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# PRACTICAL IMPLEMENTATION OF DUE DILIGENCE FOR CHINESE COMPANIES

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# 1. RCS Overview



SUPPLY CHAIN MAPPING AND RISK RESEARCH

AUDITING AND AUDIT PROGRAM DESIGN

SUPPLIER ENGAGEMENT, INFLUENCING & TRAINING

BESPOKE ADVISORY

INDUSTRY THOUGHT LEADERSHIP AND CHANGE

- 10+ years dedicated to responsible sourcing ; An unrivalled position as the bridge between each stage of the value chain
- Designer of the CFSI Downstream Audit Program, RCI cobalt audit program; Industry leading auditors in the US, Europe and China
- Key partner to major industry bodies including the OECD, EICC, CFSI, Cobalt Institute, ICMC, CCCMC, RJC
- Advisory work that shapes industry and regulatory good practice

**RioTinto**



**TRAFIGURA**

**NOKIA**





**Dr. Nicholas Garrett**

**Director**

**Internationally recognized expert in RCS's work areas**

Experience includes AngloGold Ashanti, ERG, AVX, the EITI, Nokia, the OECD, Trafigura, the World Bank, and the World Gold Council, the British, German, Japanese and US Governments

He holds a Doctorate in Responsible Sourcing and has been published widely on responsible sourcing in FT, WSJ and European press.



**Harrison Mitchell**

**Director**

**Globally recognized expert on responsible sourcing**

Partner/advisor to a number of industry and convening bodies including the OECD, CCCMC, CFSI, Cobalt Development Institute, and International Copper Alliance. Plus companies such as Apple, Sony, GE, Nokia and RioTinto

He is a widely-published author and quoted expert in publications including the Financial Times, Wall Street Journal and BBC.



**Finny Tang**  
**Asia Director**

Finny is a leading authority in responsible sourcing and social responsibility program management. She leads the due diligence audit program for major RCS Global clients and is an expert in supply chain mapping verification. **She has led multiple due diligence audits from upstream to downstream in 3TG, cobalt, graphite and rare earth.**

She worked for IBM for 10 years with 8 years dedicated to social compliance and responsible sourcing, managing over 100 suppliers a year in Asia and EMEA.



**Ferdinand Maubrey**  
**Project Director**

**Ferdinand has 6 years experience advising world leading mining, electronics and manufacturing companies on risk management in complex environments.**

Having contributed to establishing Eunomix, an economic consulting firm prior to joining RCS Global, he has worked on corporate strategy development, and efficient stakeholder engagement





- In September 2017 RCS Global published a new Industry Briefing Paper on responsible sourcing in battery metals
- The paper offers the first comprehensive analysis of the sourcing challenges in the five core materials prevalent in most lithium-ion batteries:
  1. Cobalt
  2. Lithium
  3. Nickel
  4. Manganese
  5. Graphite

Key potential risks and impacts are gauged and ranked across six main issues areas ranging from human rights abuses within ASM, to environmental damage around industrial mines, to poor occupational health and safety (OHS).

The paper also looks at the role of China as the fulcrum for all battery metals production, refining, and manufacturing.

Finally, potential routes towards more responsible sourcing across the industry are outlined.



The full research can be accessed  
at **[battery.rcsglobal.com](https://battery.rcsglobal.com)**



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## **2. Responsible Sourcing Status & Outlook -3TG & Cobalt**



## The emergence of responsible sourcing and the push factors behind it:

### Regulation and Norms

#### Global/Multilateral

- UN Guiding Principles
- OECD Due Diligence Guidelines
- EU Conflict Mineral Regulation (comes in to effect in 2021)
- Chinese Guidelines(CCCMC)

#### National level

- Dodd-Frank 1502 (under review, but has already triggered industry change)
- Section 307 of US Tariff Act
- UK Modern Slavery Act
- China AQSIQ regulations (forthcoming)

### Reputation

#### Campaign groups and INGOs:

- Amnesty International, Global Witness amongst NGOs now undertaking regular work in responsible sourcing

#### Media:

- Washington Post, WSJ, BBC and Sky news have all run extensive reports on mineral supply chains

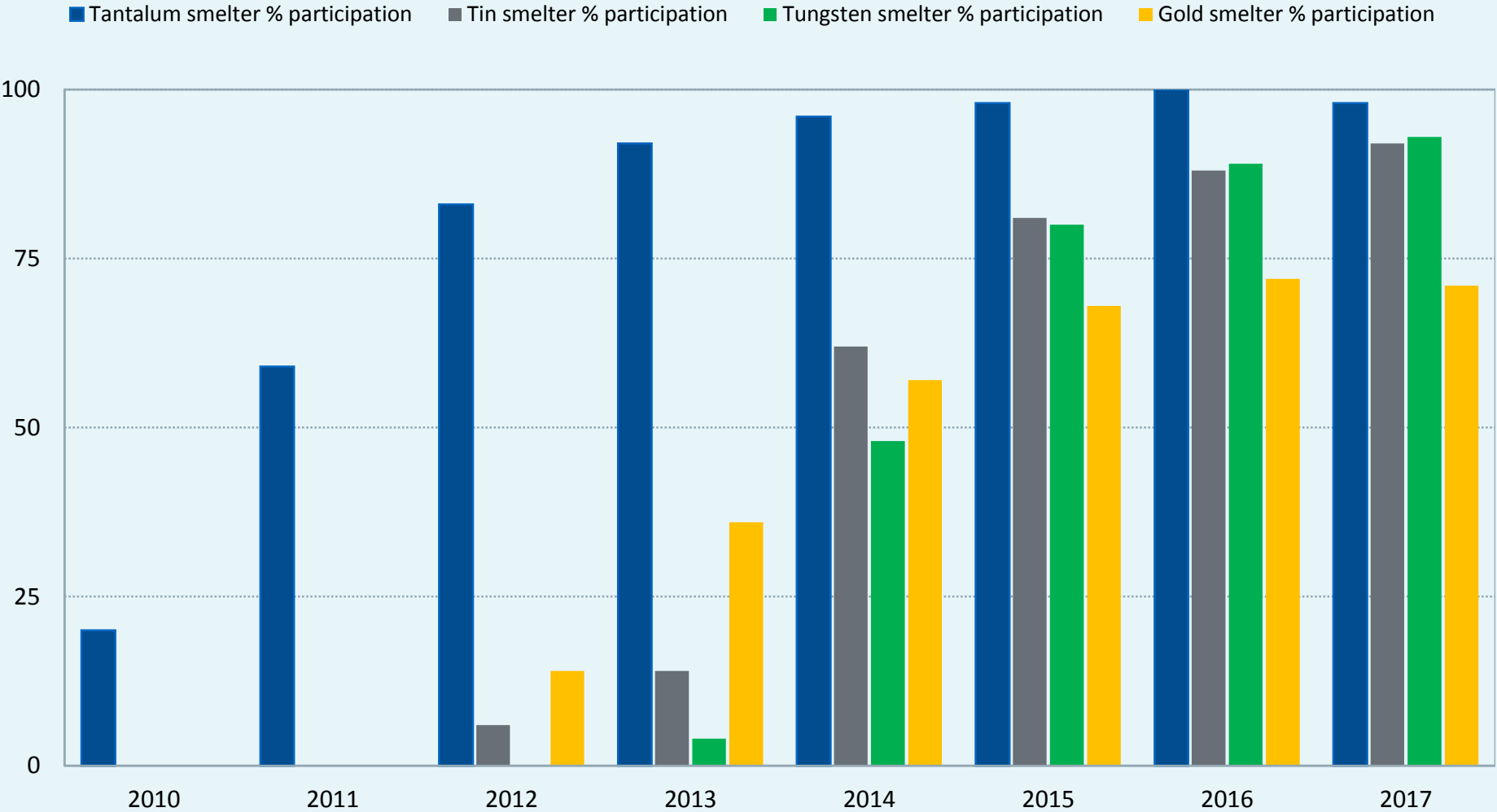
#### Investors/Shareholders/Lenders

- Growing number of investment funds and institutional lenders now have significant supply chain transparency requirements in place for their investees
- Equally, shareholder activism is increasing as witnessed over the last 12 months

#### Consumer activism:

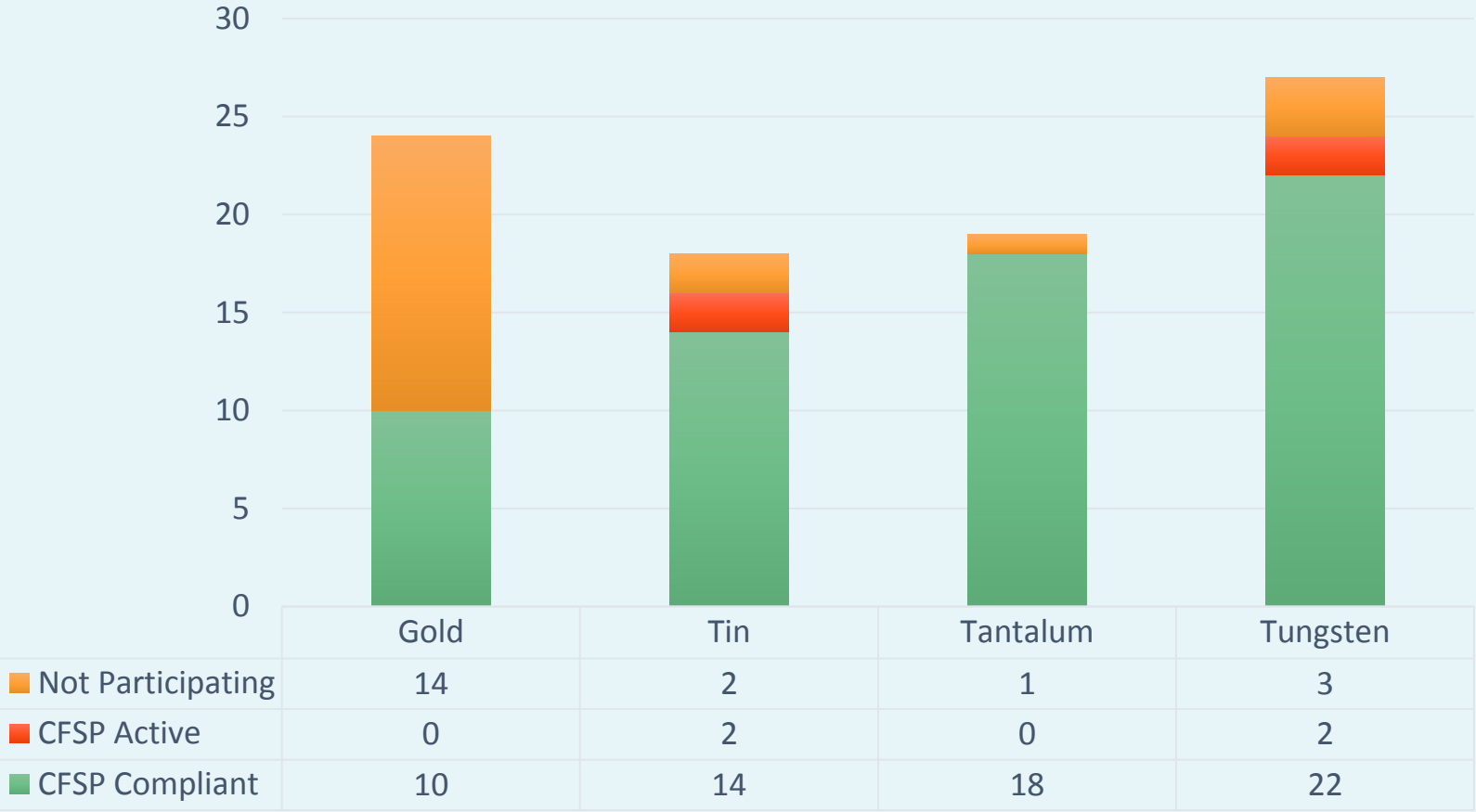
- 81% of consumers (across markets from fashion to electronics) prefer "responsible products"
- Growing consumer understanding of terminology, structure, parameters of "responsible sourcing"

# Percentage of Global 3TG Smelter Participation in CFSI Due diligence Audit Program



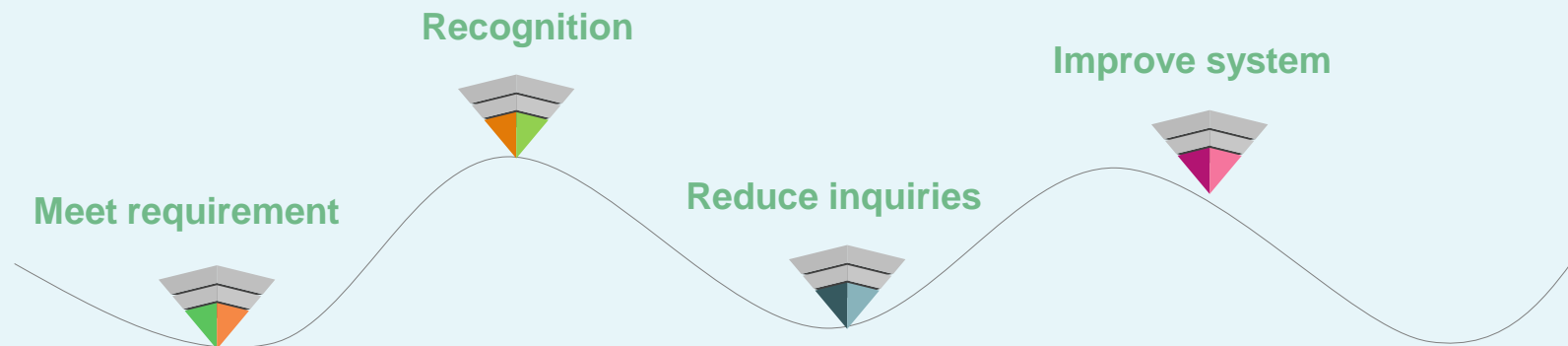


# CFSI Due Diligence Audit Program Participation of 3TG Smelters in China





- Meet customer requirements set forth by law and international expectations
- Reduce downstream customer inquiries
- Satisfy OECD Step 4
- Public signal to customers and the international market
- International recognition by listed publicly
- Improve smelter due diligence systems





1. Supply chain from brand company to smelter is too long; **Brand companies' expectation can not be communicated to smelters effectively** through direct or indirect engagement;
2. Smelters **lack of business motivation** to implement and improve due diligence program as **without mandatory request from direct customers** and **no local regulation** in China;
3. Chinese smelters are **lacking of resources** to understand the regulation and international expectation, end customer requirement;
4. **Business information disclosure concern**;
5. Language barrier.

..... **Compliance in gold supply chain in China is most challenge, still a long way to go.**



1. Chinese cobalt companies are under **pressure from leading brand companies** to implement due diligence program; However, limited companies are actively implementing due diligence program
2. **16 Chinese cobalt companies have been received pilot due diligence audit** from one leading brand company to demonstrate where they source from and whether they due diligence management system align with CCCMC Chinese Guidelines; There are 10 more Chinese companies in audit planning.
3. More and more Chinese cobalt companies are aware of client expectation and **start to join industry program** to contribute responsible sourcing efforts, eg Responsible Cobalt Initiative(RCI);
4. **Industry cobalt audit program is coming**, target on refiner first, which most are based in China.



Direct engagement with suppliers is crucial for establishing and leveraging any supply chain mapping exercise





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## **3. Practical implementation of due diligence for Chinese Companies**





- **China is a key partner in worldwide responsible sourcing**
  - Understanding and response remains at a basic level
  - Most raw materials flow through China and it remains the world's key manufacturing base
  - Regulations imposed by 'the West' require Chinese cooperation
- **Many sources of key raw materials remain vulnerable high risk locations**, including 'new technology materials' such as lithium ion battery materials
  - e.g. cobalt in the DRC; lithium in South America,
  - Social and environmental issues are widespread
- **Increase demand driven by electric vehicles and battery storage will increase risk of conflict in low governance environments**
  - These risks cannot be ignored by end users. We are seeing some indications now – such as increased conflict in the lithium-ion triangle



### How to start ?

- Understand the **supply chain risks** disclosed by suppliers and public reports from media, NGO
- Understand applicable **international and local law regulations**, eg EU regulations
- Understand **international expectations**, eg OECD DDG, CCCMC Chinese Guidelines
- Understand **downstream client expectations**; eg, risk readiness assessment and audit requirement? Mandatory?
- Understand **what is the industry organization doing** on responsible sourcing and what **impact** to your company
- Understand **what is the peer company doing** on responsible sourcing

All Minerals

# Practical implementation of due diligence for Chinese Companies

## Step 2: Due Diligence Policy



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- Determine the guidance for company due diligence policy; eg OECD DDG, Chinese Guidelines or other
- Create the due diligence policy
- Public on the website.



### All minerals

- Conduct “Know Your Counterpart” (KYC) process;
- Identify upstream actors from direct supplier to the mine site;
- Understand the influence of upstream actors.

# Practical implementation of due diligence for Chinese Companies

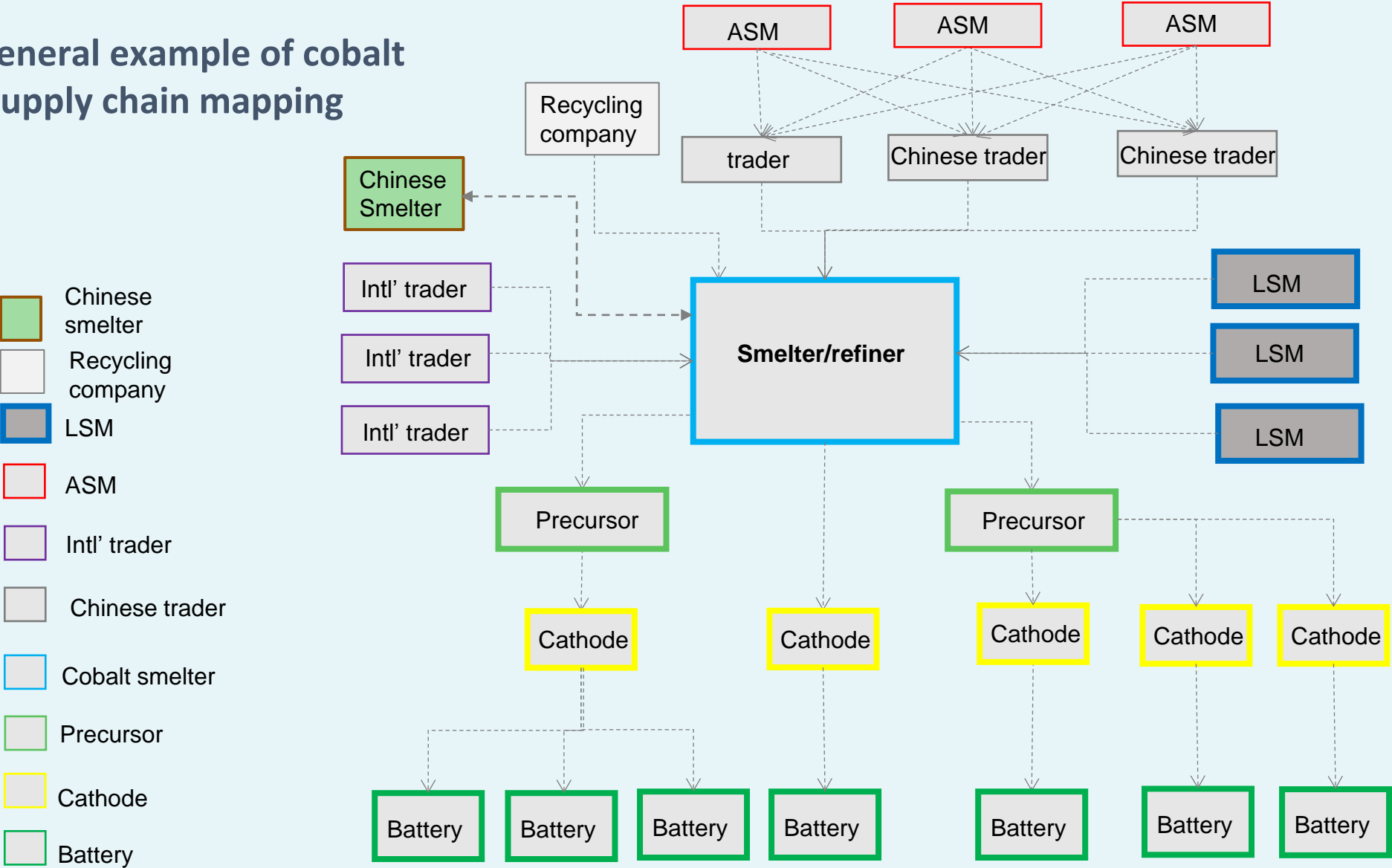
## Step 3: Supply Chain Mapping



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- Supply chain mapping and transparency is the **foundation of any effective responsible sourcing program**
- A company **cannot prove compliance**, promote responsible practice, or change behavior amongst its suppliers **until it identifies, engages with, and understands them**
- But supply chain mapping is not a solution. **It is a tool to launch a responsible sourcing program** and then to support due diligence management

## An general example of cobalt supply chain mapping







More Steps:

Align with OECD/Chinese Guidelines 5 Steps Framework:

1. Understand the context;
2. Set up supply chain due diligence policy (OECD Step 1);
3. Collect supply chain information to improve supply chain mapping and transparency (OECD Step 2);
4. Identify the risk in the supply chain and assess the risk (OECD Step 2);
5. Mitigate risk with suppliers and stakeholder (OECD Step 3);
6. Report due diligence activities and progress (OECD step 5).



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# Thank you

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