Summary

- The UK can get better value from its development efforts if it supports non-aid policies that complement those efforts rather than work against them.

- Effective regulation of conflict minerals provides an opportunity to do this:
  - At present there is a significant risk that EU companies are unknowingly funding armed groups in the Democratic Republic of Congo, and potentially other regions, where the UK expends significant effort (and money) on supporting development.
  - Effective EU regulation would ensure that EU companies undertake appropriate checks on their supply chains to address this risk.
  - Current EU proposals to regulate the use of conflict minerals are likely to be ineffective and need to be strengthened. The costs to UK companies of doing these checks are likely to be low.

- Therefore it is in the UK’s interest to support more effective EU regulation of conflict minerals. This will complement the UK’s continued development efforts in resource-rich but conflict-affected states.
About

Justin Moore has over 12 years experience as a regulatory policy analyst. Over this time he has developed and implemented solutions to a wide range of complex regulatory problems. He has also provided research and advice to Global Witness, a group that works to break the link between conflict, corruption and natural resources.

This paper is submitted in a purely personal capacity based on the author’s regulatory experience and interest in conflict minerals.
Introduction

1. The UK spent £11.4bn on official development assistance in 2012 and for the first time contributed 0.7% of its national income in aid.¹ However, non-aid policies can also have a major impact on development. These policies may complement the UK’s international development efforts, or risk working against them.

2. In some areas, the UK has started to implement policies that complement development efforts, and has made the case for other developed nations to do the same. For example, the Government has brought forward legislation to put the names of the people who own and control British companies into the public domain. This is an important step in preventing anonymous companies being used to hide dirty money, for example the proceeds of corruption in developing countries.

3. There are a range of other policy areas where greater coherence could be beneficial. This paper focuses on one particular issue - the use of ‘conflict minerals’ - because there is currently an opportunity to address this by supporting effective EU regulation.

Conflict minerals: working against aid efforts?

4. The problem is that companies purchase raw materials, and goods containing them, which are used to fund conflict and human rights abuses. The situation in the Democratic Republic of Congo (DRC) is discussed below to illustrate this issue, although the problem is a global one.

5. The DRC is the poorest country in the world, with around 60% of the population living on less than $1.25 per day. It has hugely valuable natural resources, but years of conflict and corruption have left it unstable and lacking infrastructure. The UK is rightly devoting significant resources to support development there and DFID expects to spend £170m in DRC in 2014/5. This includes investment in basic services and increased effort on conflict prevention and stabilization.²

6. Armed groups in DRC are funded through the trade in minerals - tin, tantalum, tungsten as well as gold. Some of these minerals are smuggled out through neighbouring countries including Rwanda, Burundi and Tanzania. Mineral ores are then imported into countries like China and Malaysia, where they are smelted into metals. These are used in the production of semi-finished goods, like capacitors, and end products, like mobile phones, which are exported around the world.

7. The EU is a major market for these minerals and the goods produced with them. For example, in 2012³:

   • EU countries imported $81m of tin from Malaysia, and 21% of Malaysia’s tin ore imports came from Rwanda.

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³ All trade data sourced from UN Comtrade database [http://comtrade.un.org](http://comtrade.un.org)
- EU countries imported $45m of gold ores and concentrates from Tanzania.

- EU countries imported $32m of Tantalum metals from China (of which $6.5m went to the UK). 36% of China’s tantalum ore imports came from DRC and neighbouring countries.

- The UK imported $8m of tungsten metals from China. 17% of China’s tungsten ore imports came from Rwanda.

- EU countries imported $20bn of mobile phones from China. Mobile phones contain tantalum and tin. China sourced 36% of its tantalum ore imports, and 19% of its tin ore imports, from DRC and neighbouring countries.

8. Recent research (2013) indicates that only a small proportion of EU companies are doing checks on their supply chains to understand if they are funding conflict:

- European Commission research\(^4\) found that only 7% of EU companies surveyed in affected sectors refer to a conflict minerals policy on their website.

- Research by SOMO\(^5\) found that 13% of EU listed companies (not directly affected by US conflict mineral legislation) had a conflict minerals statement on their website.

9. In short, there is a significant risk that EU companies are unknowingly funding armed groups in the DRC at the same time as the UK is working to support development there.

**Conflict minerals: the opportunity**

10. The Government is committed to ending the role of minerals and natural resources as sources of conflict financing and serious human rights abuses.\(^6\) It has already published guidance\(^7\) that encourages companies whose supply chains involve conflict minerals to undertake due diligence in line with OECD guidelines.\(^8\)

11. In addition, there is an opportunity to support effective EU action on conflict minerals. Effective EU action could ensure there is wide take-up of supply chain due diligence by European companies. This would reduce the risk of these companies funding armed groups in countries like the DRC, and hence avoid working against the UK’s development efforts.

12. Unfortunately, the European Commission’s proposal on conflict minerals is unlikely to achieve this aim. This is because the Commission has proposed a voluntary, opt-in, scheme rather than mandating action by EU companies.

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\(^5\) SOMO paper | November 2013, Conflict Due Diligence by European Companies

\(^6\) Letter from Mark Simmonds (Minister for Conflict Issues) to Vince Cable, 20 Feb 2014

\(^7\) [https://www.gov.uk/conflict-minerals](https://www.gov.uk/conflict-minerals)

13. Regulatory good practice is that voluntary actions are preferable to mandatory regulation where they can achieve the desired policy outcome. However, in this case, there is good evidence that voluntary measures are unlikely to result in wide take-up of supply chain due diligence by businesses.

14. First, businesses have already had ample opportunity to act on conflict minerals over the last 12 years, with initial reports on the problem dating back to 2001.9 Most businesses have not done so, with recent surveys (noted above) showing that only a small proportion of affected businesses are undertaking any checks.

15. Second, most businesses that are now taking action say they are doing so as a result of mandatory regulation in the US – either because they are directly affected or indirectly because of customer requests. A study undertaken for the European Commission in 2013 showed that only 4% of the 330 companies surveyed were voluntarily preparing a conflict minerals report.10

16. Therefore, there is a strong case for strengthening EU proposals on conflict minerals to ensure they are effective. In addition, the costs to UK businesses of regulation are likely to be low. A study undertaken for the European Commission found that 74% of 330 companies surveyed said due diligence reporting costs them around €13,500 for the first year and 64% said that on going costs were €2700.11

Complementary actions

17. Effective EU regulation of conflict minerals needs to complement the UK’s on going development efforts in resource-rich but conflict-affected states.

18. For example, it has been argued that one effect of mandatory regulation is for some companies to avoid sourcing materials from conflict regions altogether, particularly if they cannot get adequate assurances that their purchases are not funding conflict. This concern has been used to argue against mandatory regulation.

19. However, rather than giving up on more effective regulation and accept continued funding of conflict, a better response to this concern would be to take appropriate complementary action. This may include helping local producers, particularly artisanal miners, develop the capability to provide appropriate assurances (eg mineral certification) to international buyers. In addition, it is notable that a number of companies have already set their own initiatives to source conflict-free minerals from DRC, recognising the business benefits this offers.

Conclusion and recommendation

20. Effective regulation of conflict minerals provides an example of where the UK can get better value from its development efforts by supporting non-aid policies that complement those efforts rather than work against them. This is because there is a significant risk that EU companies are unknowingly funding armed groups in the

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9 For example, see http://www.rcrwireless.com/20010521/carriers/coltan-controversy
DRC, and potentially other regions, where the UK expends significant effort (and money) on supporting development.

21. Current EU proposals to regulate the use of conflict minerals are likely to be ineffective and need to be strengthened. Therefore it is in the UK’s interest to support more effective EU regulation of conflict minerals. This will complement the UK’s continued development efforts in resource-rich but conflict-affected states.