Mining the Disclosures 2017

An Investor Guide to Conflict Minerals Reporting in Year Four

RESPONSIBLE **sourcing** network

Authors

Raphaël Deberdt, Consultant, Responsible Sourcing Network

Raphaël is the lead author of RSN's *Mining the Disclosures 2017* report. Prior to joining Responsible Sourcing Network, he worked for Global Witness in Washington DC, focusing on conflict minerals from Central Africa. Previously, he joined a Congolese NGO involved in indigenous rights in the Democratic Republic of Congo (DRC) monitoring the violence between communities in the Province of Katanga. He later interned at the Oakland Institute, researching land-grabbing-related issues in East Africa and South America. Raphaël holds a MA in International Relations from Sciences Po Lyon, France and an MA in African Studies from Stanford University. He is currently completing a third MA in Anthropology at the École des Hautes Études en Sciences Sociales (EHESS) and a LLM in African Law from Paris 1 Sorbonne University.

Patricia Jurewicz, Founder and Director, Responsible Sourcing Network

Patricia is the founder and director of Responsible Sourcing Network, which she started as a project of *As You Sow* in 2010. Currently she sits on advisory committees for the Cotton Campaign, ICCR's Human Rights / Human Trafficking Leadership Group, Know the Chain, and the Conflict-Free Sourcing Initiative. Patricia started managing the Human Rights department at As You Sow in 2006. In that role, she focused on improving labor abuses at the factory level, and she began groundbreaking work addressing forced labor and extortion at the commodity level of supply chains.

Preceding *As You Sow*, Patricia held positions at the Institute for Agriculture and Trade Policy (IATP), and Gap, Inc. Patricia has an international MBA from Thunderbird School of Global Management and undergraduate degrees from Cornell University and the Fashion Institute of Technology.

The authors would like to thank Sarah Bird for her constant positivity and voluntary efforts of computer-based analysis to address the issue of conflict minerals.

Responsible Sourcing Network (RSN) (www.sourcingnetwork.org), a project of the non-profit organization *As You Sow* (www.asyousow.org), is dedicated to ending human rights abuses and forced labor associated with the raw materials found in products we use every day. RSN builds responsible supply chain coalitions of diverse stakeholders including investors, companies, and human rights advocates. Currently, RSN works with network participants to leverage their influence in the areas of conflict minerals from the DRC and forced labor in the cotton fields of Uzbekistan and Turkmenistan to create positive change for brands, consumers, and the impacted communities. For more information, contact: info@sourcingnetwork.org.

Acknowledgements

This report was made possible by our sponsors: Source Intelligence; Ropes & Gray LLP; Conflict-Free Sourcing Initiative (CFSI); and *As You Sow*. RSN also recognizes the generous support of The Moriah Fund and individual donors.

The authors would like to thank Andrew Arriaga for his help and input, the staff of *As You Sow* including Andrew Behar, CEO; Betsy McMahon, Operation Director; Sarah Milne, Vice President Advancement; Cyrus Nemati, Communications Director; Andrew Montes, Director of Digital Strategies; Cody Mitcheltree, Development and Operation Associate; and Zoey Olbum, Communications Associate. In addition, the authors thank Comrade Agency for its online data visualizations work.

With special thanks to our Gold Sponsor

and our Tin Sponsors

Disclaimer

The information herein reflects the information available to RSN as of the date of publication and is thus subject to continuous modification. This information was obtained from publicly available corporate and third-party sources that are considered to be reliable. Although the greatest possible care was taken in the research and analysis, no representation or warranty (express or implied) is given as to the accuracy or completeness of this information. RSN and its parent organization, *As You Sow*, do not accept any liability for damage arising from the use of this report. The opinions expressed in this report are those of RSN and do not necessarily reflect the views of any of our sponsors, clients, or donors. RSN does not endorse any of the companies that are used as examples or referenced in the report. This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice or investment advice. Report sponsors have not provided any input on the companies selected for review, the methodology used, or any findings or statements made herein concerning industries, individual companies, or their filings.

Executive Summary

In the fourth consecutive year of analyzing companies' conflict minerals compliance and reporting, Responsible Sourcing Network's (RSN) research unveils a troubling trend widely spread among companies and industries. For the 2017 *Mining the Disclosures* report, RSN performed a year-on-year comparison between the scores achieved in 2016 and 2017. Regrettably, the disclosures and other publicly available information illustrate a decrease in companies' efforts to provide strong supply chain due diligence regarding their use of conflict minerals. With the Trump administration questioning the value of Section 1502 of the Dodd-Frank Act,[1] and adding unhelpful uncertainty to its corresponding final rule developed by the Securities and Exchange Commission (SEC), the majority of companies appear to be losing momentum acquired in previous reporting years to improve the quality of their disclosures. Encouragingly, high performers keep pushing for more transparency to mitigate risks in global supply chains and have committed to pursue the application of the rule regardless of future political decisions.

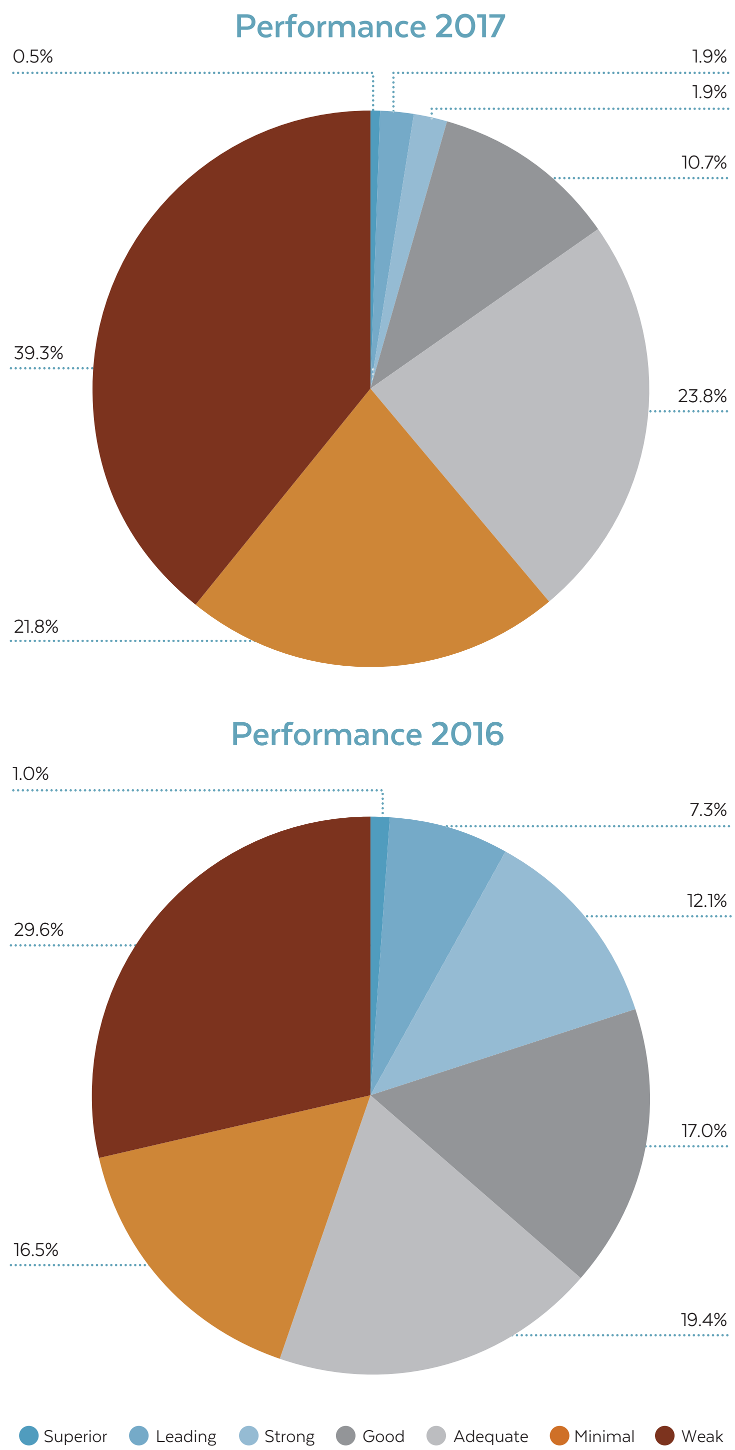
This year again, the technology sector dominates the ranking with the majority of innovative leaders achieving scores above 70 points. Laggards are still to be found in a range of industry groups including those in Aerospace, Oil, and Building Materials. The low scores of these groups reflect a compliance-only focus instead of the proactive, due-diligence-based strategies implemented by the top five leading companies: Intel, Microsoft, Qualcomm, Apple, Royal Philips. A new industry group is introduced in 2017, the Solar industry, which scores fairly well. Three solar companies out of four achieve scores above 55 but the industry group's average score is only considered "Minimal" due to Canadian Solar's dismal conflict minerals program and disclosure.

The overall decline in scores is best demonstrated by the 2017 and 2016 pie charts of company ratings by category. In the 2017 rating, 85% of the sample group is in the three lowest categories (Adequate, Minimal, and Weak), while in 2016, it was only 64% of the sample group.

On an indicator level, dramatic score changes occur regarding the capacity of companies to identify and manage their risks. The average score for the in-scope determination indicator, or a company's efforts to identify products containing 3TG, drops by over a third (-36 points) between 2016 and 2017. This decrease in the ability of companies to identify an existing risk inside their supply chains is a point of concern. Similarly, a poor showing of verification of suppliers' responses, which loses 26 points, diminishes the quality of the disclosures. These declining trends appear to be widespread throughout the report's indicators, industry groups, and companies. In contrast, there was improvement with the adoption of conflict minerals policies and response strategies with smelters or refiners (SORs). However, these are only two aspects of a very complex due diligence process and cannot, by themselves, effectively reduce all the risks in downstream companies' supply chains.

The overall lower scores between 2016 and 2017 illustrate the need for companies to continue to prioritize and invest in their supply chain due diligence efforts. Despite the decreasing score trend, leading companies have continued to demonstrate that implementing measures to reduce risk and harm in the downstream, midstream, and upstream levels of their supply chains is not only needed, but is entirely possible.

Figure 1: Companies' Comparative Performance Rating by Category between 2016 and 2017



Performance Ratings

Performance Ratings by Category of the Sample Group Companies

Superior (90+)
Intel

Leading (80+)			
Apple	Microsoft	Qualcomm	Royal Philips

Strong (70+)			
Alphabet	General Electric	HP	Nokia

Good (60+)				
3M	Ford Motor	Illinois Tool Works	Motorola Solutions	Vodafone Group
ABB	General Motors	Intuit	Sony	Western Digital
Baker Hughes	Hasbro	Juniper Networks	Stanley Black & Decker	
Bed Bath & Beyond	Hewlett Packard Ent.	LG Display	Tiffany	
Canon	IBM	Micron Technology	VF	

Adequate (50+)				
Abbott Laboratories	Eaton	Lowe's Companies	Rockwell Automation	TE Connectivity
Astec Ind.	Ecolab	Masco	Roper Technologies	Tesla
Boeing	First Solar	Mattel	Schlumberger	Texas Instruments
Cadence Design Sys.	Goodyear	Medtronic	Seagate Technology	TJX Companies
Caterpillar	Halliburton	Merck & Co	Sealed Air	Trimble
China Mobile	Icahn Enterprises	Michael Kors Hldgs.	SolarEdge Technologies	Under Armour
CNH Industrial	Johnson & Johnson	NXP Semiconductors	Stryker	United Technologies
Coach	Johnson Controls	Philip Morris	SunPower	Verizon Communications
Deere	Leggett & Platt	PPG Ind.	Symantec	Walt Disney
Delphi Automotive	Lockheed Martin	Procter & Gamble	Taiwan Semiconductor	

Minimal (40+)				
Acuity Brands	Brunswick	F5 Networks	Kimberly-Clark	Ralph Lauren
AGCO	Carlisle Companies	Flex	Kyocera	Sensata Technologies
Amphenol	Colgate-Palmolive	Fortinet	L Brands	Sherwin-Williams
Applied Materials	Corning	Hanesbrands	Lear	Terex
AptarGroup	Cypress	Harley-Davidson	LM Ericsson Telephone	Thor Ind.
ArcelorMittal	Dover	Harris Corporation	Magna International	Toyota Motor
ASML Hldgs.	Emerson Electric	Home Depot	MDU Resources Grp.	WestRock
Autoliv	EnerSys	Ingersoll-Rand	Nike	Whirlpool
Ball	Eni	Intuitive Surgical	Oceaneering Intl.	Windstream Hldgs.

Weak (<40)				
Adobe Systems	Canadian Solar	Graphic Packaging Hldgs.	Nucor	SeaWorld Entmt.
Albemarle	Chevron	Honda Motor	Oracle	Sonoco Products
Alliance Data Systems	Cintas	Honeywell Intl.	Owens Corning	Steel Dynamics
Amazon.com	Cisco Systems	Imperial Oil	Palo Alto Networks	Sturm Ruger & Co
American Outdoor Brands	Constellium	James Hardie Ind.	Parker-Hannifin	Tata Motors
AMETEK	Core Laboratories	Luxottica Grp.	Pfizer	Tenaris
Anheuser-Busch InBev	CRH	LyondellBasell Ind.	Polaris Ind.	The Estee Lauder
Autodesk	Crown Hldgs.	Mohawk Ind.	Pool	Total
Avery Dennison	Cummins	National Oilwell Varco	POSCO	Unilever
Avnet	Danaher	Nautilus	Praxair	USG
Belden	DST Systems	Newell Brands	Raven Ind.	Vista Outdoor
Berkshire Hathaway	Edwards Lifesciences	Nielsen Hldgs.	Raytheon	Wal-Mart Stores
Booz Allen Hamilton	Exxon Mobil	Nippon Telegraph	Reliance Steel & Alum.	Zimmer Biomet Hldgs
BorgWarner	First Data	Northrop Grumman	Rockwell Collins	
Boston Scientific	Gap Inc.	Novartis	Ross Stores	
BT Group	Garmin	Novo-Nordisk	Royal Dutch Shell	
Callaway Golf	General Dynamics	NTT DOCOMO	Sanofi	