

Reflections on year one - LME Responsible Sourcing

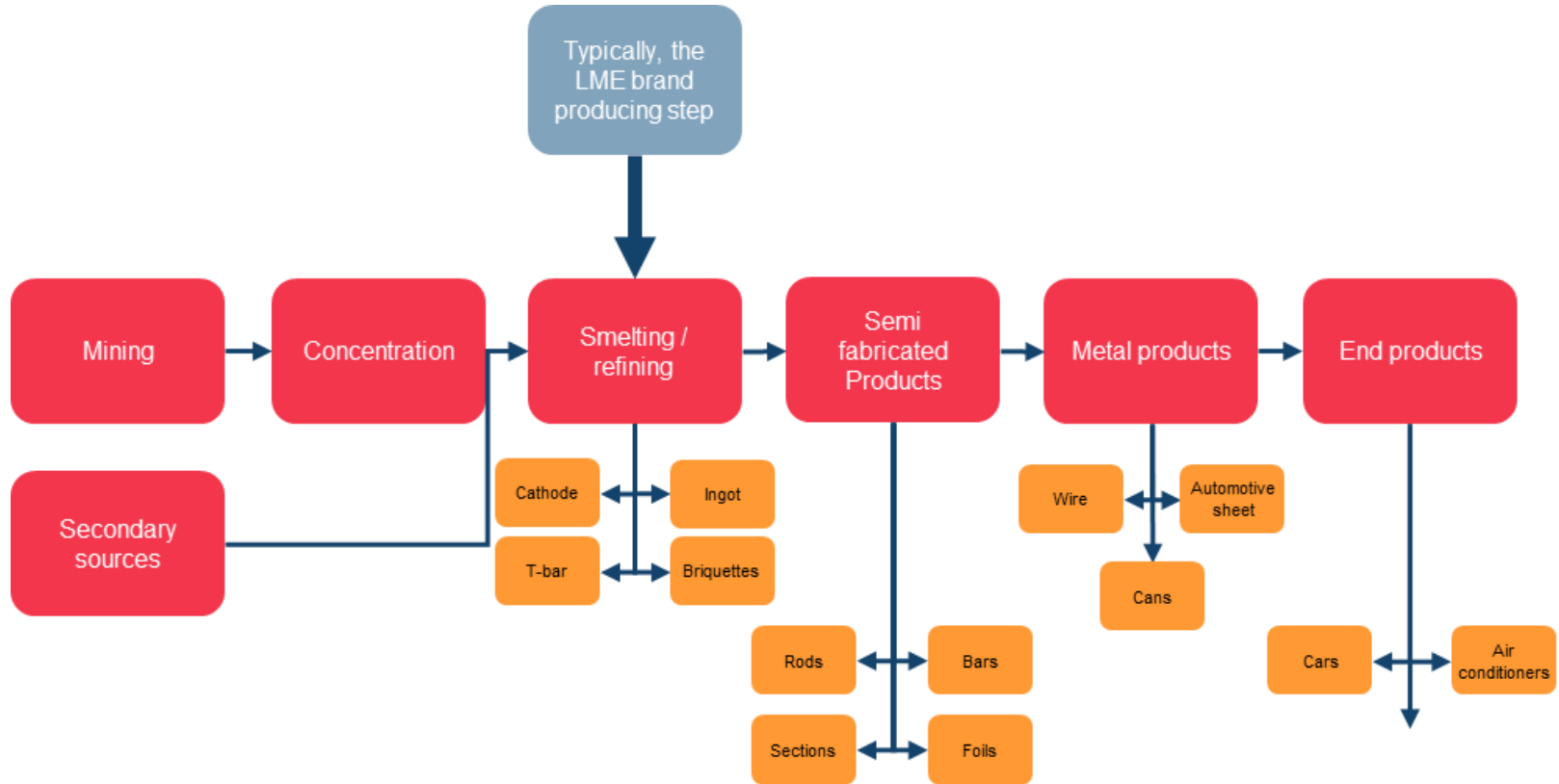
Nicole Hanson, Responsible Sourcing Manager
October 2022



SETTING THE GLOBAL STANDARD



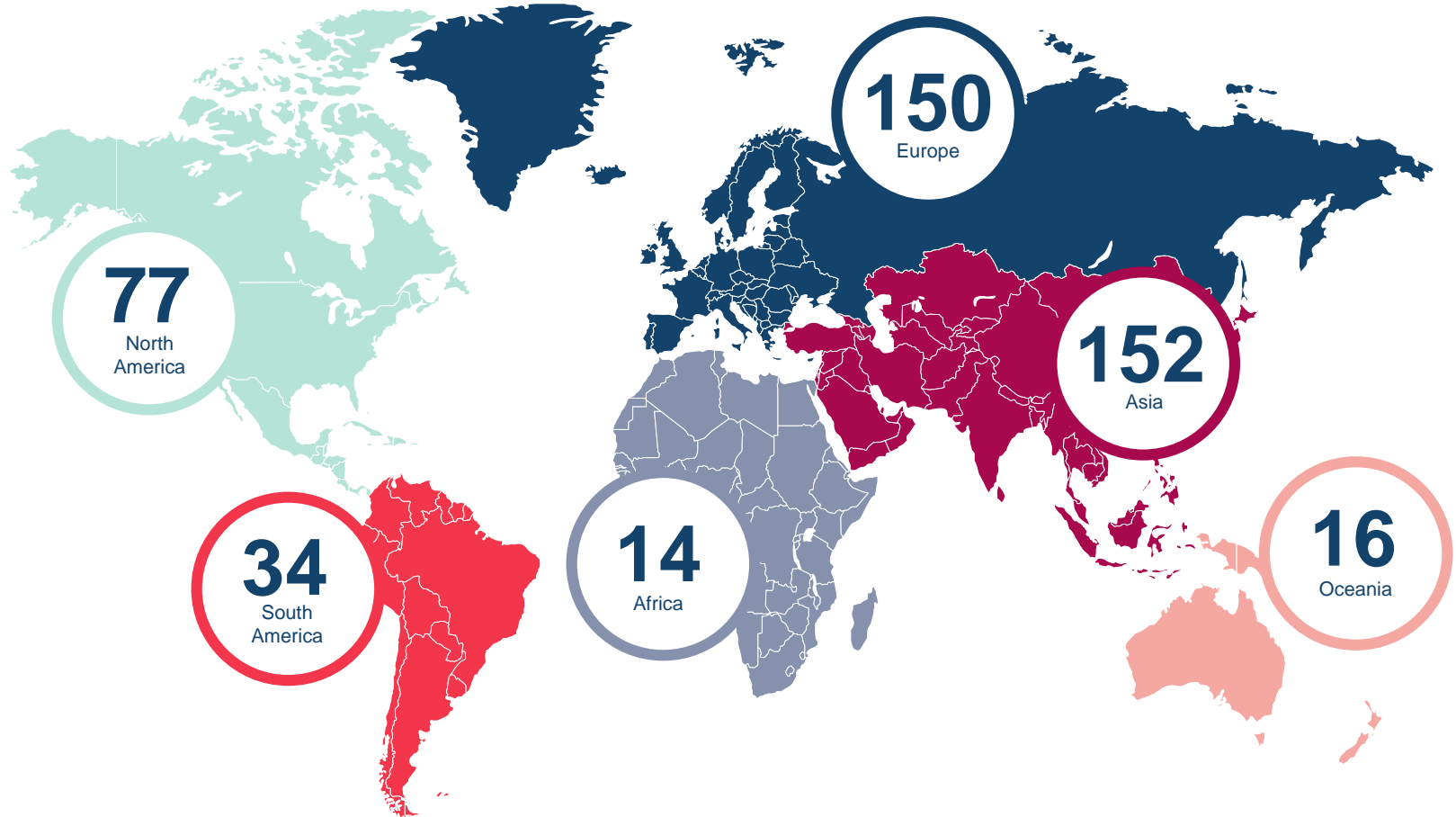
Metals value chain



LME-listed brands breakdown by metals

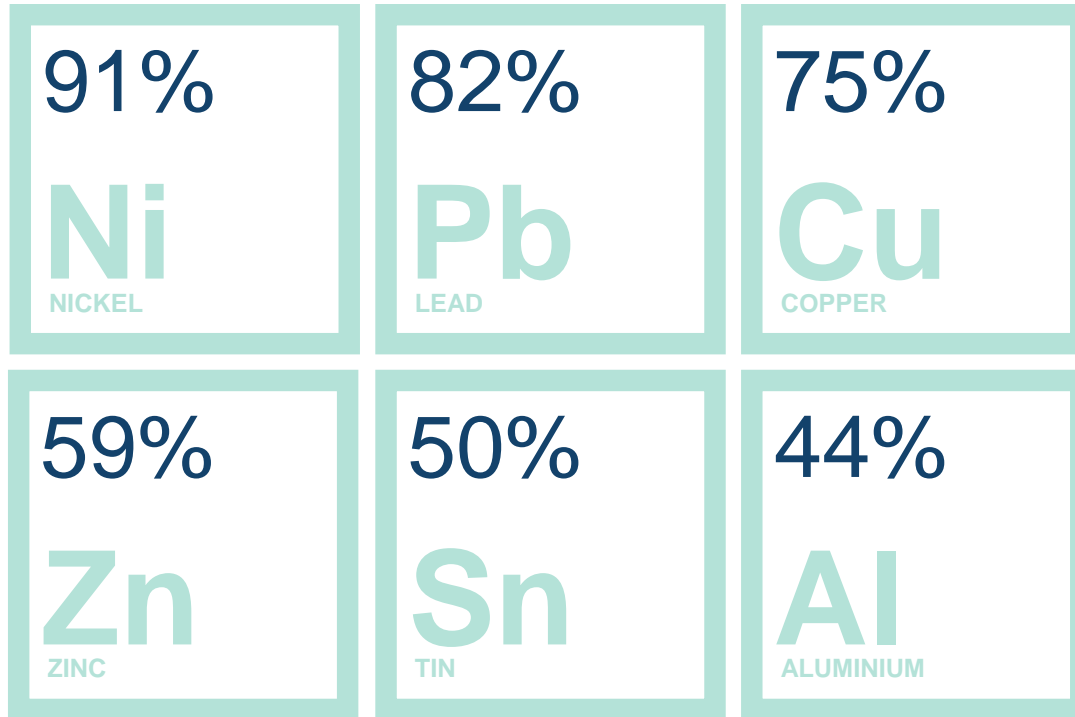


LME-listed brand producer locations



Representation of metals by LME-listed brands

Annual percentage of production represented by LME brands for LME deliverable shapes, estimates only



1. LME brand production figures collated from 2020 and 2018 LME brand surveys, with the most recent referred to if available.
2. When surveys not available, either plant capacity or WBMS refined production referred to (assuming LME brand sole national producer).
3. LME production by country cross referenced with WBMS refined production per country.



Responsible sourcing requirements for LME-listed brands

OECD Due Diligence Guidance
for Responsible Supply Chains
of Minerals from Conflict-
Affected and High-Risk Areas

ISO 14001: Environmental
Management System or
equivalent

ISO 45001/OHSAS 18001:
Occupational Health & Safety
Management System or
equivalent



Requirements
introduced
25 October 2019



First deadline for
OECD Guidance
30 June 2022



Today

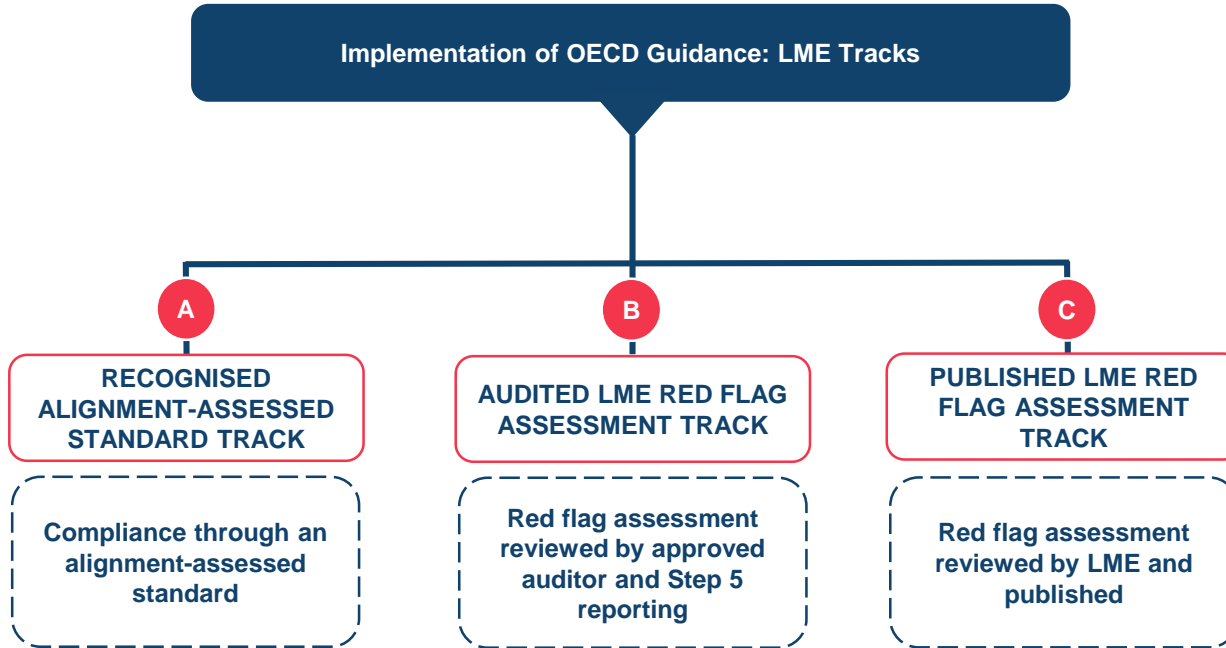


First deadline for ISO compliance
and Track A proof points
31 December 2023

1. Requirements apply to all LME-listed producers of physically settled contracts. For details, please refer to the LME policy found on our website:
<https://www.lme.com/en/Company/Responsibility/Responsible-sourcing>



Summary of tracks to OECD Guidance implementation

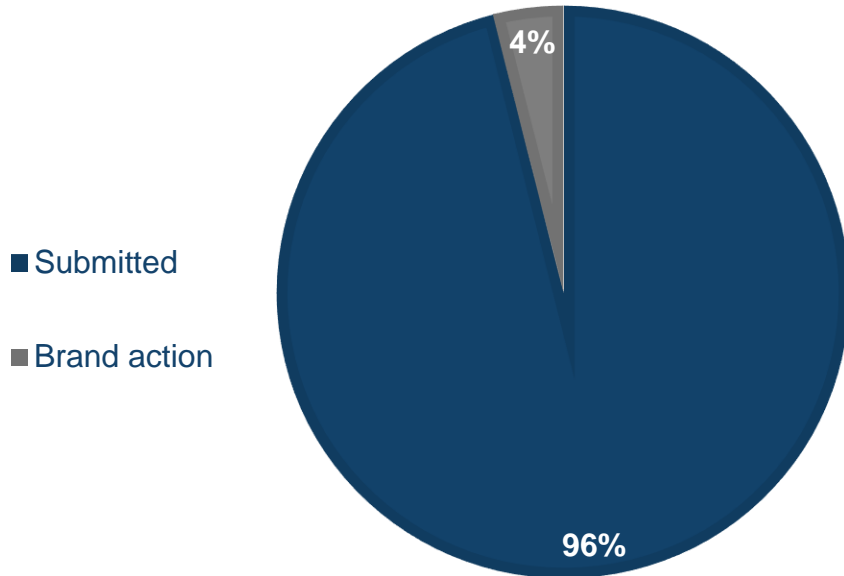


SECONDARY MATERIAL ATTESTATION FORM

Brands sourcing 100% of their LME metal from secondary material sources are excluded from the OECD Guidance requirement



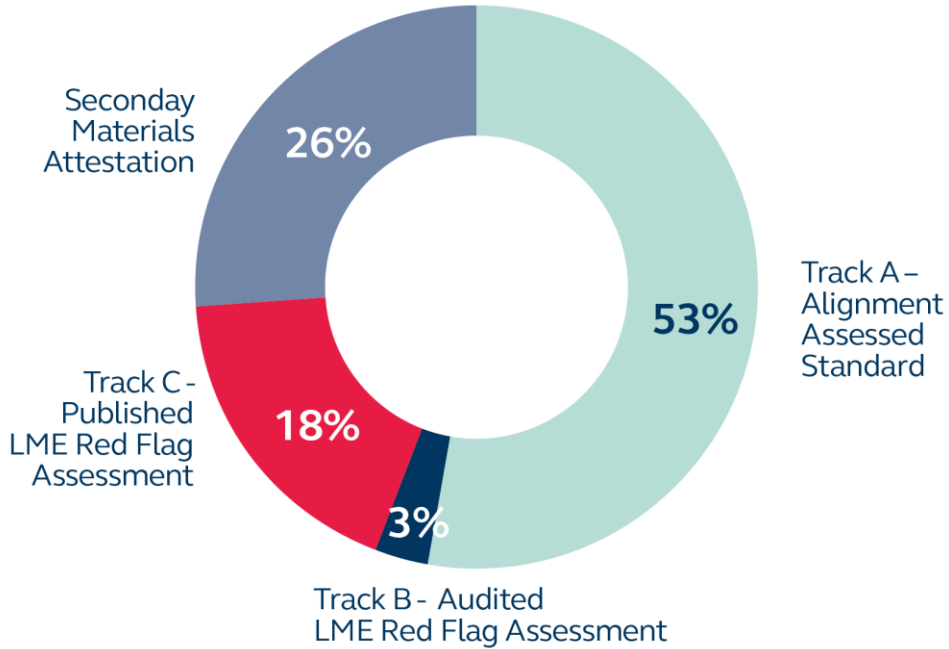
Key LME responsible sourcing programme update



- 96% of the LME brands submitted information in order to comply with the first responsible sourcing deadline, an outstanding result for a new initiative that spans 9 metal categories and 54 countries
- Lead, aluminium alloy, primary aluminium, copper, NASAAC and zinc have all seen brands de-list / suspend since the 30 June 2022 deadline
- Similarly, de-listings have happened with brands from China, UK, Japan, Canada, Lao PDR, Austria, Malaysia, Ukraine and Italy



Track breakdown

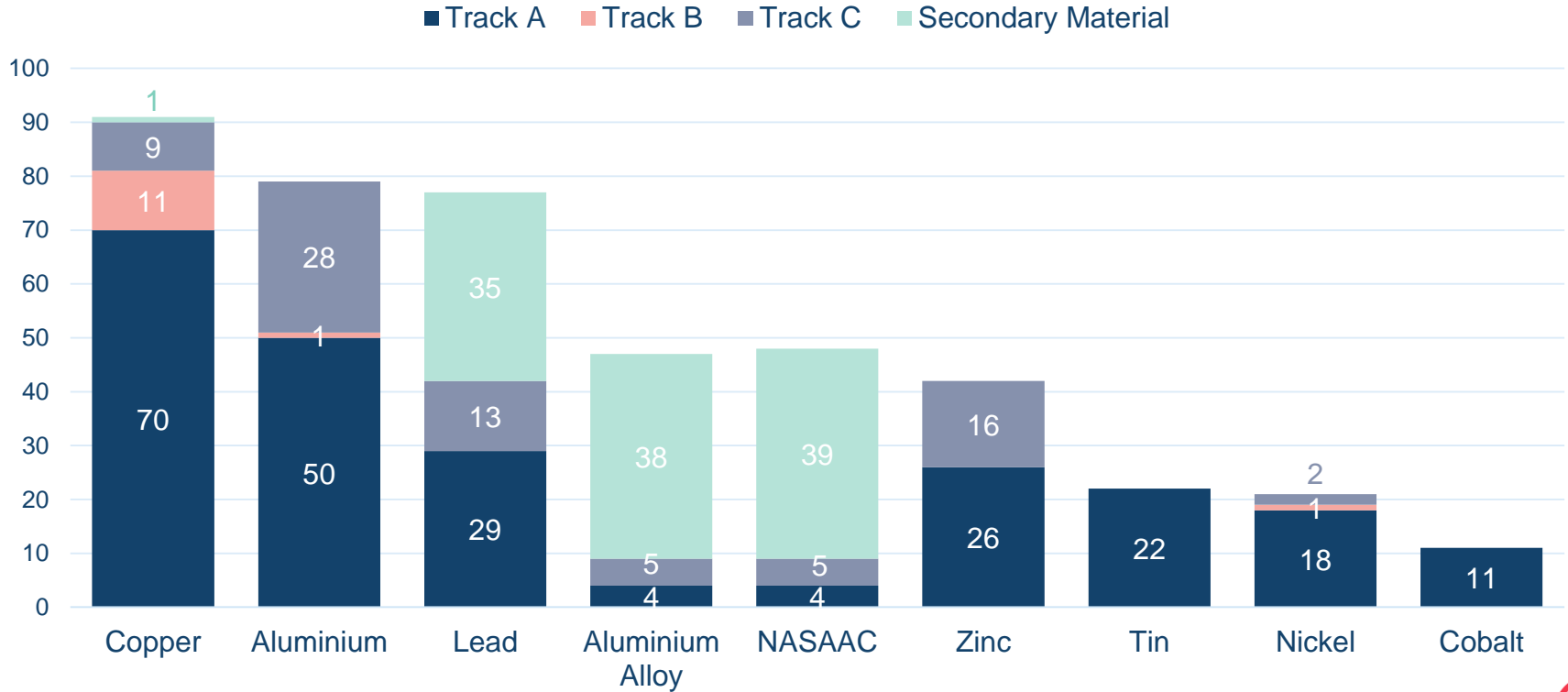


- Track A was the most selected
- Track B was the least selected
- ¼ of LME listed brands are produced with 100% secondary material

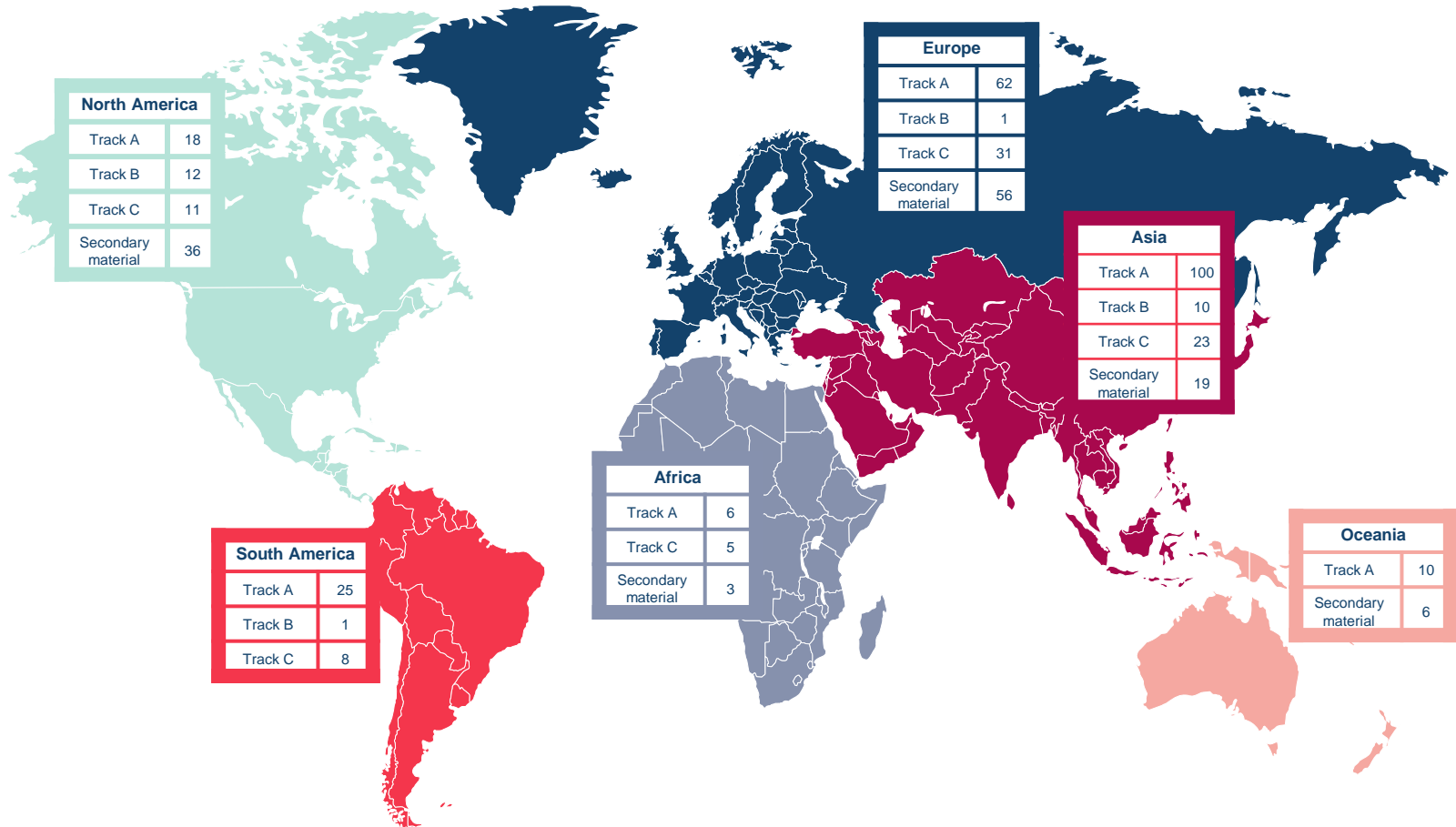


Tracks selected by metal

443 brands are listed on the LME as of October 2022

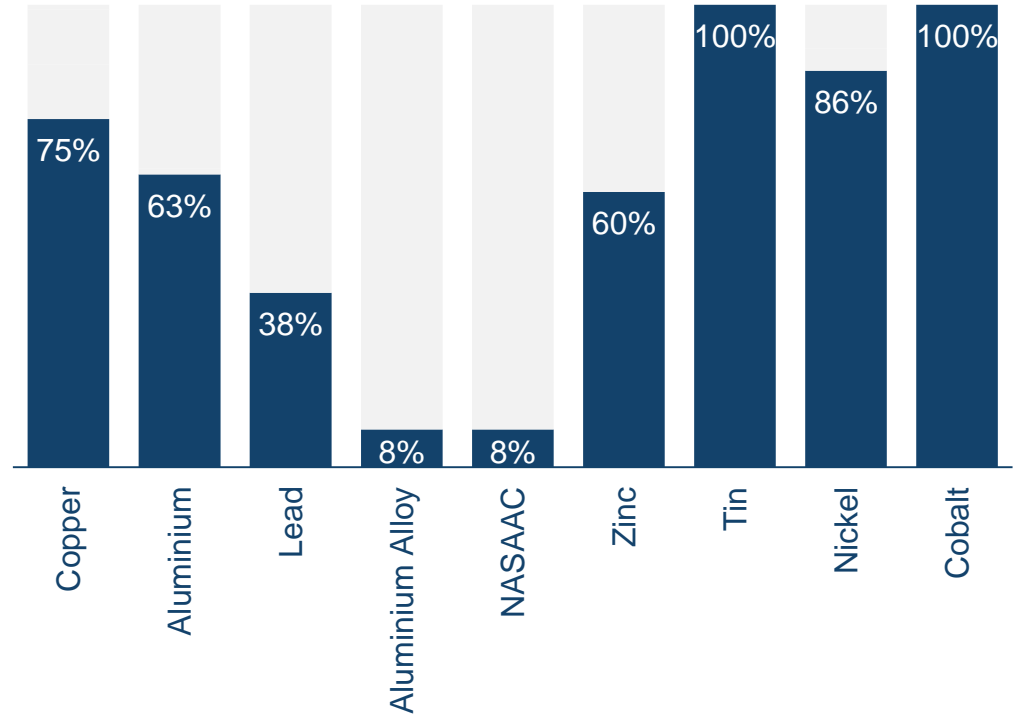
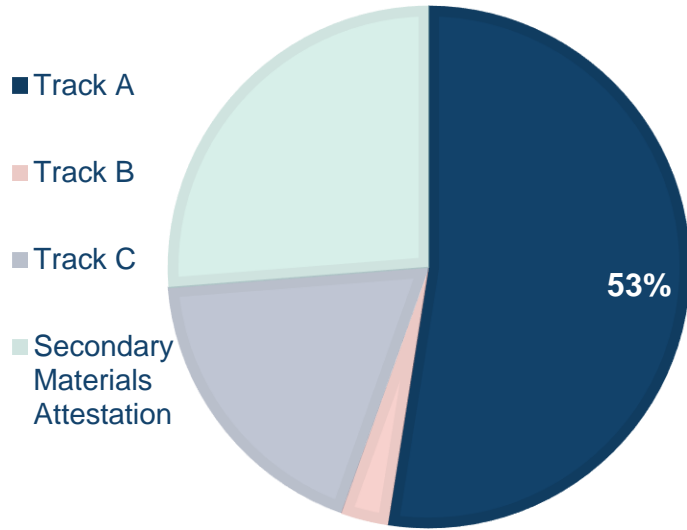


LME-listed brand producer locations

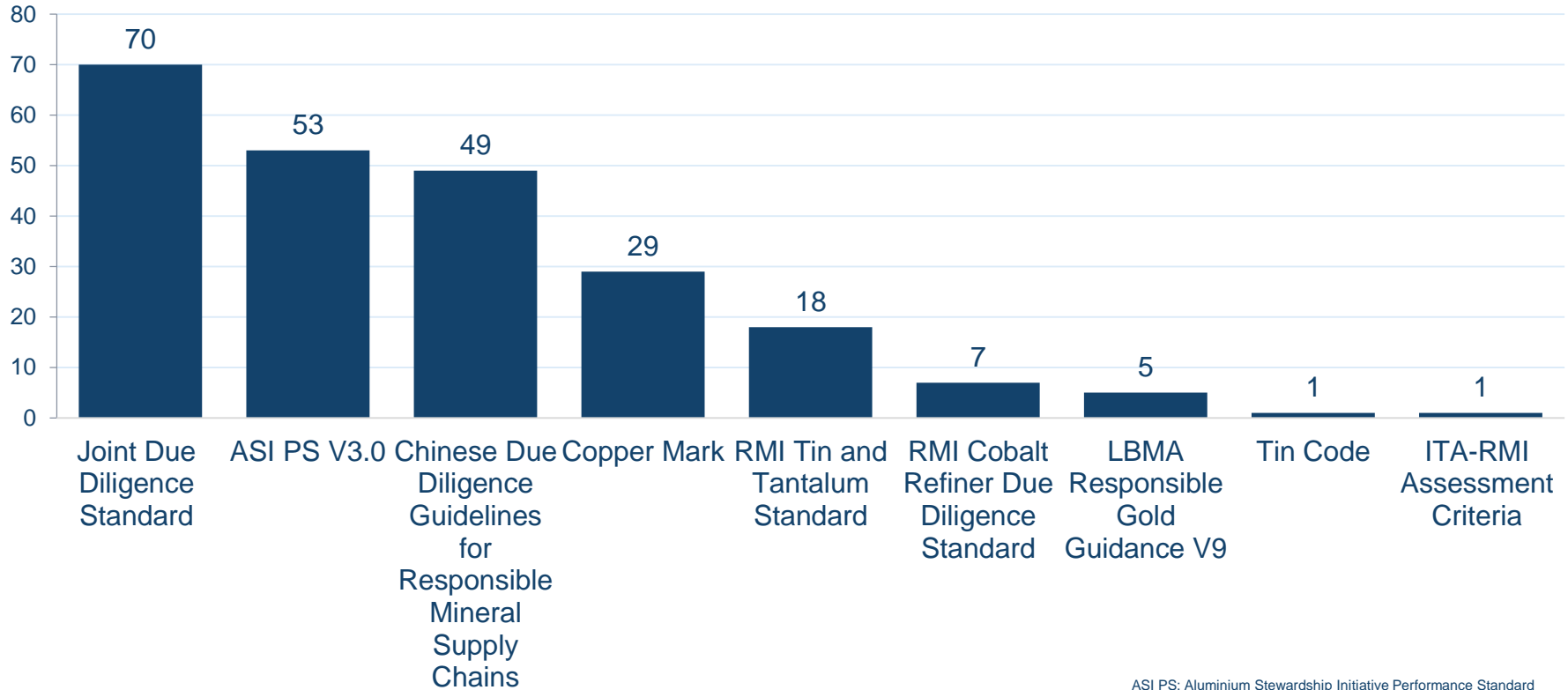


Track A brand submissions by metal

233 LME-listed brands chose the Alignment-Assessed Standard Track (53%)



Track A standard selection by number of brands

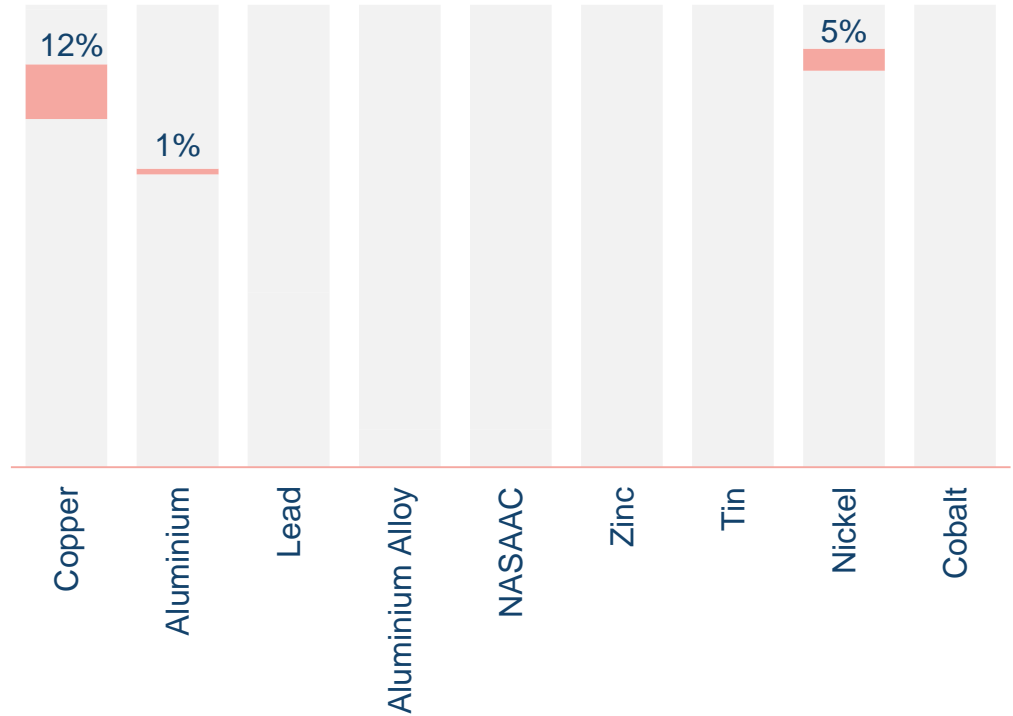
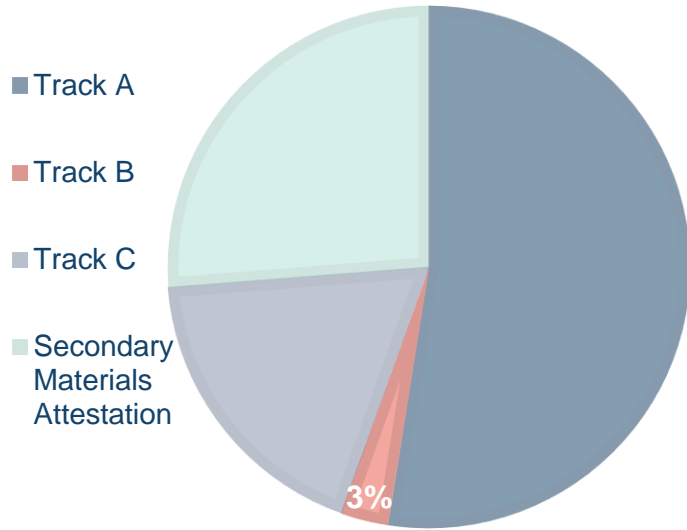


ASI PS: Aluminium Stewardship Initiative Performance Standard
RMI: Responsible Minerals Initiative
LBMA: London Bullion Market Association
ITA: International Tin Association



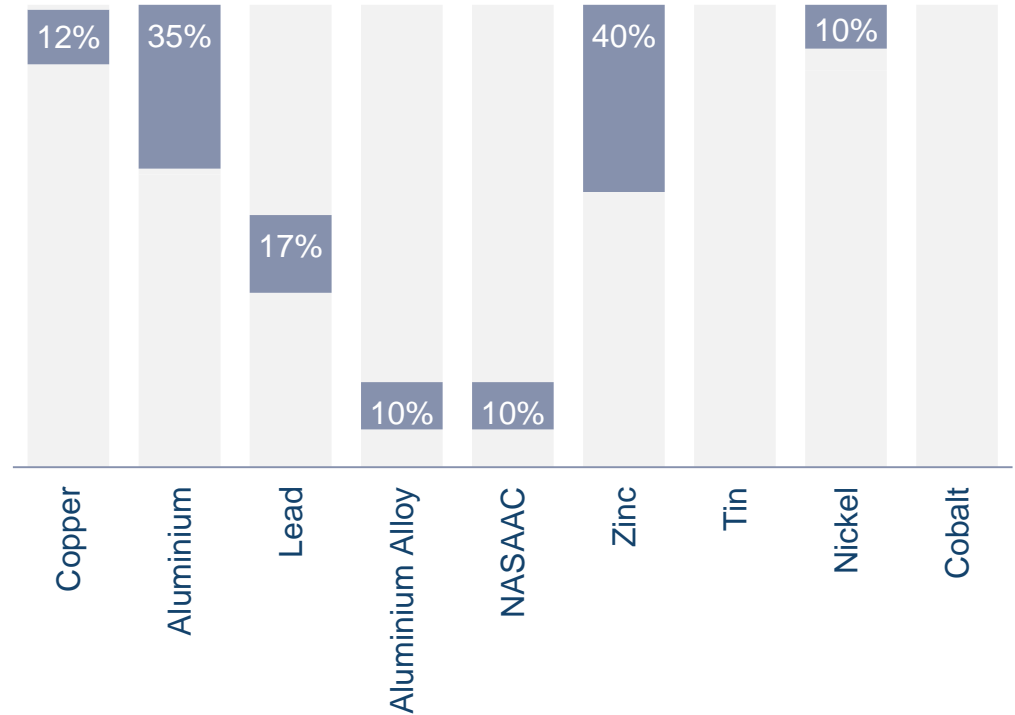
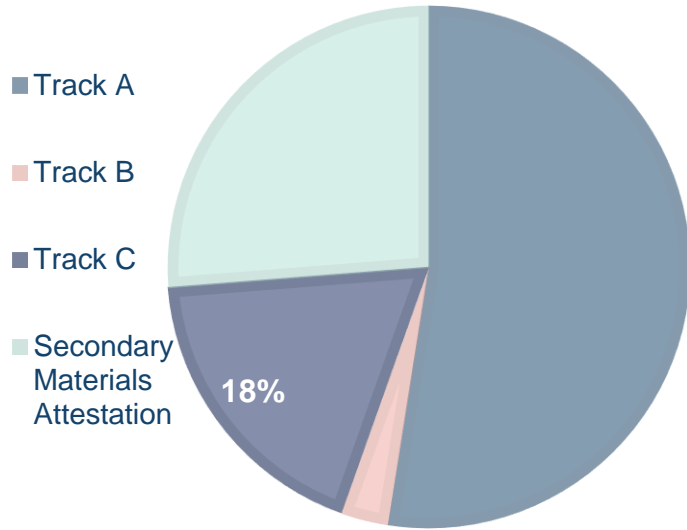
Track B brand submissions by metal

13 LME-listed brands chose the Audited LME Red Flag Assessment Track (3%)



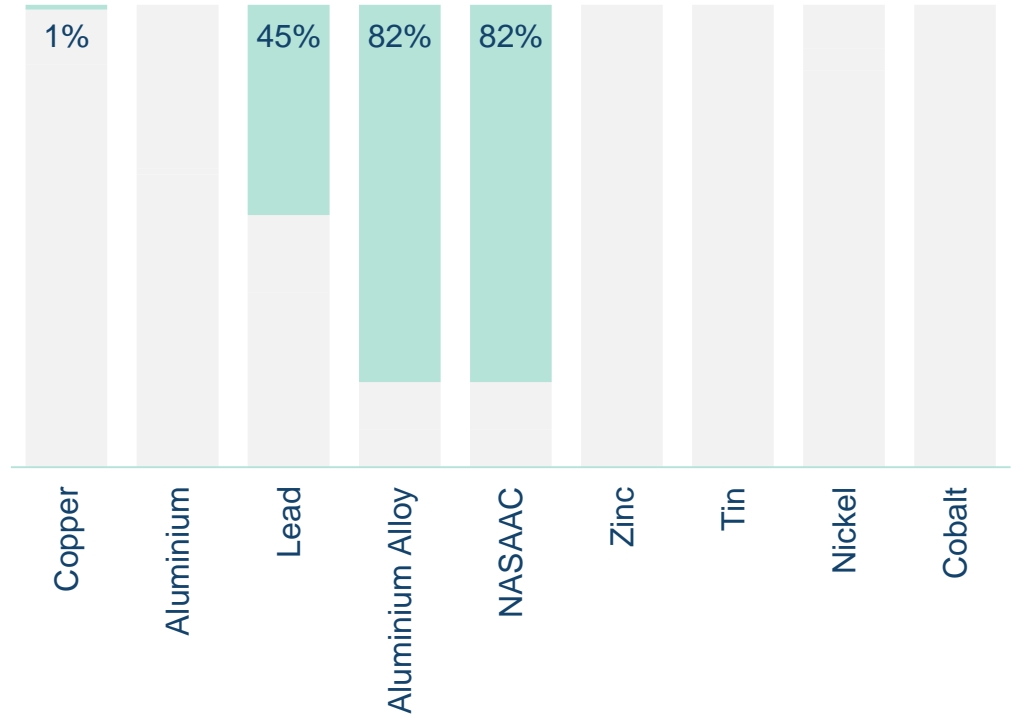
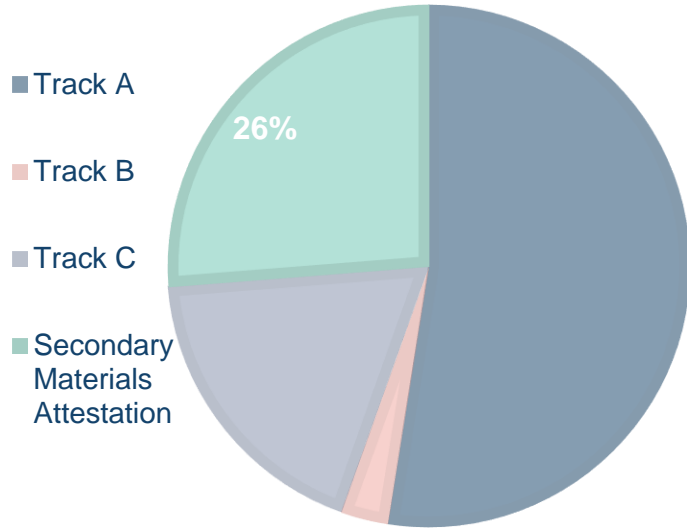
Track C brand submissions by metal

81 LME-listed brands chose the Published LME Red Flag Assessment Track (18%)



Secondary material attestation submissions by metal

116 LME-listed brands submitted secondary material attestation forms (26%)



Secondary material attestation form summary

Secondary materials include pre-consumer and post-consumer scrap

1. Explain whether the Brand is relying solely on assurances from suppliers regarding the sources of material or on objective evidence.

Most producers relied on a mixture of visits to their suppliers, inspection of deliveries, and quality testing.

2. List corporate level checks that Brand conducts on its suppliers.

Responses varied from detailed procedures including Supplier Codes of Conduct, ISO certifications, unique KYC forms and audits to reliance on regulation or established relationships.

3. Confirm that the Brand has a strong company management system in place and give examples.

Many producers relied on management systems for quality, such as ISO 9001, though some implemented a management system specifically for responsible sourcing of minerals.

Across all three questions, producers often mentioned government regulations that factor into their supplier due diligence (either at their location or their supplier location).



Progress and opportunities

Positive developments

- LME brand producers are committed to implementing the OECD Guidance
- The OECD Guidance works as a framework for responsible sourcing, even for non-3TG metals
- Recognition of existing industry initiatives fit into the LME's process, enabling the LME to build on existing work in the sector

Areas for improvement

- CAHRA identification, especially in non-3TG sectors, is still developing
- OECD Guidance interpretation questions for non-3TG metals remain, including supplier red flags and relevance of certain criteria
- Implementation of the principles of EITI along the value chain is a challenge, especially beyond EITI implementing countries and beyond the mining stage
- Governance and assurance requirements vary between Track A standards
- Monitoring and evaluation of the OECD Guidance is not yet standardised

1. OECD Guidance: OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas

2. 3TG: tin, tantalum, tungsten, and gold

3. CAHRA: Conflict-Affected and High-Risk Area

4. EITI: Extractive Industries Transparency Initiative



Are we meeting our goals?

1. Ethical responsibilities



- The LME believes the industry has an ethical imperative to embrace principles of responsible sourcing
- 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

2. Commercial



- 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
- 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

3. Providing leadership



- The LME has listened to calls to take a leading role. These calls arose because the LME can most efficiently promote a centralised process
- 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



Are we meeting our goals?

Are we facilitating the embrace of the principles of responsible sourcing in the metals industry?



- Yes, as demonstrated by the high response rate of producers and full-time staff dedicated to supporting producers in the process.

Does the LME price reflect the value of responsibly sourced metal?



- Not yet, though 2022 marks a significant moment in LME's responsible sourcing policy implementation. There are milestones still to come before we can be confident that price is reflective of responsibly sourced metal.

Are we leading well with a centralised and efficient process?



- The number of brands complying and the expansion of alignment assessment across standards encourages the LME that we are leading well.



Key dates for the responsible sourcing programme



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