Dodd Frank Act
Conflict Minerals

Section 1502

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Section 1502 Dodd Frank

- Section 1502 requires that the SEC issue rules mandating the disclosure by publicly traded companies of the origins of listed conflict minerals.
- Generally defined, conflict minerals are "minerals mined in conditions of armed conflict and human rights abuses, notably in the eastern provinces of the Democratic Republic of the Congo [DRC]…. "

What are Conflict Minerals

- Tungsten
- Tantalum
- Tin
- Gold

Mined in the Democratic Republic of the Congo

Conflict Minerals

Where are they used? Everywhere

- Tin
  - Solder to attach circuit components to circuit boards
  - Brass alloys for valves and fittings
  - Bearing alloys for automobile engines and machinery
- Tantalum
  - Electronic Components
  - Jet Engine Parts
- Tungsten
  - Alloys of High Strength steel
  - Cutting tools
  - Heating and Lighting elements
  - Furnaces
- Gold
  - Electronic Devices
  - Circuit Boards
  - Jewelry
  - Medical Devices

Section 1502 of Dodd-Frank

Section 1502 of Dodd-Frank, codified at 15 U.S.C. Section 78m(p), mandates that the SEC issue regulations requiring publicly traded companies filing annual and other reports with the SEC to disclose annually the origins of conflict minerals necessary to its operations if the minerals originate from the Democratic Republic of the Congo (DRC) or an adjoining country. Congress enacted this requirement because of its belief that the "exploitation and trade of conflict minerals originating in the Democratic Republic of the Congo is helping to finance conflict characterized by extreme levels of violence in the eastern Democratic Republic of the Congo, particularly sexual- and gender-based violence and contributing to an emergency humanitarian situation therein.... ". If the minerals originate from the DRC or an adjoining country, the company must file a report with the SEC and include such information as a description of its due diligence on the source and chain of custody of the minerals and a description of the products manufactured or contracted to be manufactured that are not DRC conflict free. (DRC conflict free products are products which do not contain minerals directly or indirectly financing or benefiting armed groups in the DRC or an adjoining country.) Dodd-Frank defines "conflict mineral" as: "(A) columbite-tantalite (coltan) [used to produce tin], cassiterite, gold, wolframite [used to produce tungsten], or their derivatives; or (B) any other mineral or its derivatives determined by the Secretary of State to be financing conflict in the Democratic Republic of the Congo or an adjoining country."

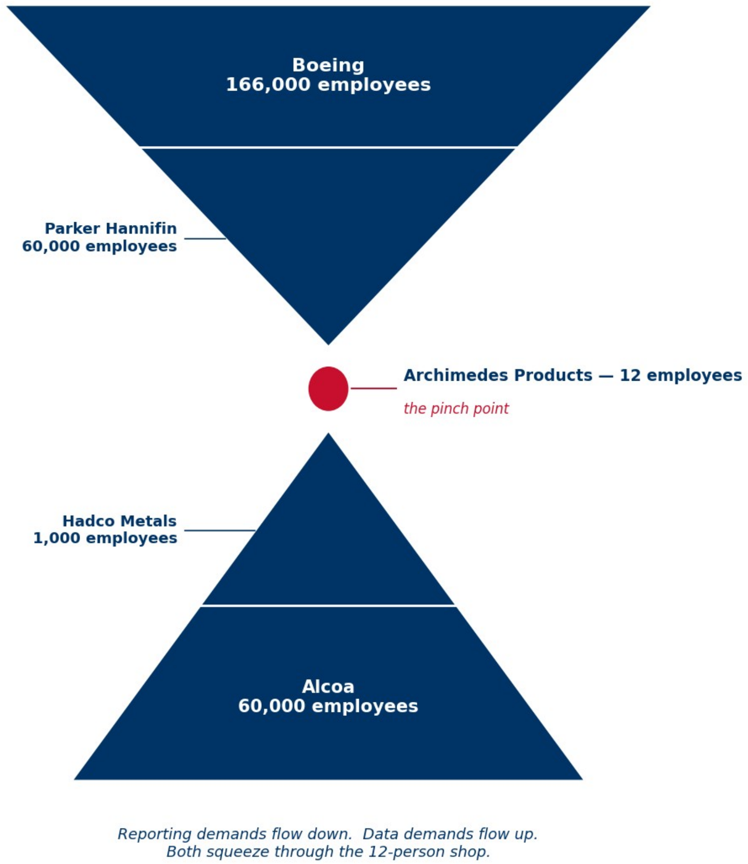
Why Section 1502 of Dodd Frank?

- Congress enacted Section 1502 of the Act because of concerns that the exploitation and trade of conflict minerals by armed groups is helping to finance conflict in the DRC region and is contributing to an emergency humanitarian crisis.
- Publicly Traded Companies have to disclose use of conflict minerals
- Use of conflict minerals is not illegal.
- What is the point?
- Government by Shame?

What does it mean to small business owners in the supply chain of publicly traded companies?

Supply Chain

- Boeing 166,000 employees
- Parker Hannifin 60,000 Employees
- Archimedes Products 12 Employees
- Hadco Metals   1000 employees
- Alcoa 60,000 Employees



What does this mean for large companies

- Companies would be required to track the source of all relevant raw materials in their products, then file annual reports stating whether those goods were DRC conflict-free, conflict “undeterminable” (an interim category permitted for at least the first two years), or “not found” to be conflict-free.

This creates paperwork that does not add value to the company’s product.

What does this mean for small companies?

- Small companies don’t have to report
- Large companies are pushing this reporting requirement down on their small business suppliers because of the need to collect the information
- Large companies are not compensating small companies for this extra work.
- Small companies are not in a position to force this requirement on their suppliers
- Each customer of the small business pushes down different forms and methods for collecting this information.
- The suppliers to small businesses, when they do provide conflict mineral information, often provide it in a vague or difficult to interpret form, creating more work and expense for the small business.

This creates paperwork that does not add value to the company’s product.

Why Single Out Manufacturers?

- Why should our country impose a cost on its own manufacturers to solve a problem that they can have little direct impact over?
- Does the country have a more efficient way to tackle this problem?
- Does this reporting really have an effect?
- Is there any way to measure?

Securities and Exchange Commission

Why is the SEC involved in this at all?

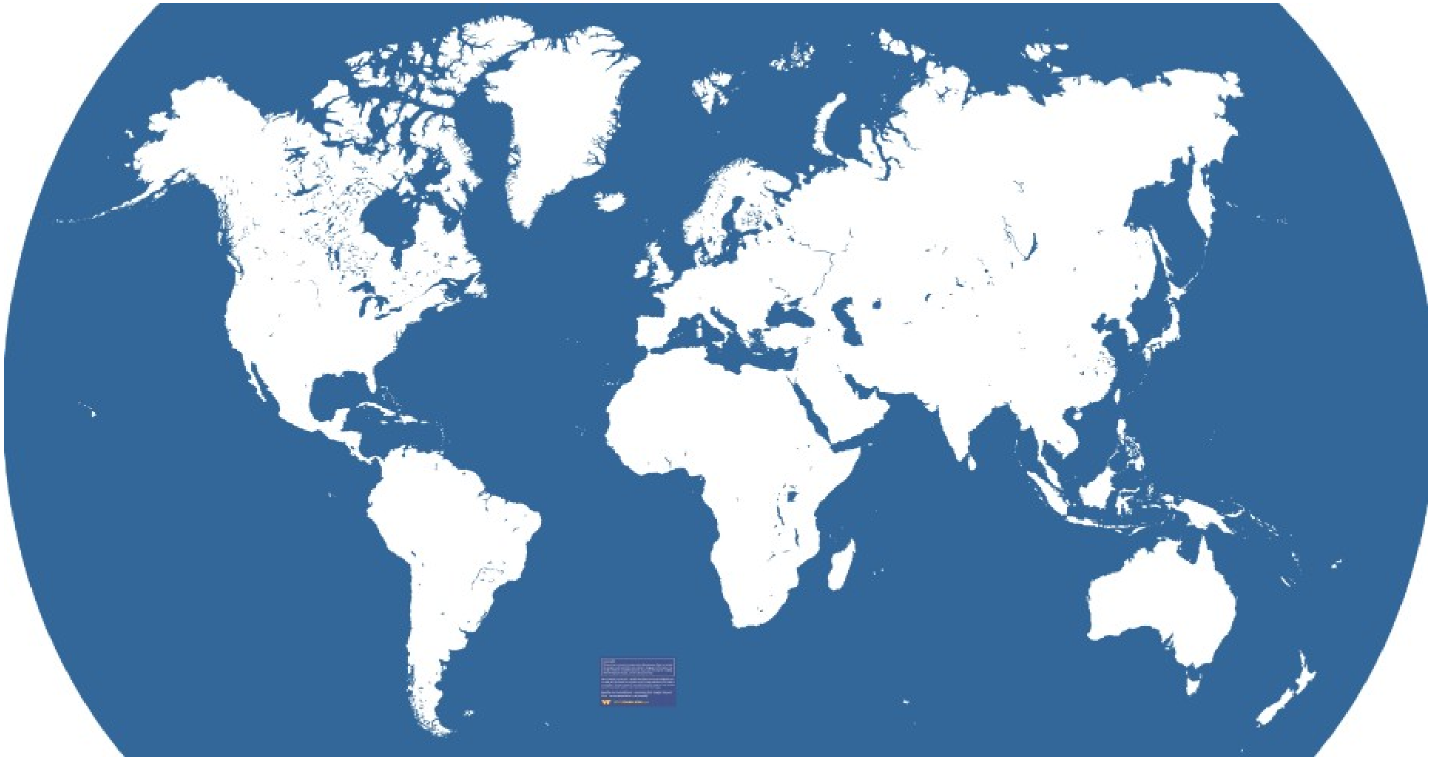
The SEC has a three-part mission:

1. to protect investors;
2. maintain fair, orderly, and efficient markets; and
3. facilitate capital formation.

Capital formation refers to net additions of capital stock such as equipment, buildings and other intermediate goods. A nation uses capital stock in combination with labor to provide services and produce goods; an increase in this capital stock is known as capital formation.

- Whose job should this be?
- **US Customs and Border Security:** to facilitate legitimate trade – if we don't want conflict minerals then embargo them
- **Department of State**
  The Department of State's mission is to shape and sustain a peaceful, prosperous, just, and democratic world and foster conditions for stability and progress for the benefit of the American people and people everywhere.

US Manufacturing Companies have to Compete in the Global Economy



Applying US Resources Wisely to Remain Competitive

(Top Down View)

- As Americans, we are all in this together.
- We have limited resources.
- If we spend those resources inefficiently then our costs for getting all things done goes up.
- If our costs go up then we can't compete well in a Global economy – Jobs will move to other countries.
- If Americans want to help solve human rights problems in central Africa, does Dodd Frank 1502 do it wisely and efficiently?

What is the Cost

- The SEC estimated the total costs of the final rule would be $3 billion to $4 billion initially, and $207 million to $609 million in subsequent years. The agency said it was unable to quantify the benefits being sought, namely reducing violence in the Congo.
- As originally drafted, the regulations would apply to roughly 6,000 U.S. businesses.

Only 6000 Businesses?

- Assume that they mean 6000 large publicly traded companies.
- Suppose that each company has 20 suppliers.
- That is 126,000 companies involved in reporting to comply with 1502.
- Suppose that each publicly traded company had two people assuring compliance and each supplier had 1/3 of a full time equivalent (FTE) working on compliance.
- That means that our country has 52,000 FTE's working on this problem in the Democratic Republic of the Congo.
- Can 52,000 people doing paperwork realistically be expected to solve human rights abuses in a land far away?
- What if we just sent 52,000 people to the Democratic Republic of the Congo to work on the problem directly? Would that be more effective?

Machine Shop Manufacturing

- Machine Shops
- About 20,000 in US
- About $55B in Annual Business
- Employ about 260,000 people.

- Machine Shops
- Sheet Metal Fabrication Shops
- Foundries and Forges
- Welding Shops
- Circuit Board Makers

How does one person effect change?

- Proponents
  - Who are the constituents that think that these problems in the Democratic Republic of the Congo should be a high priority for the US.
  - Do they think that this is the best way to spend limited resources?
- Opponents
  - Who are the opponents of this Dodd Frank 1502?