

EUROPEAN COMMISSION



## Handbook for economic operators

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*on the identification of*

*conflict-affected and high-risk areas*

*and*

*red flags*

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## 1. Objective of this Handbook

Regulation (EU) 2017/... laying down supply chain due diligence obligations for Union importers of tin, tantalum, tungsten, their ores, and gold, originating in conflict and high-risk area enters into force on [xx/xx/2017] and applies for companies i.e. EU importers and other economic operators such as smelters or refiners as from 2021.

Pursuant to Article 14(1) of this Regulation, the Commission has been tasked with the preparation of non-binding guidelines, which are set out in this handbook for economic operators, explaining how best to apply the criteria for the identification of **conflict-affected and high-risk areas** as well as other supply chain risks triggering the so-called '**red flags**' as a basis for effective **supply chain due diligence**. The applied method is consistent with the OECD Due Diligence Guidance<sup>1</sup> and its supplements. In this handbook,

- **section 2**, sets out the general **concept of supply chain due diligence** of minerals from conflict-affected and high-risk areas and the **steps** companies should take to identify and address the risks of conflict financing, the associated human rights abuses, as well as risks in relation to tax evasion, money laundering and bribery.
- **section 3**, explains the key principles of the **definition of conflict-affected and high-risk areas** as applied by the Regulation (EU) 2017/...
- **section 4**, lists **open source information** to help companies identify conflict-affected and high-risk areas and other risks.
- **section 5**, provides information on all '**red flags**' in the mineral supply chain risks in relation to location-related risks, as well as risks in relation to suppliers and risks related to unusual circumstances.

This handbook is without prejudice to Regulation (EU) 2017/ ... and is not legally binding for companies.

**Furthermore, it should be noted that pursuant to Article 14(2) of this Regulation, the Commission will call upon external expertise that will provide an indicative, non-exhaustive, regularly updated list of conflict-affected and high-risk areas based on the external experts' analysis of this handbook and existing information of, inter alia, governments, international organizations, academic and supply chain due diligence schemes.**

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<sup>1</sup> The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (Second Edition, OECD 2013) is the framework to conduct supply chain due diligence pursuant to Regulation (EU) 2017/ ...

## 2. Due diligence in the mineral supply chain – general concept and steps

### – *The concept of risk-based due diligence*

In **conflict-affected and high-risk areas**, companies involved in **mining, processing and trade in minerals** have the potential to generate income, growth and prosperity, sustain livelihoods and foster local development. In such situations, companies may also be at risk of contributing to or being associated with significant adverse impacts, including violent conflict and serious human rights abuses. In this perspective, to ensure that companies do not intentionally or unintentionally cause these adverse impacts, they should conduct risk-based due diligence as part of an on-going, proactive and reactive process firmly established in their management system.

Generally, **risk-based due diligence** refers to the steps companies should take to identify and mitigate actual or potential risks in their mineral supply chain in order to prevent or mitigate the aforementioned adverse impacts associated with the production and transportation activities of minerals in conflict-affected and high-risk areas. Risks are defined in relation to the potentially adverse impacts of a given company's operations, which result from the company's own activities or which may be directly linked to operations, products or services by its business relationships with third parties, including suppliers and other entities in the supply chain. Adverse impacts may include harm to people, reputational damage or legal liability for the company, or all three.

Companies may face risks in their mineral supply chains because of the circumstances of mineral extraction, trade or handling which by their very nature carry a higher risk of having significant adverse impacts, such as financing conflict or fuelling, facilitating or exacerbating conditions of conflict as **outlined in Annex II of the OECD Due Diligence Guidance and its supplements**.

Because of this, companies should take **reasonable steps and make good faith efforts** to identify and assess **location, supplier or circumstantial-related risks** and put in place due diligence measures adapted to the specific requirements of such risks. Due diligence should also help companies to ensure they observe international law and comply with domestic laws, including those governing illicit trade in mineral resources as well as UN sanctions and EU Decision based on the Treaty of the European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU), in particular restrictive measures pursuant TFEU Article 215.

– *Due diligence - five-step framework*

Risk-based due diligence as recommended by the OECD Due Diligence Guidance is structured around the following **five steps**.

Companies along the supply chain should:

- **Establish a strong management system and adopt and clearly communicate to suppliers and the public** their conflict minerals policy. Identify the factual circumstances involved in the extraction, transport, handling, trading, processing, smelting, refining, and alloying, manufacturing, or selling of products that contain minerals from conflict-affected and high-risk areas.
- **Identify and assess any actual or potential risks in the supply chain**<sup>2</sup>
- **Design and implement a strategy to respond to the identified risks** in order to prevent or mitigate them by adopting and implementing a risk management plan. This may result in a decision to **continue trade throughout the course of the risk mitigation efforts, temporarily suspend trade** while pursuing ongoing risk mitigation, or **disengage with a supplier** either after failed attempts at mitigation or if the supplier is committing serious human rights abuses (e.g. worst forms of child labour, forced labour, and torture) or providing direct or indirect support to non-state armed groups.
- **Carry out or obtain an independent third-party audit** of supply chain due diligence of companies at identified points in the supply chain, in particular the due diligence practices of smelters and refiners.
- **Publicly report on supply chain due diligence policies and practices** in order to generate public confidence in the measures companies are taken

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<sup>2</sup> Risks as set out in Annex II of the OECD Due Diligence Guidance, including risks triggered by 'red flags' as defined in its supplements

### 3. Understanding the definition of conflict-affected and high-risk areas

The definition of conflict-affected and high-risk areas applied in Regulation (EU) 2017/... is in line with the definition in OECD Due Diligence Guidance and is not the EU's formal position on what constitutes such areas. It is solely provided for the purpose of supply chain due diligence and designed to be practical, thorough, and easily understood by companies.

**Definition of conflict-affected and high-risk areas applied in the Regulation:** areas in a *state of armed conflict, fragile post-conflict* areas, as well as areas witnessing weak or non-existing governance and security, such as *failed states*, **and** widespread and systematic violations of international law, including human rights abuses

This definition follows the **key principles** set out in international law, including 'state of armed conflict', 'fragile post-conflict' and 'failed states'. These principles are further illustrated and explained below to facilitate the practical understanding of such areas as part of the responsible supply chain management by companies.

Moreover, these key principles should allow for easy matching with **open source information** on the situation on the ground in conflict-affected and high-risk areas, and assist companies with the broader identification of risks in their supply chain and the potential impact of their operations (cf. section 4).

It is to be recalled that the supply chain due diligence foreseen in the Regulation (EU) 2017/... – as well as in the OECD Due Diligence Guidance – is tied to actual or potential adverse impacts of operations in particular sourcing and business relationships as well as circumstances and not only to the country or area of origin. However, country related information provides contextual information to identify the general level of risk and associated adverse impacts that need to be taken into account by companies.

Key principles of the definition	Explanation
<p><b>State of armed conflict</b></p>	<p><b>Presence of armed conflict, widespread violence or other risks of harm to people</b> as described under international humanitarian law, which regulates the conduct of armed conflict by combatants. Armed conflict may take a variety of forms, such as a conflict of international or non-international character, which may involve two or more states, or may consist of wars of liberation, or insurgencies, civil wars etc.</p> <p>Specific guidance on the "state of armed conflict" is provided in the <i>Geneva Conventions of 1949</i> and includes all cases of <b>declared war</b> or of <b>any other armed conflict</b> which may arise between two or more Parties, even if the state of war is not recognized by one of them; all cases of <b>partial or total occupation</b> of the territory of a Party, even if the said occupation meets with no armed resistance. Pursuant to <b>Protocol II (1977)</b> additional to the Geneva Geneva Convention of 1949, it shall <b>not</b> apply to situations of internal <b>disturbances and tensions</b>, such as riots, isolated and sporadic acts of violence and other acts of a similar nature.</p>
<p><b>Fragile post-conflict areas</b></p> <p>Areas witnessing <b>weak or non-existent governance</b> and security, such as failed states, <b>and widespread and systematic violations of international law</b>, including human rights abuses.</p> <p><b>Failed states</b></p>	<p><b>Fragile post-conflict areas</b> are areas witnessing cessation of active hostilities and in a state of <b>fragility</b>, meaning that the region or state has <b>weak capacity to carry out basic governance functions</b> and lacks the ability to develop mutually constructive relations with society due to the prior conflictual state. Such areas are more vulnerable to internal or external shocks such as economic crises or natural disasters. In such cases, as in cases covered by the subsequent paragraph of the definition (i.e. areas witnessing weak or non-existing governance and security), economic operators need to ascertain that there is <b>either</b> institutional weakness <b>or</b> lack of governance <b>and</b> widespread and systematic violations of international law and human rights abuses in order to make a determination that the area is a conflict-affected and high-risk area. <b>Thus</b>, the condition of the violations of international law is a cumulative one to the principles of fragile post-conflict areas and areas witnessing weak or non-existing governance and security. On the latter, the absence of a formal mining licensing procedure would for instance constitute evidence of lack of governance.</p> <p>A "failed state" is an <b>illustration of a situation of extreme institutional weakness</b>. A <b>failed state</b> involves an implosion of structures of power and authority, a collapse of law and order and the absence of institutions capable of representing the state.</p>

#### 4. Open source information for companies to identify conflict-affected and high-risk areas

This section includes an indicative, non-exhaustive list of relevant open-source information to help companies identify conflict-affected and high-risk areas. By understanding the national and regional context of areas they operate in or source from, as well as the potential risks involved, companies will be in a position to better tailor their due diligence efforts accordingly.

The open-source information is grouped according to the key principles set out in the definition of conflict-affected and high-risk areas (cf. section 3):

- **Conflict** – allowing for the assessment of whether an area is in a 'state of armed conflict' or is a 'fragile post-conflict' area
- **Governance** – allowing for the assessment of the extent to which areas witness weak or non-existent governance and security
- **Human rights** – allowing for the assessment of widespread and systematic violations of international law, including human rights abuses

Moreover, these information sources are of a non-commercial nature i.e. not requiring subscription fees or any financial contribution. Companies should ensure that sources provide updated information. The Commission will ensure that the external expertise provider will make use of updated sources to ensure its continued relevance.

Additional **sources of a more general nature** that are useful to consult include geological surveys with information on mineral reserves (British and U.S. Geological Surveys) the websites of leading organizations on this issue such as from the U.S. State Department Country Reports (Governance and Human Rights), reports published by the different UN agencies (including UNHCR, OHCHR, UNICEF, UNDP, ILO, IOM) and for instance Global Witness and Partnership Africa Canada. The websites of other organisations such as the International Committee of the Red Cross, Natural Resource Governance Index, Global Peace Index etc.) may also be consulted by companies for more topical, news-based information.

It would also be useful to consult national or regional sources – e.g. for the Democratic Republic of Congo Radio Okapi is one of the main providers of up to date information on human rights issues. Although more difficult to access, national / regional sources allow for a more in-depth review of the situation in a specific area as opposed to high-level country information.

#### **Companies consulting these sources can proceed as follows:**

1. On the basis of the supply chain information retained in their management system, companies should first seek to identify their geographical areas of mineral sourcing, trading and transportation with a view to understanding the context in which the mining and trade activities take place and identify the related risks.



2. To this end, companies may consult the below indicated open sources (i.e. analytical sources, maps/tables and news items) covering the three key principles of the definition of conflicted-affected and high-risk areas (i.e. conflict, governance and human rights) to understand the political context, and identify and assess the potential risks of adverse impacts of their supply chain against the standard supply chain policy, consistent with Annex II of the OECD Guidance and the 'red flags' set out in its supplements.

3. In case the open sources provide contradictory information companies should be conservative in their assessment and exercise caution before dismissing an area from enhanced due diligence procedures. It should be stressed again that the responsibility of due diligence is tied to actual or potential adverse impacts of operations in particular sourcing, trade and business relationships as well as circumstances, and not only to the country or area of origin.

<p><i>Issue for Assessment</i></p> <h2 style="text-align: center;">Conflict</h2>	<p style="text-align: center;"><i>Open sources</i></p> <p style="text-align: center;"><u>Analytical sources</u></p> <ol style="list-style-type: none"> <li>1. <b>Heidelberg Conflict Barometer</b> <a href="http://www.hiik.de/en/">http://www.hiik.de/en/</a></li> <li>2. <b>Geneva Academy Rule of Law in Armed Conflicts</b> <a href="http://www.ruiaf.org/">http://www.ruiaf.org/</a></li> <li>3. <b>Global Emergency Overview</b> <a href="http://geo.acaps.org/">http://geo.acaps.org/</a></li> </ol> <p style="text-align: center;"><u>Maps or tables</u></p> <ol style="list-style-type: none"> <li>1. <b>UCDPGED</b> <a href="http://www.ucdp.uu.se/gcd/">http://www.ucdp.uu.se/gcd/</a></li> <li>2. <b>CrisisWatch</b> <a href="http://www.crisisgroup.org">http://www.crisisgroup.org</a></li> <li>3. <b>Global Peace Index</b> <a href="http://www.visionofhumanity.org">http://www.visionofhumanity.org</a></li> <li>4. <b>Major Episodes of Political Violence</b> <a href="http://www.systemicpeace.org">http://www.systemicpeace.org</a></li> </ol>	<p style="text-align: center;"><i>Content of the sources</i></p> <ol style="list-style-type: none"> <li>1. <b>Analysis</b> of the most recent global conflict events in the form of texts and graphics; separate regional and individual country chapters</li> <li>2. <b>Database and analysis</b> reporting on the implementation of international law in armed conflicts around the world (global coverage and brief overviews)</li> <li>3. <b>World map</b> provides overview and <b>analysis</b> of countries "on watch", "situation of concern", "humanitarian crisis", "severe humanitarian crisis"</li> <li>1. <b>Updated interactive map</b> of events of organized violence based on news sources; including fatalities, type of violence (state-based, non-state, one-sided), the user can zoom to a level of unique events</li> <li>2. Update on state of play in most significant global situations of conflict/potential conflict; interactive <b>map</b> and database allow to assess situation in select country cases 2003–2015</li> <li>3. Interactive <b>map</b> that measures global peace according to 22 qualitative and quantitative indicators (security officers &amp; police, political instability, organised conflict, armed services personnel...)</li> <li>4. <b>Maps</b> and tables listing 331 episodes of armed conflict (including casualties) in the world from 1946-2013; although latest data is available for 2013, region-specific tool to be consulted if updated.</li> </ol>
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<h1>Conflict</h1>	<p><b>Regional coverage</b></p> <ol style="list-style-type: none"> <li><b>1. ACLED</b> <a href="http://www.acleddata.com/research-and-publications/conflict-trends-reports/">http://www.acleddata.com/research-and-publications/conflict-trends-reports/</a></li> <li><b>2. IPIS Conflict Mapping</b> <a href="http://ipisresearch.be/">http://ipisresearch.be/</a></li> <li><b>3. International Tin Research Institute (ITRI)</b> <a href="https://www.itri.co.uk/">https://www.itri.co.uk/</a></li> <li><b>4. Mining Conflict s in Latin America</b> <a href="http://giatlas.org/featured/mining-latam">http://giatlas.org/featured/mining-latam</a></li> </ol>	<p>1. Conflict trend reports are singled out as a useful source. They include monthly updates on political violence in <b>Africa</b> based on real-time data, and analyse current and historical dynamics in specific states.</p> <p>2. <b>Maps</b> of DRC (conflict/conflict minerals), CAR, Sudan-South Sudan (contested areas, incidents, natural resources, education, community violence, intrastate and interstate violence); analysis of maps is provided.</p> <p>3. <b>ITRI Tin Supply Chain Initiative</b> (ITSCI) provides assessment reports of the security situation of mines sites in Rwanda and Eastern provinces of the Democratic Republic of Congo.</p> <p>4. The <b>environmental justice atlas</b> documents and catalogues social conflict around environmental issues.</p>
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<p><i>Issue for Assessment</i></p> <h1>Governance</h1>	<p><b>Global coverage</b></p> <p><i>Open sources</i></p> <p><b>Worldwide Governance Indicators</b> <a href="http://info.worldbank.org/governance/wgi">http://info.worldbank.org/governance/wgi</a></p> <p><b>Fragile States Index</b> <a href="http://fp.statesindex.org">http://fp.statesindex.org</a></p> <p><b>Corruption Perception Index</b> <a href="http://www.transparency.org/research/cpi/overview">http://www.transparency.org/research/cpi/overview</a></p>	<p><i>Content of the sources</i></p> <p><b>Dataset</b> of updated aggregate and individual governance indicators for 215 countries, 6 dimensions of governance; country data reports summarize indicators per country</p> <p><b>Index</b> focusing on indicators of risk, based on news articles and reports</p>
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<p><i>Issue for Assessment</i></p> <p><b>Human rights</b></p>	<p><b>Global coverage</b></p>	<p><i>Open sources</i></p> <p><b>United Nations Security Council Resolutions</b>  <a href="http://www.un.org/en/sc/documents/resolutions">http://www.un.org/en/sc/documents/resolutions</a></p> <p><b>UNDP International Human Development Indicators – Country Profiles</b>  <a href="http://hdr.undp.org/en/countries">http://hdr.undp.org/en/countries</a></p> <p><b>Amnesty International</b>  <a href="https://www.amnesty.org/en/countries/">https://www.amnesty.org/en/countries/</a></p> <p><b>Mines and Communities</b>  <a href="http://www.minesandcommunities.org/">http://www.minesandcommunities.org/</a></p>	<p><i>Content of the sources</i></p> <p><b>UNSC Resolutions</b> provide a useful description of the political and security situation in countries of concern on an annual basis</p> <p><b>Annual country reports</b> of country-specific human rights practices, global coverage</p> <p><b>News articles</b> and analyses of global mining and its impacts; classified by theme, country, company, minerals</p>
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<p><i>Issue for Assessment</i></p> <p><b>Mineral reserves</b></p>	<p><b>Global coverage</b></p>	<p><i>Open sources</i></p> <p><b>British Geological Survey</b>  <a href="https://www.bgs.ac.uk/mineralsuk/statistics/worldStatistics.html">https://www.bgs.ac.uk/mineralsuk/statistics/worldStatistics.html</a></p> <p><b>U.S. Geological Survey</b>  <a href="http://minerals.usgs.gov/minerals/pubs/country/">http://minerals.usgs.gov/minerals/pubs/country/</a></p>	<p><i>Content of the sources</i></p> <p><b>British country reports</b> of international minerals statistics and information</p> <p><b>US country reports</b> of international minerals statistics and information</p>
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## 5. Risk assessment of mineral supply chains - 'red flags' for enhanced due diligence

The due diligence process envisioned by Regulation (EU) 2017/... and the OECD Due Diligence Guidance is **not limited to the identification and mitigation of risks in relation to the origin and transportation of minerals** in conflict-affected and high-risk areas. Indeed, companies must consider and provide information on **the risks** pursuant to the OECD Due Diligence Guidance in relation to the trading, handling and exporting of minerals along the upstream supply chain, and **unusual circumstances**.

To this end, supplements of the OECD Due Diligence Guidance provide a list of the so called '**red flag**' situations that trigger the need for **enhanced due diligence**, including the collection of **additional information through the company's management system**, in particular in the following situations:

### – *Red flag locations of minerals origin and transit*

- a) Where minerals **originate** from or have been **transported** via conflict-affected and high-risk areas;
- b) Where minerals are **claimed** to originate from a country in which minerals from conflict-affected and high-risk areas are **known or reasonably suspected to transit**;
- c) Where minerals are claimed to originate from a country that has **limited known reserves or stocks, likely resources or expected production levels of the mineral in question** (i.e. the declared volumes of minerals from that country are out of keeping with the known reserves or expected production levels).

In each of these location-based 'red flags', in particular in situations of weak or non-existing governance, the risk is increased when anti-money laundering laws, anti-corruption laws, customs controls and other relevant governmental oversight laws are weakly enforced; informal banking systems operate, and cash is extensively used.

### – *Supplier red flags*

- d) Where company's **suppliers or other known upstream companies operate** in one of the above mentioned 'red-flag' locations of mineral origin and transit, or have **shareholders or other interests** in suppliers of minerals from one of the above-mentioned 'red-flag' locations of mineral origin or transit.
- e) Where company's **suppliers or other known upstream companies** are known to have **sourced minerals from a 'red-flag' location** of mineral origin and transit in the last 12 months.
- f) For gold: where the gold is claimed to originate from recyclable/scrap or mixed sources and has been refined in a country where gold from conflict-affected and high-risk areas is known or reasonably suspected to transit.

– ***Red flag circumstances***

- g) Where **anomalies or unusual circumstances** are identified through the information collected by the company's management system which give rise to a reasonable suspicion that the minerals may contribute to conflict or serious abuses associated with their extraction, transport or trade.

Following the identification of these 'red-flag' as part of the company's risk assessment, companies should undertake an in-depth review of the context of all these 'red-flags' by collecting additional information through their company's management system and ensuring that the corresponding risks are duly taken into account.

As highlighted in the OECD Due Diligence Guidance, due diligence is a risk-based and progressive approach whereby companies must put in place adequate management systems and processes, map the factual circumstances along the supply chain and identify the risks that may lead them to undertake enhanced due diligence.

The below guidance should assist companies to obtain the relevant information on 'red flag' situations and tailor their due diligence appropriately.

– ***Red flag locations of minerals origin and transit***

- a) **Minerals originating from or transported via conflict-affected and high-risk areas**

Enhanced due diligence is triggered when minerals originate from or have been transported via conflict-affected and high-risk areas.

The identification of such areas is discussed in section 4 of this handbook.

- b) **Minerals claimed to originate from a country in which minerals from conflict-affected and high-risk areas are known or reasonably suspected to transit.**

Companies should assess the extent to which the following issues are applicable.

'**Governance and other country issues**' need to be reviewed in order to identify the extent to which countries or areas are in control of their borders and have adequate internal enforcement mechanisms in place to ensure credible and documented traceability of the minerals trade to counteract the risks related to transit in case of weak governance.

Indicators	Information sources <sup>3</sup>
<ul style="list-style-type: none"> <li>● The declared country of origin has porous borders or weak customs enforcement for goods.</li> <li>● Anti-corruption laws are weakly enforced and reported instances of corruption in mining and trade exist.</li> <li>● Anti-money laundering or banking oversight laws are not or insufficiently in place or weakly enforced.</li> <li>● Economies are mostly cash-based, in particular for the minerals trade.</li> </ul>	<ul style="list-style-type: none"> <li>– United Nations Security Council Resolutions (cf. section 4)</li> <li>– Information provided by Local Embassies, EU or other Delegations</li> <li>– Financial Action Task Force (FATF) <a href="http://www.fatf-gafi.org/countries/">http://www.fatf-gafi.org/countries/</a></li> <li>– Corruption Perception Index by Transparency International <a href="http://www.transparency.org/research/cpi/overview">http://www.transparency.org/research/cpi/overview</a></li> <li>– Worldwide Governance Indicator by the World Bank <a href="http://info.worldbank.org/governance/wgi">http://info.worldbank.org/governance/wgi</a></li> <li>– Global Financial Integrity reports <a href="http://www.gfintegrity.org/">http://www.gfintegrity.org/</a></li> <li>– Cf. section 4 on "governance" of this handbook</li> </ul>

*'Direct proximity, regional and historical issues* provide information on the likelihood of misrepresentation of origin by smuggling from neighbouring countries, countries with historical ties, or countries providing tax incentives.

Indicators	Information sources
<ul style="list-style-type: none"> <li>● The declared country of origin directly borders areas where illegal armed groups, public security forces or criminal organisations are involved in the mineral production and trade.</li> <li>● The declared country of origin has economic ties to conflict-affected areas and their associated illicit mineral trade.</li> <li>● The country of origin's tax policy leads to incentives to smuggle minerals to transit countries where material exports are not taxed, or taxed at much lower rates.</li> </ul>	<ul style="list-style-type: none"> <li>– United Nations Security Council Resolutions</li> <li>– Local Embassies, EU Delegations</li> <li>– Cf. section 4 on "conflict" of this handbook</li> <li>– OECD database for restrictions on exports of raw materials <a href="http://www.oecd.org/tad/benefitlib/export-restrictions-raw-materials.htm">http://www.oecd.org/tad/benefitlib/export-restrictions-raw-materials.htm</a></li> </ul>

<sup>3</sup> Information should be updated regularly, as appropriate

c) **Minerals claimed to originate from a country that has limited known reserves/stocks**

The below checklist sets out '*Mineral and supply chain-specific issues*'. As part of their due diligence exercise companies should in particular verify whether a claimed country of origin actually has known geological reserves of the mineral concerned. Similarly, companies should reasonably assess whether the declared origin makes sense from an economic perspective - such as the presence of nearby and attractive markets.

Indicators	Information sources
<ul style="list-style-type: none"> <li>● The declared country of origin has limited known reserves or stocks, likely resources or expected production levels of minerals, as well as specific characteristics of minerals.</li> <li>● The declared country of origin has a large informal or artisanal and small-scale mining sector where associated risks are normally higher.</li> </ul>	<ul style="list-style-type: none"> <li>– British Geological Survey: <a href="https://www.bgs.ac.uk/mineralsuk/statistics/worldStatistics.html">https://www.bgs.ac.uk/mineralsuk/statistics/worldStatistics.html</a></li> <li>– USGS U.S. Geological Survey: <a href="http://minerals.usgs.gov/minerals/pubs/country/">http://minerals.usgs.gov/minerals/pubs/country/</a></li> <li>– National Geological Services in EU Member States</li> <li>– Geological Service of the alleged country of origin</li> </ul>

– ***Supplier red flags***

d) **Where company's suppliers or other known upstream companies operate in one of the above mentioned 'red-flag' locations of mineral origin and transit, or have shareholders or other interests in suppliers of minerals from one of the above-mentioned 'red-flag' locations of mineral origin or transit and where company's suppliers or other known upstream companies are known to have sourced minerals from a 'red-flag' location of mineral origin and transit in the last 12 months.**

This supplier-specific information is mainly the result of the data collected by companies through due diligence implementation. Once the identity of a company's supplier or other know upstream company is available, companies should seek to verify if the supplier is operating in a red-flag location by:

- Browsing internet for generic information on the said supplier / upstream company, including governments and international organisations reports (in particular UN Group of Experts reports) and reports from international and local media and civil society organisations more broadly.
- Checking corporate websites, and any available due diligence report (for instance, filing to the US Security Exchange Commission)
- Checking smelter/refiner list from existing industry programmes;
- Browsing national register of commerce that can provide indication on the localisation of the headquarters and possibly operational subsidiaries.

Companies could also consult national trust/beneficial ownership registries where available, as well as country EITI reports (which contain an increasing amount of information on beneficial ownership of companies involved in the extractive industry).

– ***Red flag circumstances***

e) **Where anomalies or unusual circumstances are identified through the information collected by the company's management system which give rise to a reasonable suspicion that the minerals may contribute to conflict or serious abuses associated with their extraction, transport or trade.**

This operation-specific information is almost entirely the result of the data collected by companies through due diligence implementation.

Anomalies / unusual circumstances may take a variety of form. As an example, the OECD Due Diligence Guidance Supplement on Gold provides the following illustration for material claimed to be recycled:

- *For example, sudden unusual increases in volume of high-grade material from a supplier or area should be explained. If jewellery worn in a country is typically 14k (58%), an offer claimed to be recycled jewellery at 90% should be questioned.*

Other example may include

- A situation where an upstream supplier (e.g. a local exporter) is inexplicably able to increase the volume of exported material over a short period of time.
- Reports of frequent mineral resources theft in a region where the European importer has reason to believe he is sourcing from

Other examples of “unusual circumstances” can be found in paragraph 111 of the FATF “[risk-based guidance for dealers in precious metals and stones](#)”.

Further example can be found in the Financial Transaction and Reports Analysis Centre of Canada report on “[risk-based approach workbook for dealers in precious metals and stones](#)”:

- *Certain red flags for high-risk activity include:* •
  - *An established customer purchasing much larger than usual quantities of gold bullion for no apparent reason, or a previously unknown customer requesting that a refiner turn gold into bullion.*
  - *A client using cash to purchase bullion, especially in large amounts.*
  - *Foreign nationals purchasing gold bullion through multiple transactions over a short period.*
  - *Gold purity, weight, origin and value are misclassified on customs declaration forms.*
  - *Unlicensed persons or businesses producing and commercializing gold.*
  - *Bullion that has physical characteristics inconsistent with industry standards.*
  - *Gold prices higher than in the local gold market.*