Reflections on year one - LME Responsible Sourcing

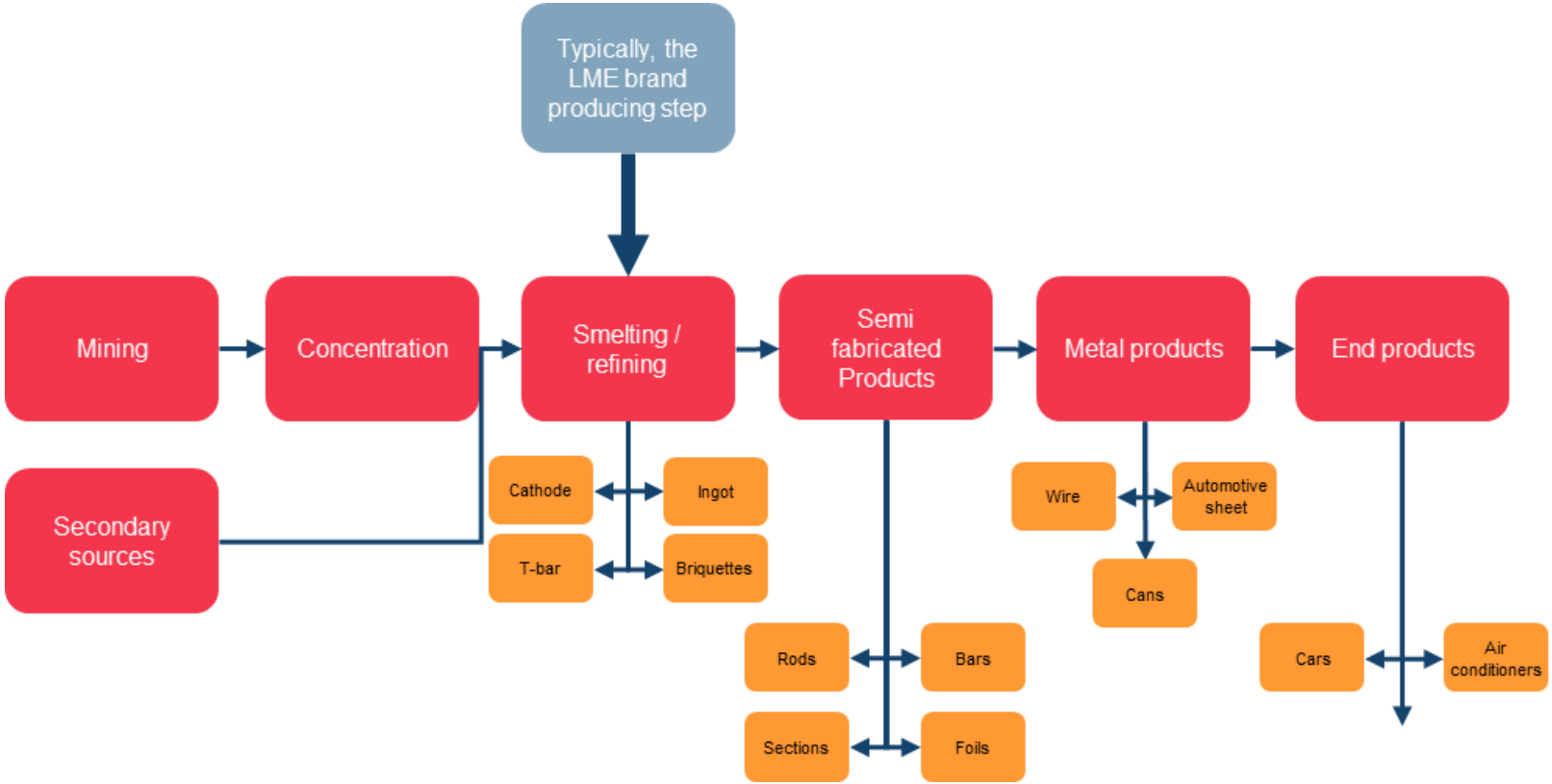
Nicole Hanson, Responsible Sourcing Manager

October 2022

LME
An HKEX Company

SETTING THE GLOBAL STANDARD

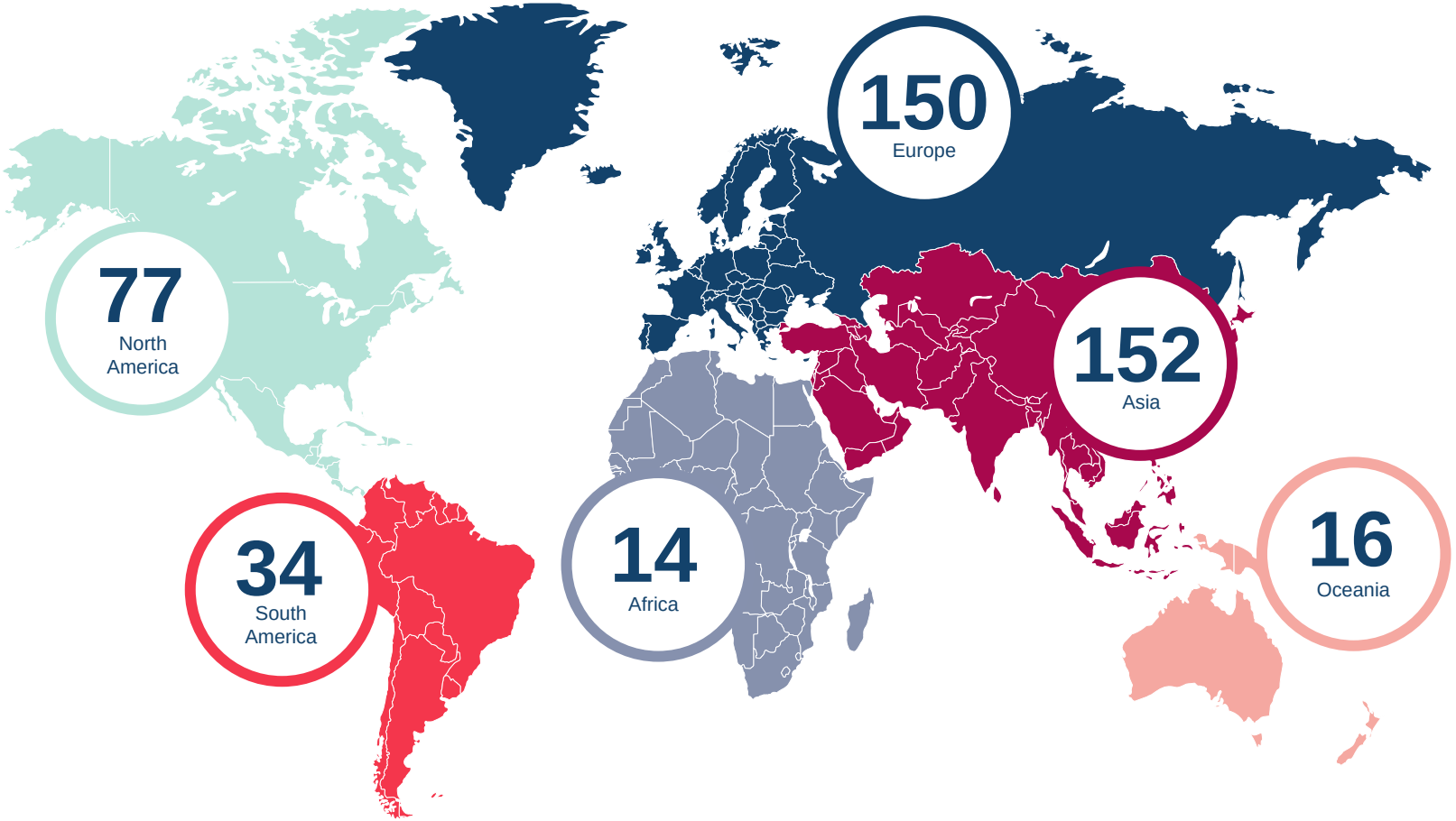
Metals value chain



LME-listed brands breakdown by metals

93 brands Cu COPPER	79 brands Al ALUMINIUM	77 brands Pb LEAD	49 brands Al ALUMINIUM ALLOY	49 brands NASAAC ALUMINIUM
42 brands Zn ZINC	22 brands Sn TIN	21 brands Ni NICKEL	11 brands Co COBALT	443 brands

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

91% Ni NICKEL	43% Pb LEAD	75% Cu COPPER
59% Zn ZINC	57% Sn TIN	44% Al ALUMINIUM

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

Implementation of OECD Guidance: LME Tracks

A

RECOGNISED ALIGNMENT-ASSESSED STANDARD TRACK

Compliance through an alignment-assessed standard

B

AUDITED LME RED FLAG ASSESSMENT TRACK

Red flag assessment reviewed by approved auditor and Step 5 reporting

C

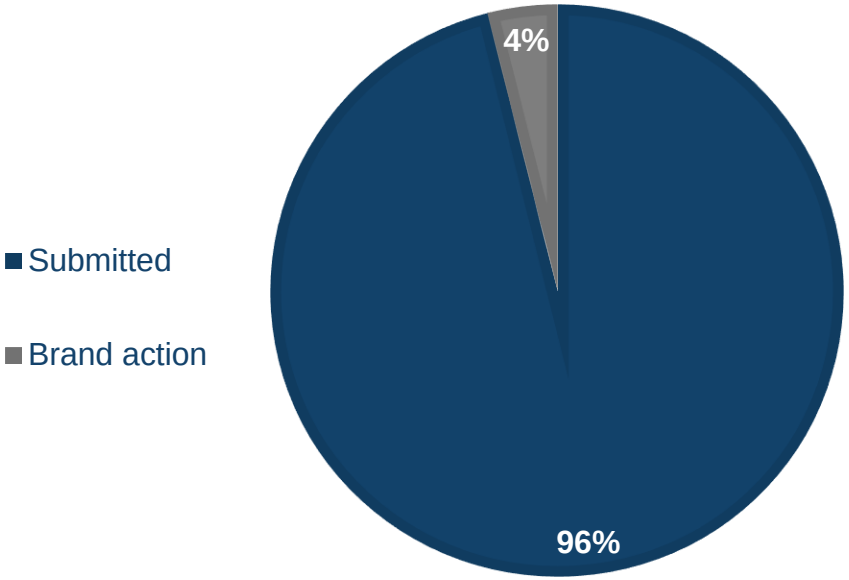
PUBLISHED LME RED FLAG ASSESSMENT TRACK

Red flag assessment reviewed by LME and published

SECONDARY MATERIAL ATTESTATION FORM

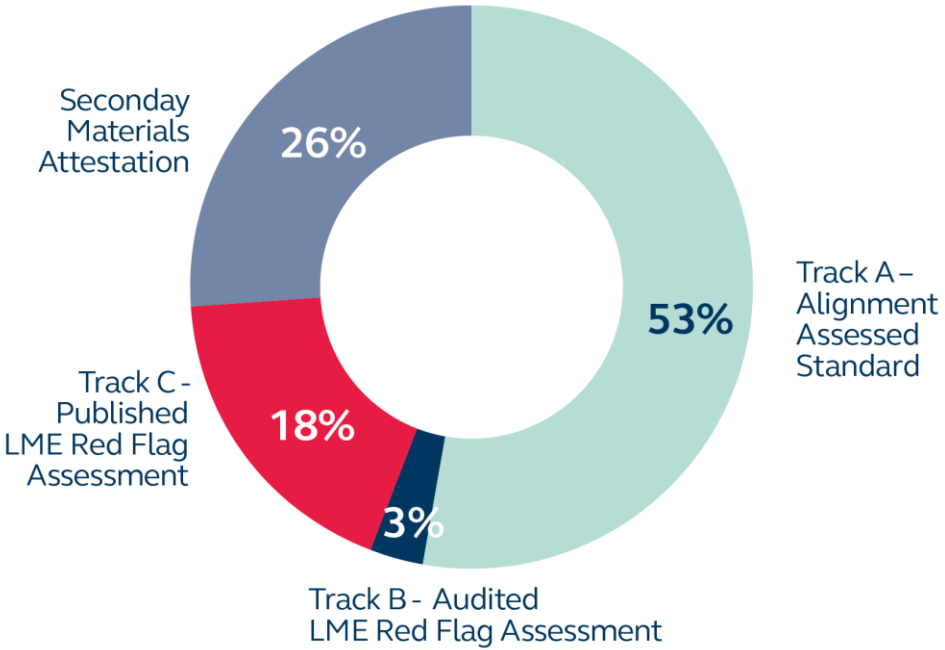
Brands sourcing 100% of their LME metal from secondary material sources are excluded from the OECD Guidance requirement

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

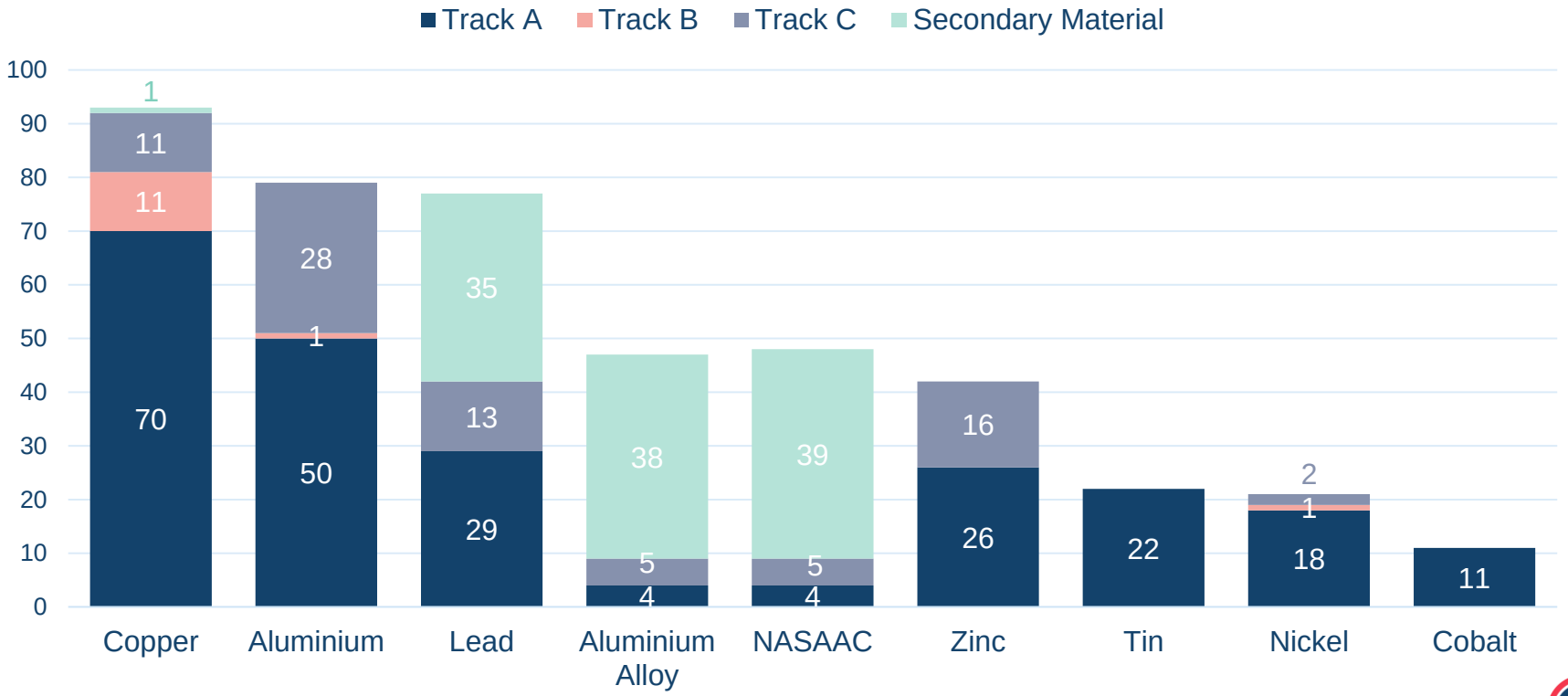
Track breakdown



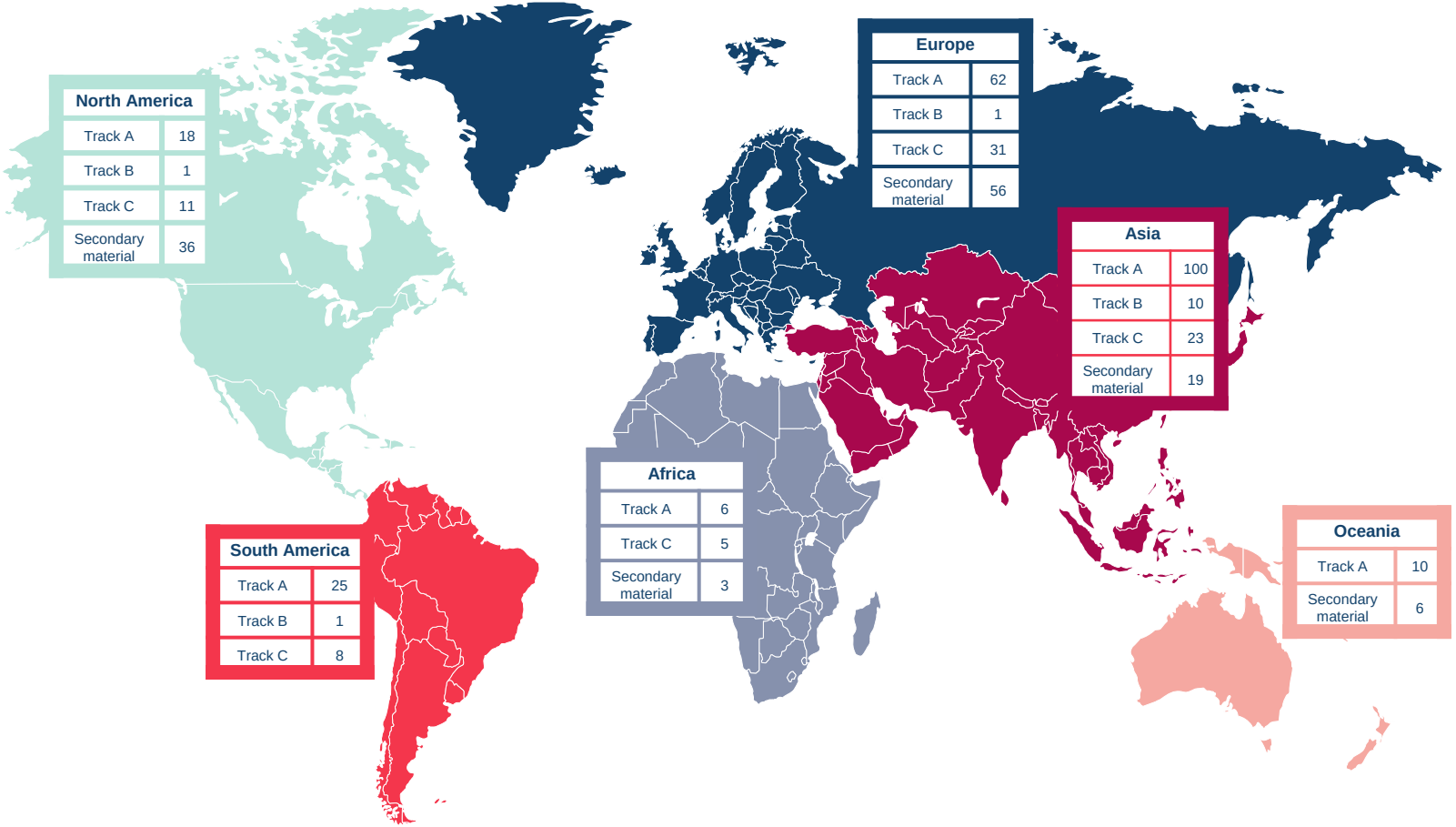
- Track A was the most selected
- Track B was the least selected
- ¼ of LME listed brands are produced with 100% secondary material

Tracks selected by metal

443 brands are listed on the LME as of October 2022

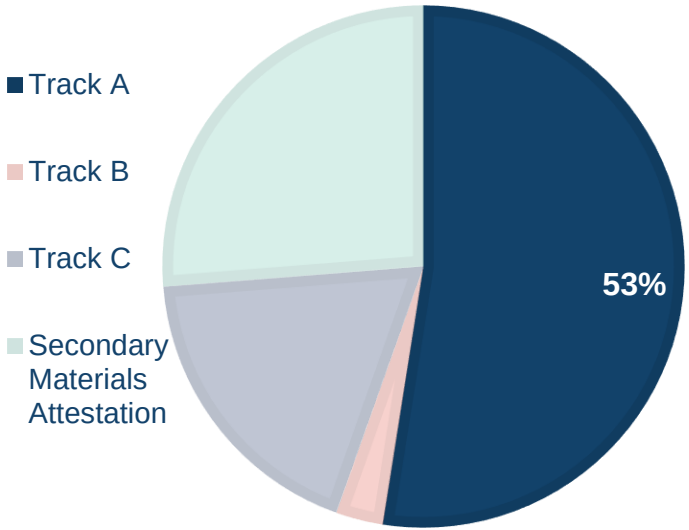


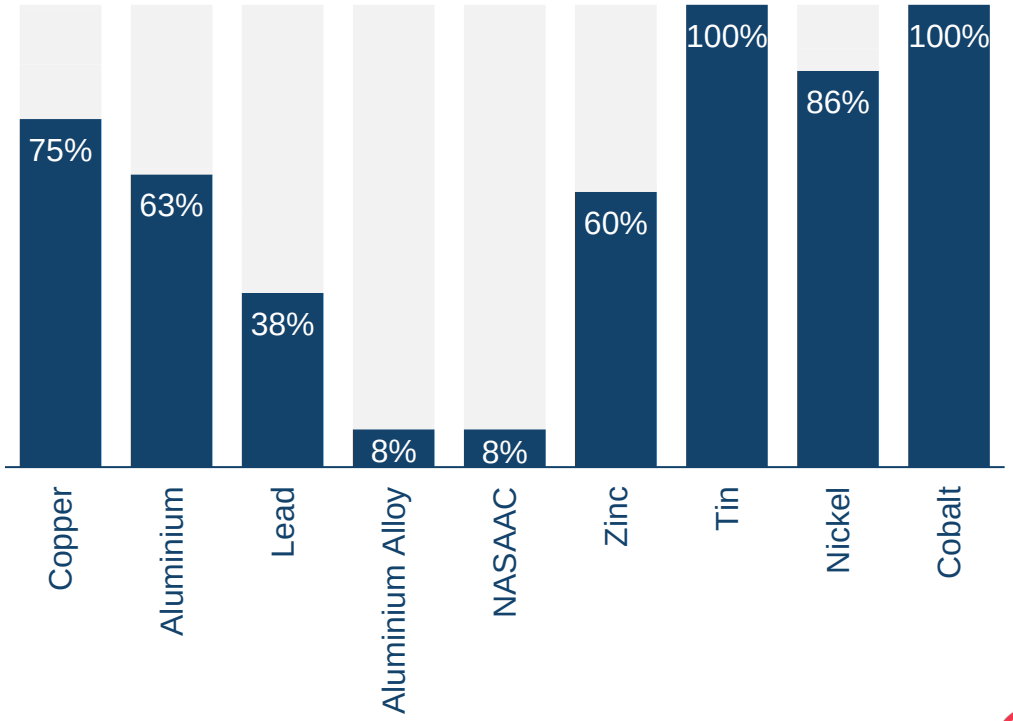
LME-listed brand producer locations



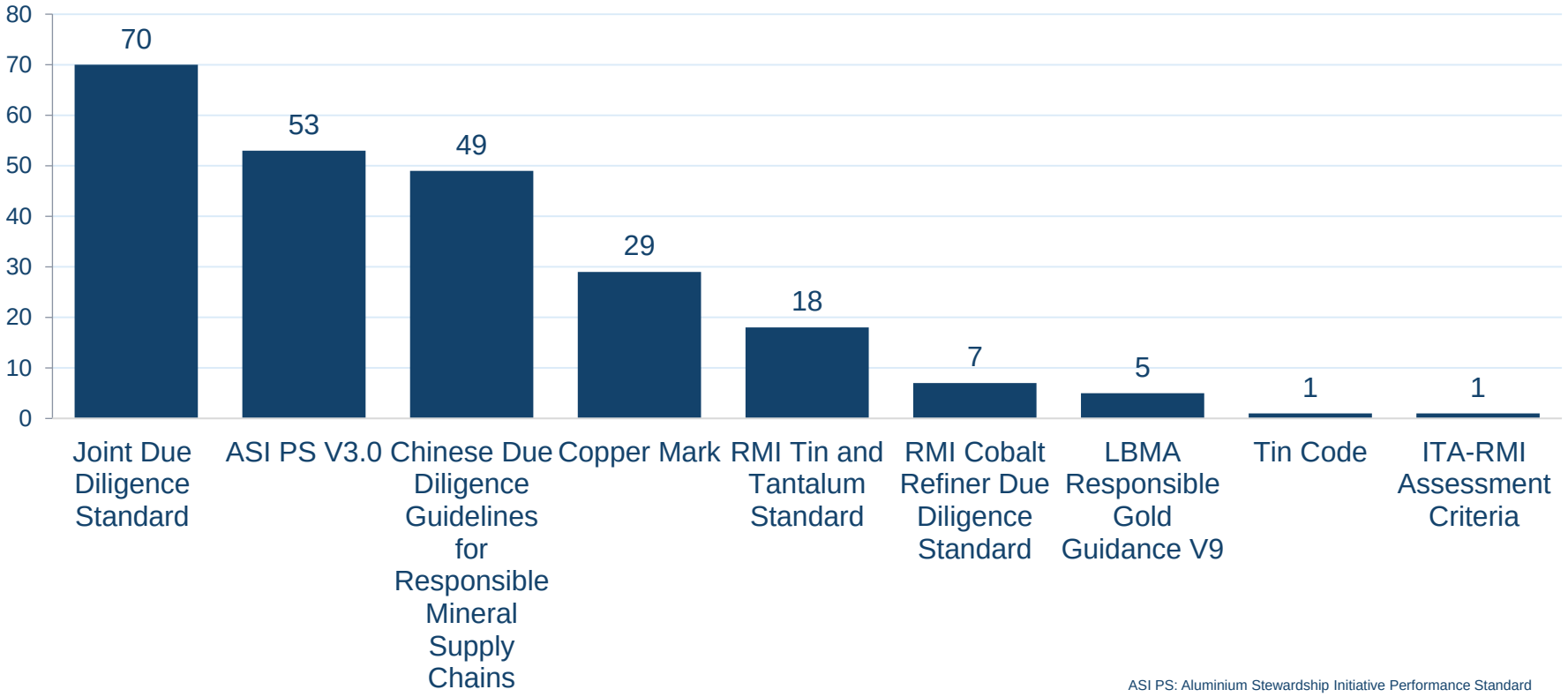
Track A brand submissions by metal

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





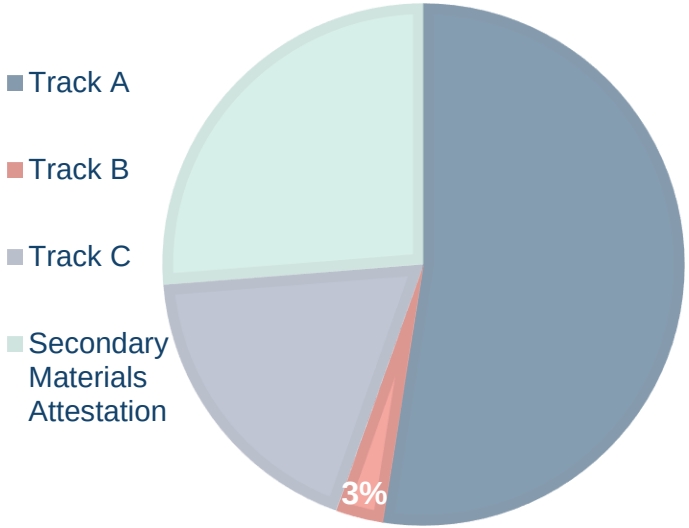
Track A standard selection by number of brands

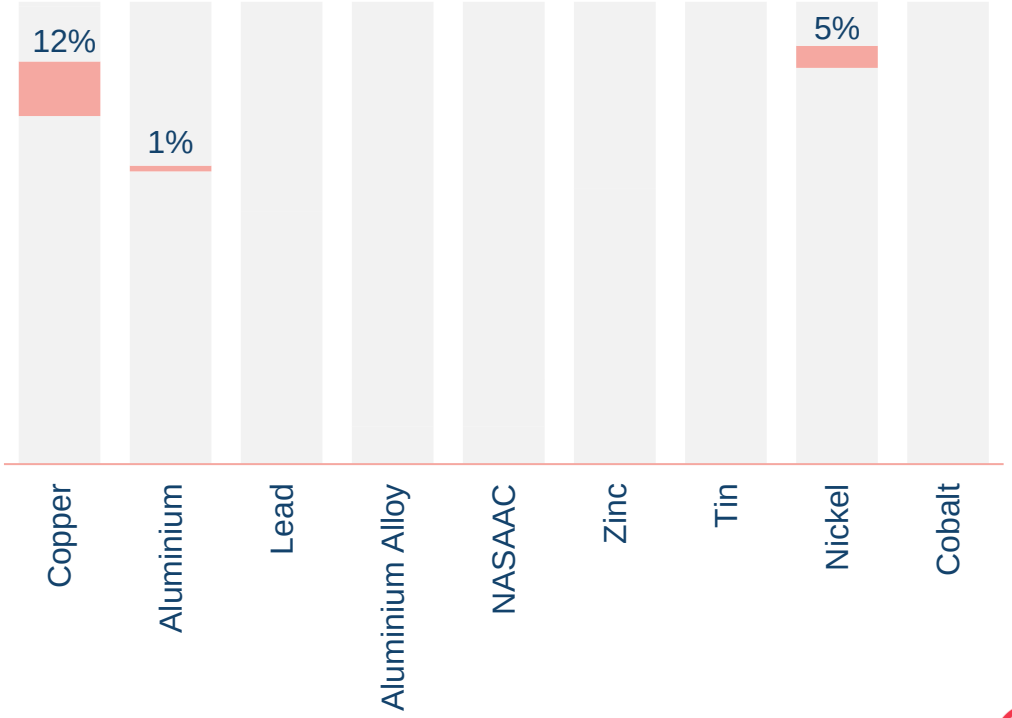


ASI PS: Aluminium Stewardship Initiative Performance Standard
RMI: Responsible Minerals Initiative
LBMA: London Bullion Market Association
ITA: International Tin Association

Track B brand submissions by metal

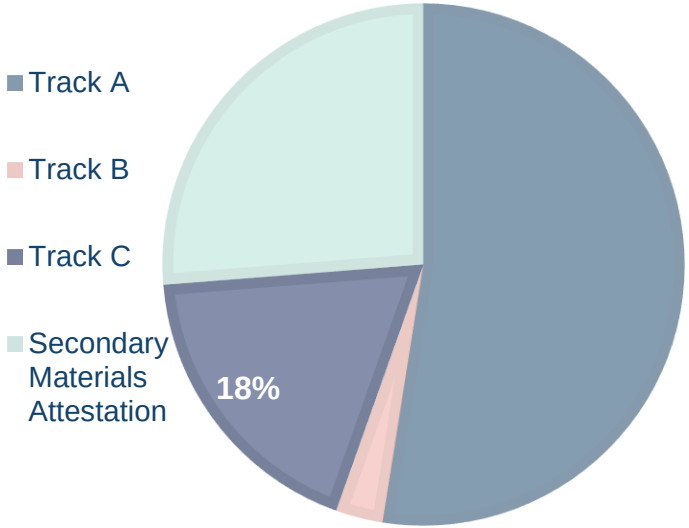
13 LME-listed brands chose the Audited LME Red Flag Assessment Track (3%)

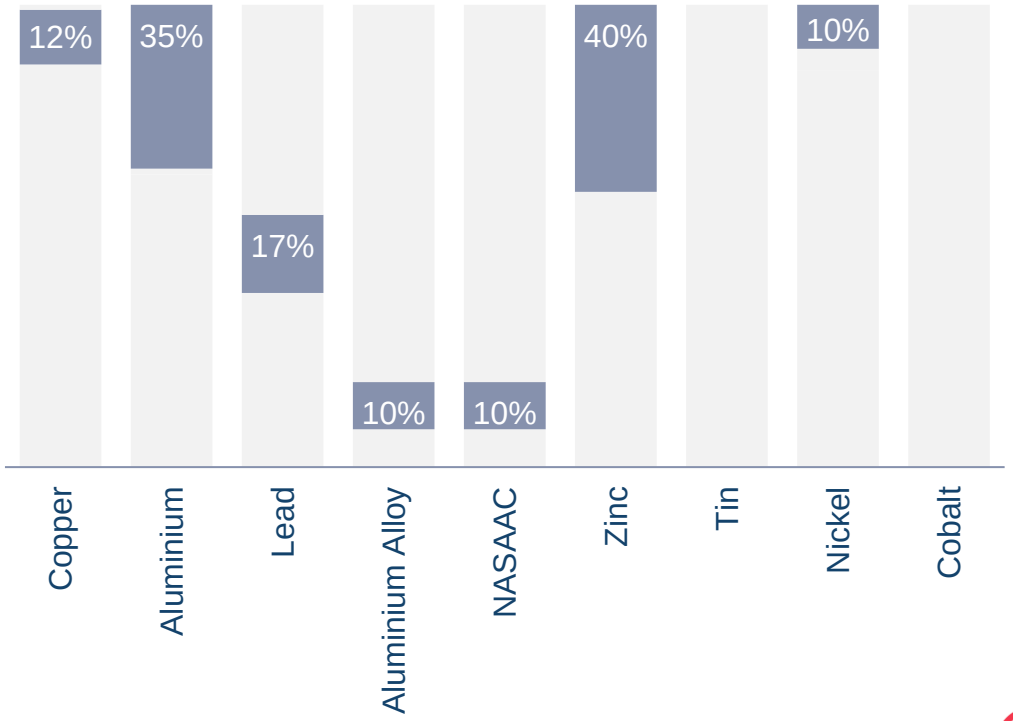




Track C brand submissions by metal

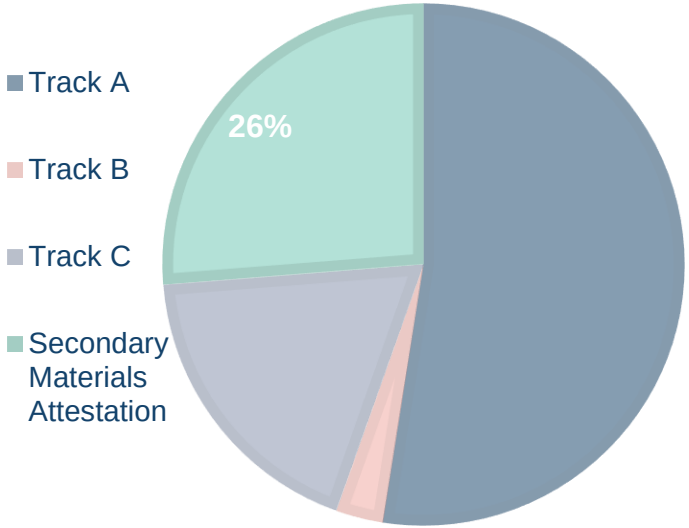
81 LME-listed brands chose the Published LME Red Flag Assessment Track (18%)

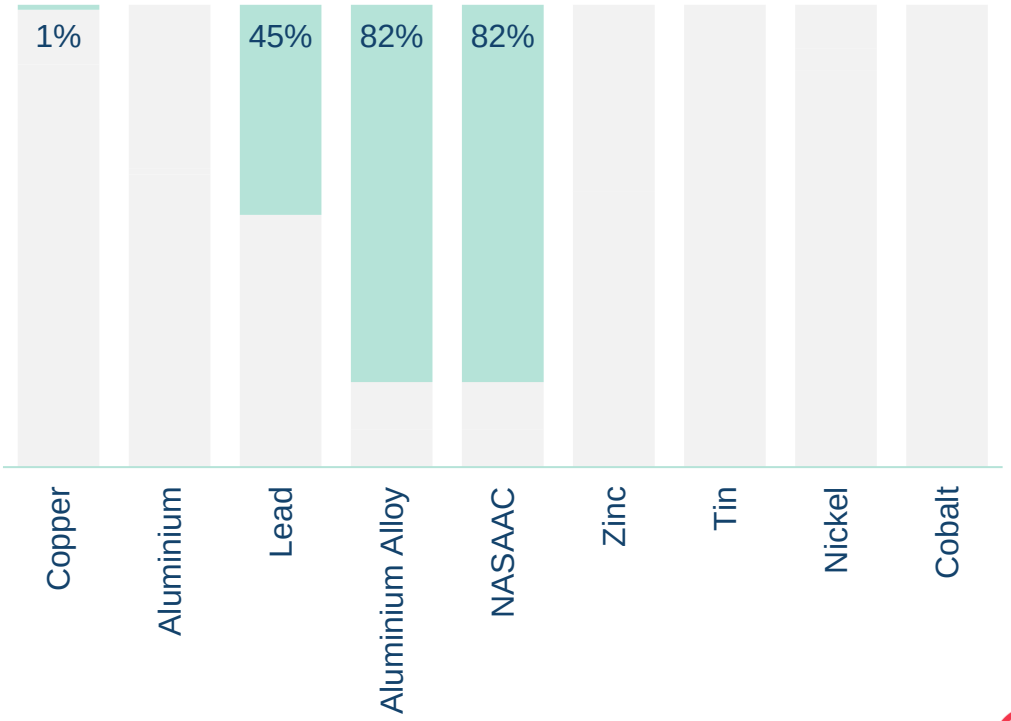




Secondary material attestation submissions by metal

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

31 December 2022

Track B transparency deadline and Track C statistics publication

January 2023

Updates to LME responsible sourcing compliance documents

31 December 2023

Track A audit reports and ISO certifications deadline

Disclaimer

© The London Metal Exchange (the “LME”), 2022. The London Metal Exchange logo is a registered trademark of The London Metal Exchange.

All rights reserved. All information contained within this document (the “Information”) is provided for reference purposes only. While the LME endeavours to ensure the accuracy, reliability and completeness of the Information, neither the LME, nor any of its affiliates makes any warranty or representation, express or implied, or accepts any responsibility or liability for, the accuracy, completeness, reliability or suitability of the Information for any particular purpose. The LME accepts no liability whatsoever to any person for any loss or damage arising from any inaccuracy or omission in the Information or from any consequence, decision, action or non-action based on or in reliance upon the Information. All proposed products described in this document are subject to contract, which may or may not be entered into, and regulatory approval, which may or may not be given. Some proposals may also be subject to consultation and therefore may or may not be implemented or may be implemented in a modified form. Following the conclusion of a consultation, regulatory approval may or may not be given to any proposal put forward. The terms of these proposed products, should they be launched, may differ from the terms described in this document.

Distribution, redistribution, reproduction, modification or transmission of the Information in whole or in part, in any form or by any means are strictly prohibited without the prior written permission of the LME.

The Information does not, and is not intended to, constitute investment advice, commentary or a recommendation to make any investment decision. The LME is not acting for any person to whom it has provided the Information. Persons receiving the Information are not clients of the LME and accordingly the LME is not responsible for providing any such persons with regulatory or other protections. All persons in receipt of the Information should obtain independent investment, legal, tax and other relevant advice before making any decisions based on the Information.

LME contracts may only be offered or sold to United States foreign futures and options customers by firms registered with the Commodity Futures Trading Commission (CFTC), or firms who are permitted to solicit and accept money from US futures and options customers for trading on the LME pursuant to CFTC rule 30.10.

The LME is authorised and regulated by the Financial Conduct Authority in respect of its benchmark administration activities under the European Benchmarks Regulation (Regulation No (EU) 2016/1011) (“BMR”), as onshored into UK law.