LME responsible sourcing

ICA workshop – Asia Copper Conference
November 2019
The LME’s responsible sourcing journey…

<table>
<thead>
<tr>
<th>4Q17</th>
<th>3Q18</th>
<th>4Q18</th>
<th>2Q19</th>
<th>25-Oct-19</th>
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<tbody>
<tr>
<td>Responsible sourcing survey</td>
<td>Pre-release position paper</td>
<td>Position paper</td>
<td>Consultation</td>
<td>Final requirements announced</td>
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<tr>
<td>• Sent to all LME-listed brands in Nov-17</td>
<td>• Sent confidentially to c.40 core RS stakeholders for initial views in Jul-18</td>
<td>• Open from 5-Oct-18 – 30-Nov-18</td>
<td>• Open from 23-Apr-19 – 30-Jun-19</td>
<td>• Extensive market engagement</td>
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<tr>
<td>• 55% response rate – broad indication that most brands already working on RS initiatives through variety of routes, so LME action would be in line with market practice</td>
<td>• 16 responses helped define LME proposal</td>
<td>• 39 responses</td>
<td>• 33 responses</td>
<td>• Final rules now public. Further engagement with producers underway</td>
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<td></td>
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<td>• Six core themes to feedback</td>
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…with three key drivers for action…

<table>
<thead>
<tr>
<th>1. Ethical responsibilities</th>
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<tbody>
<tr>
<td>• The LME believes the industry has an ethical imperative to embrace principles of responsible sourcing</td>
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<tr>
<td>• The LME is a seller’s option market, which means that a buyer of metal on the LME may be delivered metal of any LME brand. The LME cannot accept a situation where consumers are required to take delivery of metal which is not responsibly sourced</td>
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<th>2. Commercial</th>
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<tr>
<td>• The fundamental service of the LME is to price metals and the LME price will generally be the price of the least valuable brand in its brand lists</td>
</tr>
<tr>
<td>• The LME must act to ensure its price reflects the value of responsibly sourced metal, and is not artificially depressed by metal which is not sourced in such a manner</td>
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<th>3. Providing leadership</th>
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<td>• The LME has listened to calls to take a leading role. These calls arose because the LME can most efficiently promote a centralised process</td>
</tr>
<tr>
<td>• The LME will provide leadership in a way that leverages its knowledge of the market, respects logistical challenges, builds on existing work, and provides appropriate support to producers</td>
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…centred around four key principles

Utilising twin tools of transparency and standards

Building on well-established work in the sector

Four key principles of LME responsible sourcing

No discrimination between large-scale and artisanal / small-scale mining

Defining a pragmatic and clear process
What did we learn from the consultation?

1. **AVOID STIGMATISATION AND PRIORITISE HOLISTIC OECD COMPLIANCE**
   - Concern that the LME Red Flag Assessment could unfairly focus the market on red flags, and stigmatise those brands and/or locations.
   - The LME will now provide three routes through which brands can demonstrate OECD compliance so that all well-intentioned brands have a path to market.

2. **RESPECT WORK TO DATE ON TRANSPARENCY**
   - Clear market feedback that OECD Step 5 transparency represents the agreed global standard, and should be respected by the LME’s proposals.
   - LME Red Flag Assessment template will continue to be available as a convenient route to meeting Step 5 requirements, but existing routes to Step 5 transparency (such as those in alignment-assessed industry standards) will also be respected. The LME will work with the OECD and stakeholders to ensure the ongoing industry-wide development of Step 5 reporting best practices, including corruption risks from large-scale mining.

3. **PROVIDE TIME FOR SMALLER PRODUCERS TO COMPLY**
   - Concern that aggressive compliance timelines would advantage larger producers with extensive legal and compliance capabilities, and “freeze out” smaller players.
   - The LME will now provide more realistic timelines for compliance, with full engagement by 2022 and full compliance by 2023.

In addition, broad changes to detail on the basis of extensive stakeholder engagement and feedback.
The LME framework and proposal
OECD five-step framework

Step 1: Establish strong company management systems

Step 2a: Identify risks in the supply chain

Step 2b: Assess risks of adverse impacts

Step 3: Design and implement a strategy to respond to identified risks

Step 4: Carry out independent third-party audit of supply chain due diligence

Step 5: Report on supply chain due diligence
LME tracks to responsible sourcing compliance

Tracks to OECD compliance

Internal or external OECD-aligned standard
If red flags are identified or for voluntary adoption of a standard

Step 1

LME Red Flag Assessment (“RFA”) If no red flags are identified

Step 2a

Step 2b

Step 3

Step 4

Step 5

External standard audit review process

3rd party audit review

LME review

Update per requirements of standard

External review

Step 5

External review

Update every year

External review

Update every year

AUDITED LME RFA TRACK

RFA reviewed by approved auditor and Step 5 reporting

PUBLISHED LME RFA TRACK

RFA reviewed by LME and published

RECOGNISED ALIGNMENT-ASSESSED STANDARD TRACK

For voluntary adoption of a standard when no red flags identified

Maximising routes to compliance for all segments of the market
Track A: Recognised alignment-assessed standard process

Alignment assessment:

1. Proposed standard
2. Internal or external standard alignment assessment by accredited assessor
3. Review and validation of alignment assessment findings by LME
4. Standard approved

Brands audit:

5. Standard implemented at LME brand, including publication of Step 5 transparency
6. Audit of compliance with standard
7. Review and validation of audit findings by LME

Standard published on LME website if requested by standard owner

- Alignment assessment re-performed if either guidance or standards undergo material change
- Alignment assessor not permitted to conduct standards audit for minimum of two years following alignment assessment
- Audit process repeated as specified by standard body, and at least every three years for internal standards

Easiest model for producers already pursuing an OECD-aligned industry scheme, providing audit assurance and OECD Step 5 transparency
Track B: Audited LME RFA process

Complete LME Red Flag Assessment (“RFA”)

- Yes
  - Are red flags identified?
  - No
  - Submission to auditors
    - If necessary, auditor reverts to producer for clarification
    - Auditor identifies red flags, and reclassifies brand to track A
      - Confirm on track A: recognised alignment-assessed standard
    - Confirm on track B: audited RFA
    - Publish Step 5
    - Update RFA, repeat audit, and update Step 5 annually

LME RFA template provides clarity around requirements, with assurance delivered through audit and transparency through OECD Step 5 reporting
Track C: Published LME RFA process

Complete LME Red Flag Assessment ("RFA")

Are red flags identified?

Yes

Submission to LME and LME review

If necessary, LME reverts to producer for clarification

No

LME ratifies results

A

LME rejects results and reclassifies brand to track A

Agree with LME recategorisation

Disagree with LME assessment

Confirm on track C: published RFA

Confirm on track A: recognised alignment-assessed standard

Publish RFA (phased timeline)

Update RFA, repeat LME review, and republish annually

Lowest cost model for producers, with LME oversight and a transparency-based approach centred around the LME RFA template
## Timeline for implementation and compliance

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<thead>
<tr>
<th>Action</th>
<th>Tracks to OECD compliance</th>
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<tr>
<td><strong>A: Recognised alignment-assessed standard track</strong></td>
<td><strong>B: Audited LME RFA track</strong></td>
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<tr>
<td>First reporting period</td>
<td>1 Jan 2021 to 31 Dec 2021</td>
</tr>
<tr>
<td>(reporting periods will be as prescribed by standard)</td>
<td>NB: first year reporting period can be shortened to align with annual reporting of the producer e.g. to cover period 1 Jan 2021 to 31 Mar 2021 only</td>
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<tr>
<td>First reporting date</td>
<td>30 Jun 2022</td>
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<tr>
<td>Submit confirmation will be track A brand, and proposed standard</td>
<td>30 Jun 2022</td>
</tr>
<tr>
<td>Standard to be accepted as recognised alignment-assessed standard</td>
<td>31 Dec 2022</td>
</tr>
<tr>
<td>Audit of brand to standard to be completed</td>
<td>31 Dec 2023</td>
</tr>
<tr>
<td>Transparency</td>
<td>As prescribed by standard</td>
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<tr>
<td>RFA updated (with audit and Step 5 reporting) annually</td>
<td>31 Dec 2024 + 2025 – anonymised reports</td>
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<tr>
<td>31 Dec 2026 onward – attributed reports</td>
<td>RFA updated (with LME review and publication) annually</td>
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<tr>
<td>Update frequency</td>
<td>As prescribed by standard</td>
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<tr>
<td>31 Dec 2023</td>
<td>31 Dec 2023</td>
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<tr>
<td>ISO 14001 and OHSAS / ISO 45001 (or equivalent certificates programmes) certifications completion</td>
<td>31 Dec 2023</td>
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<tr>
<td>(Certification programmes to be accepted as equivalent certification programmes by this date)</td>
<td>(and updated on timeline prescribed by certification programmes)</td>
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Phased transparency for LME RFA track

<table>
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<tr>
<th>Publication date</th>
<th>RFA results</th>
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<tbody>
<tr>
<td>31-Dec-22</td>
<td>Y1</td>
</tr>
<tr>
<td></td>
<td>Summary statistics</td>
</tr>
<tr>
<td>31-Dec-23</td>
<td>Y2</td>
</tr>
<tr>
<td></td>
<td>Summary statistics</td>
</tr>
<tr>
<td>31-Dec-24</td>
<td>Y3</td>
</tr>
<tr>
<td></td>
<td>Anonymous versions</td>
</tr>
<tr>
<td>31-Dec-25</td>
<td>Y4</td>
</tr>
<tr>
<td></td>
<td>Anonymous versions</td>
</tr>
<tr>
<td>31-Dec-26</td>
<td>Y5 and onwards</td>
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<td></td>
<td>Attributed versions</td>
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Ensures that track C brands are not disadvantaged compared with track A and B operators
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