However, the client needed to identify a suitable customer pool to ensure that they were aligned with its ethical corporate policy.

Asia Perspective was asked to conduct a due diligence process of the potential customers, aiming to provide the client with a comprehensive understanding of target mining sites and their compliance to international standards. In addition, market and regulatory trends that might affect the overall business landscape and the client's future business were analyzed in the study.

## Approach

- Asia Perspective prepared questionnaires and mapped out assessment framework based on the defined requirements from the client.
- Asia Perspective conducted on-site visits and interviews with mining company managements to identify their current mechanism and conflict mineral compliance procedure. Additional interviews with local staffs were set up to understand the daily work activities and validate data provided by the management teams.
- Based on all findings and data discovered from the due diligence, the final recommendations focused on the identified EHS (Environment, Health, Safety) concerns at the production facilities and how to mitigate them.
- Macro and micro trend research were used to illustrate the future opportunities, including the mining industry development, machinery and equipment providers, new territories for market players.



## Results

- A thoroughly evaluated list of potential customers/mining companies that meet the client's high requirements on ethical standards was prepared for the client to lay the foundation for future sales.
- The study helped our client to understand both risks and opportunities of the product line on the Chinese market.
- Thanks to Asia Perspective's work, the client received a deep understanding of the possibilities on the market and could make a well-informed decision on their expansion, and avoid their products being used in unethical mining activities.



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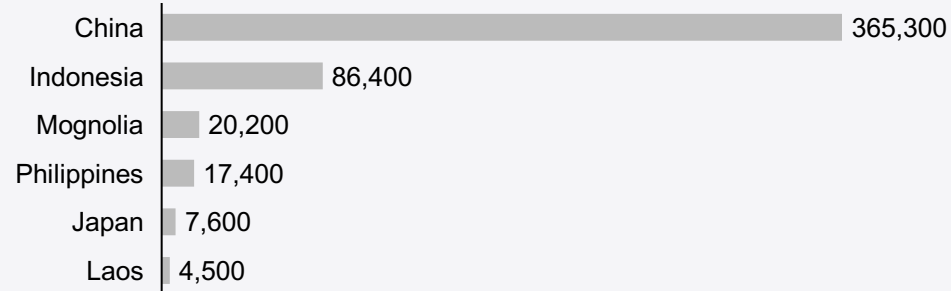
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3TGs in Asia

# 3TG metals mining in Asia – An overview

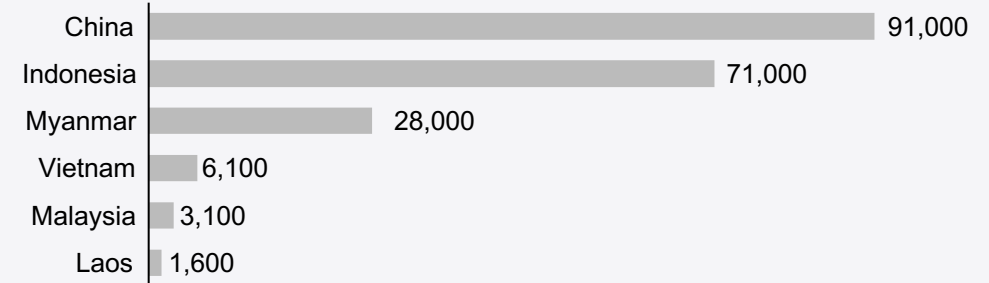
China is Asia's largest producer of 3TG metals

## Estimated production of gold mines in Asia in 2020, metric tons



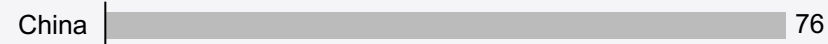
- Small volumes of alluvial gold are produced in Myanmar and Cambodia.
- North and South Korea, Taiwan, and the Philippines have significant ore reserves and periodically produce gold from small lode mines.

## Estimated production of tin mines in Asia in 2021, metric tons



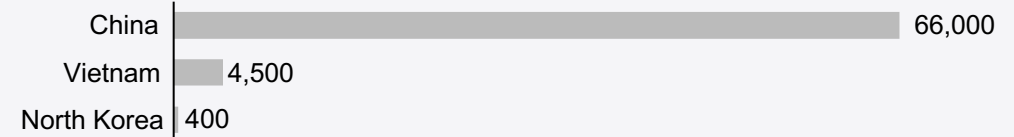
- China is by far the world's largest market for tin and the largest producing country, accounting for around 40% of world refined tin consumption and production. Around 82% of concentrate in China now is imported from Wa, Myanmar.

## Estimated production of tantalum mines in Asia in 2021, metric tons



- Tantalum-Niobium International Study Center estimated that China and Southeast Asia take up 10% of the world's tantalum resource base.
- A significant quantity are produced in China, while Malaysia and Thailand produce at a low level.

## Estimated production of tungsten mines in Asia in 2021, metric tons



- China ranks first in the world in terms of tungsten resources and reserves and has some of the largest deposits.
- Vietnam claims the largest tungsten ore outside of China and is one of the lowest-cost producers of tungsten in the world.

Sources: Statista, 2022, Minerals UK, US Geological Survey Report, 2021, Tantalum-Niobium Study Center, International Tin Association

# Latest news on 3TG metals mining in Asia

## Mining trends and news on 3TG metals mining in Asia



### Indonesia to ban tin and gold exports

- Indonesia is set to ban exports of unprocessed minerals – including tin, bauxite, gold and copper – in the middle of 2023, as part of efforts to attract investment into the resource processing industry.
- Several of these minerals are critical to the production of electric vehicles, advanced semiconductors, and other leading industries.
- Previously, Indonesia imposed a ban on nickel exports in 2021, leading to the European Union filing a lawsuit against the country to World Trade Organization (WTO).



### South Korea's Sangdong Mine to produce 10% of global tungsten supply

- Almonty Industries – a company specialized in acquiring distressed operations in tungsten markets – purchased Sangdong Mining Corp. (now Almonty Korea Tungsten (AKT)) to restart the operations in Sangdong Mine after 20 years in 2018.
- AKT was a tungsten producer for over 40 years, having the potential to produce 50% of the world's tungsten supply (ex-China's output).
- Once Sangdong is in production from Q4 2022, Almonty is expected to produce approximately 30% of all tungsten outside of China and approximately 7-10% of global supply.



### Resources and environmental regulations in China hamper output

- Stricter environmental regulations in China has led to the closure of many small and inefficient mines throughout 2021. China's gold output slightly edged up at 1.35% year-on-year in 2021.
- Decreasing trends are expected to continue due to frequent policy changes and depleting ore reserves, to which the pandemic became an additional challenge since 2020.
- To meet the strict regulations for gold and other mineral mining, companies are seeking for international partnerships and joint ventures for their mines to meet the global and local standards.

Sources: Nikkei Asia, 2022, The Asia Miner, 2021

# Regulatory landscape for 3TG metals mining in Asia

The latest regulatory landscape and conflict-affected countries with 3TG metals mining production

## 3TG minerals mining regulations in Asia

### China

#### Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains

- China Chamber of Commerce of Metals, Minerals & Chemicals (CCC MC) developed the guidelines, based on the OECD's standard, in 2015.

#### Responsible Cobalt Initiative

- CCC MC, along with a group of international and Chinese companies and the OECD, established the initiative, in response to the report documenting the use of child labor in Congolese artisanal mines by Amnesty International.

Standards in China are currently voluntary, but highly encouraged.

### Other countries in Asia

- No regulation on conflict minerals mining has been published by other countries in Asia.

## Conflict-affected countries with 3TG mineral production



### Myanmar

- The majority of tin output in Myanmar is from the Special Zone 2, a self-administered zone by the United Wa State Party (UWSP) and the United Wa State Army (UWSA).
- The EU indicative list of Conflict-Affected and High-Risk Areas (CAHRA) identified the Shan State, where Special Zone 2 is geographically located, as a CAHRA.



### Indonesia

- According to Stockholm International Peace Research Institute (SIPRI), low-intensity, subnational armed conflicts occur across Indonesia.
- Indonesia's conflict-affected areas are not included in CAHRA.



### Philippines

- CAHRA listed gold and tantalum production activities in conflict-affected areas of the Philippines include the Autonomous Region in Muslim Mindanao (ARMM) and Soccsksargen.



### Thailand

- SIPRI recorded low-intensity, subnational armed conflicts in Thailand. The conflict-affected areas are not included in CAHRA.

Sources: OECD, 2020, Crisis Group, 2022, International Tin Association, 2021, CAHRA, 2022

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