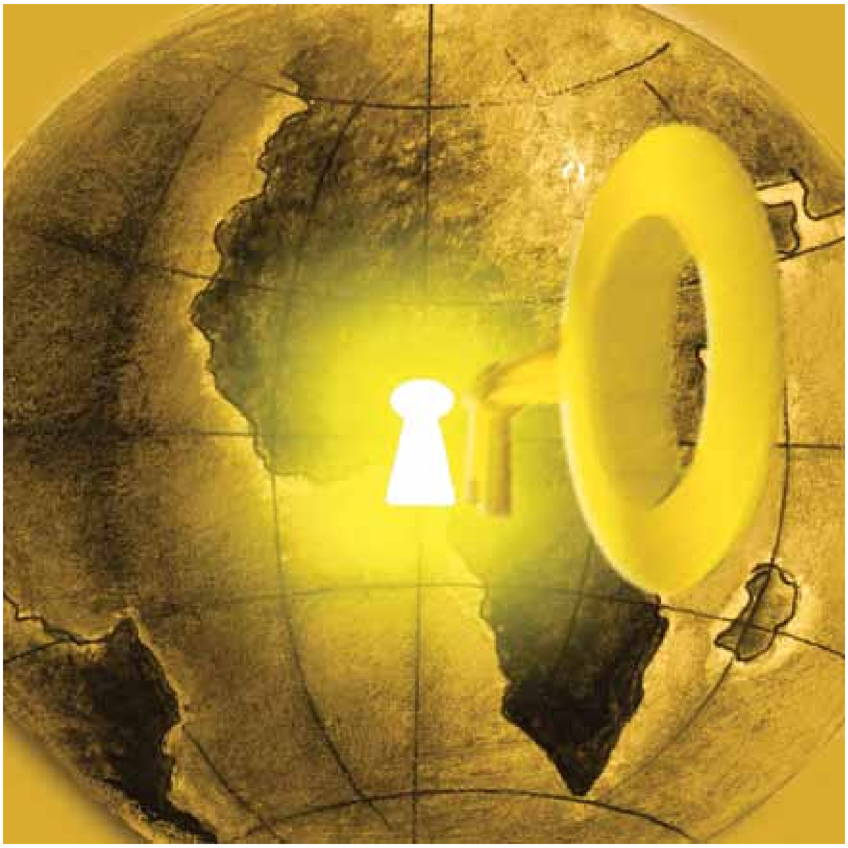

Supply Chain Compliance: Best Practices from the Congo

Lessons learned from African responses to the U.S. Conflict Minerals law can be the difference between approved seven-figure funding and continually spinning your tires on Environmental Compliance

By Rory King

As many *Supply & Demand Chain Executive* readers know, the United States passed legislation July 21, 2010, on so-called "conflict minerals" that include gold, tin, tantalum and tungsten used in products that are possibly linked to armed groups and human atrocities associated with trade exploitation within the Democratic Republic of the Congo (DRC) and neighboring countries in the region. While most industry professionals are still trying to get their arms around this law or dismiss its complex timeline of "TBD" deadlines and implications, Africa's International Conference on the Great Lakes (ICGLR) has immediately mobilized an aggressive strategy in direct response.

We are often asked why some companies gain seven-figure funding and the nod to move forward with "environmental compliance" programs while others spin their tires, getting rejected with much lower amounts. Whether it applies to conflict minerals legislation itself or issues like RoHS recast, REACH legislation or even the controversial Bisphenol-A (BPA), the ICGRL's approach to conflict minerals is an excellent example of viewing so-called compliance as a more critical supply chain risk situation with a much higher value proposition to the organization. The ICGLR case study can be dissected into essential best practices that answer the question of why product stewardship/compliance programs sold internally with ROI based on risk, revenue and reputation can gain rapid approval versus failed attempts for even limited resource support.

Act Immediately: Design Cycles Exceed Regulatory Timelines in Most Scenarios

Africa's ICGLR is made up of member states that include Angola, Burundi, Central African Republic, the Republic of Congo, the Democratic Republic of Congo, Kenya, Rwanda, Sudan, Tanzania, Uganda and Zambia. In addition to the DRC, each of these countries are implicated in the US conflict minerals law. Almost immediately after the conflict minerals legislation was passed, the ICGRL assembled its stakeholders to mobilize and carry out a regionally unified strategy. Various players from the mining sector, including regional and international organizations and the ministers of mineral resources from 11 countries, began to assess the broader implications of the legislation on the mining sector and the member states. On September 23, 2010, the Executive Secretariat organized a series of meetings to tackle the issue of illegal exploitation and illicit trade in natural resources. The ICGRL then publicly articulated a strategy that would introduce a regional certification scheme guaranteeing the conflict-free source of minerals, harmonize member states' legislation governing mineral resources and establish a database on regional mineral flows.

The first lesson that can be learned from the ICGLR and that supply chain practitioners can directly apply to their own thinking on environmental compliance is that of time. With conflict minerals, like other product stewardship and compliance concerns, the materials in question were already subject to varying degrees of demand volatility and downward pressure from social forces from non-governmental organizations (NGOs) like the Enough Project or Global Witness attempting to bring accountability to electronics manufacturers and eliminate complicity in trade exploitation. The moment a new or pending regulatory restriction is even discussed, this volatility accelerates, transforming into a more impactful demand shock that reverberates throughout the supply chain. This impacts the entire competitive framework and jeopardizes one's current status as a supplier by leveling the playing field.

The ICGLR did not focus on, nor wait for, regulatory timelines and deadlines to materialize. They acted immediately and realized with a sense of urgency that they needed to provide their end-customer – the US and broader global markets – with transparency on the issue. They realized they would need every minute prior to voluntary boycotts or actual regulatory obligations to build and retool their infrastructure well ahead of those timelines, regardless of when, how or even if they materialize. From a best practices standpoint, leaders don't sit on the sidelines and wait for finalized regulation or unanimous decisions on a chemical health and safety debate.

It's Your Continuity as Supplier to Market, not "Compliance," from which to Build Your Business Case

The next lesson to be learned from Africa's nations is that "perception is reality" and that one's reputation as a supplier, and subsequent continuity of revenues, immediately enter an almost unfair "guilty-until-proven-innocent" supplier status. In this case, the ICGLR realized immediately that each of the countries in the region surrounding the DRC were implicated by this US legislation and would be viewed as complicit in the trade exploitation and atrocities going on in the region. Simply put, there are very real fears that US companies may simply ban minerals sourced from the region altogether. In other words, a path of least resistance may be taken by the US and other markets. The ICGLR member states' reputations ("brands") were in question, and minerals from the region could be entirely rejected within global markets ("major customers"). Ultimately this would have the same effect as having poor status as a "supplier" to global markets, and their market share and subsequent revenues would decline.

In original research conducted in the late summer and fall of 2010, a *Supply & Demand Chain Executive* survey respondent documented risks and rewards to the respondent's company by saying, "Compliance and our reputation as an ethical company [is where we have conflict minerals risk exposure]. Our benefit is to make our customers' lives easier. End consumers shouldn't be burdened with the task of discerning which products are ethical." Regardless of a company's regulatory culture or views on the issue, this perception looms in the market and has a tangible effect on a company's status as a supplier and its performance in the marketplace.

Transparency – Internal or External – Is Your Key to Survival in the Sustainability Generation

In their response to US conflict minerals legislation, the ICGLR realized that its survival in the global market and credibility as a worthy supplier of minerals to these markets were dependent upon a strategy of transparency over mineral sources and material flows throughout the region. The cornerstone of their transparency was declared to be a unified database that brought together all countries in the region and unified their approach to collecting and distributing information on regional mineral flows.

The best practice here to apply to environmental compliance programs is twofold: It's the simple, yet somehow profound, realization that internally capturing supplier information that enables the program strategy is critical – ***and*** that transparency is the key to (continued) survival in the downstream supply chain. So many environmental compliance programs focus on software and reporting tools implementation only to label them an "empty box" lacking the necessary substance to drive their strategy. Certainly, a robust technology infrastructure is necessary to house a large and complex array of data, but you can't automate what isn't there. Fundamentally new and previously unavailable data are required from suppliers, and those data aren't necessarily easy to obtain. Meanwhile, decentralized compliance program silos throughout a company and/or a linear regulation-by-regulation approach is costly and inefficient. Best practice, as exemplified by the ICGLR, is to centralize and standardize a cross-company approach to gain economies of scale and optimize the supply chain.

Standardizing Supply Chains Lowers Risk and Cost of Ownership, and Improves Time-to-Market

Continuing the theme of a standard database, what can also be learned from the ICGLR is how each individual African member state came to the table and formed a single standard to approach both the problem itself and the enabling database to execute their strategy. Another inherent lesson to be learned is that competitive differences or regional disagreements among individual member states were a non-factor in favor of both the explicit end to exploitation, and the imminent and urgent threat to continuity as a supplier to global markets.

Key environmental compliance best practices to learn from here are threefold. First, an individual company stands to gain from establishment of a comprehensive, forward-looking material content and product development standard to serve as a common platform to optimize operations. Second, business objectives of individual companies can be dramatically improved by coming together and standardizing on a single industry standard. Most notably the shared goals would include risk mitigation from material issues (such as supplier viability, lead time, obsolescence and shortages) and reduced total cost of ownership (e.g., efficiencies and cost from supplier communication and data collection) from economies of scale. Thirdly, although the ICGLR case example breaks down here, notionally a third party who offers supply chain and environmental compliance information and insight as a core competency can deliver both higher quality and economies of scale of a one-to-many central data model. Individually, or as a group, "the many" can gain advantage in the form of faster time-to-market and lower total cost of ownership.

A great example of industry standardization is the Priority Declarable Substances List (PDSL) that was created by the Aerospace and Defense Industries Association of Europe to classify not only hazardous chemicals to support EU REACH, but also suspected future restrictions. Beyond compliance, it had the foresight and motivation to outline its primary concerns as the awareness of – and preparation for – issues associated with continuity of supply as chemicals change throughout the extremely long lifecycle of the A&D industry's products.

In the healthcare value chain, recognized sustainability leader and *Supply & Demand Chain Executive*'s 2010 Green Supply Chain Award winner Kaiser Permanente is trying to use the $1 billion worth of medical equipment and products it uses within its hospitals, medical offices and other facilities to drive change within its medical supply base. In 2010, it launched its Sustainability Scorecard for Medical Products as a purchasing initiative to drive sustainability and workplace safety, as well as improve public health. Certainly, suppliers are eager to satisfy the demands of such scorecards, but for many, satisfying the needs of Kaiser and other environmental regimes and customer requests is proving to be, in and of itself, unsustainable. Medical manufacturers are dealing with antiquated and disparate systems, dated engineering specifications and drawings, and rudimentary preferred parts and supplier lists that are more mature concepts in other industries.

What Lies Ahead

What lies ahead for the ICGLR is unclear. It's an understatement to say they have a very onerous task at hand to undermine the illegal networks fueling violence in the region and to disrupt the illicit trade in mineral resources in the Great Lakes Region and particularly in the Democratic Republic of the Congo. A great deal of adversity stands in their way on the path to peace, stability and economic development in the region. However the story unfolds, much can be learned from the immediacy, foresight and actions of the ICGLR in response to the conflict mineral legislation enacted by the United States. Specifically, its approach parallels best practices taken from leading organizations across a variety of industries in how they view and approach environmental compliance, product stewardship and supply chain sustainability issues. Supply chain practitioners who learn how to apply lessons learned and leverage these best practices should ultimately be able to articulate the true business impact and supply chain risks and rewards that become more meaningful top to bottom and across the organization. Those who do will understand how to build a stronger business case to drive greater value and mitigate the risks associated with supply and demand volatility amidst a world in transition. ■

About the Author:
Rory King is director of global product marketing with IHS, Inc.