The Hidden Side of Supply Chain Case Study

What’s the Issue We’re Aiming to Address?

Newton’s work on child labor in cobalt mining has been catalyzed by our investment in companies with heavy involvement in the cobalt supply chain. Our concerns over corporate governance and a highly publicized incident involving an accident in the supply chain led our responsible investment analyst Victoria Barron to spend a week in February 2017 touring China and South Korea to look at the battery supply chain. This trip highlighted the problems that were surfacing around the involvement of child labor in cobalt mining. Cobalt is a key resource for batteries, and the complexities of the supply chain mean it is hard to verify the source of production.

The facts around child labor in cobalt are stark and link directly to the poor economic and security situation in the Democratic Republic of the Congo (DRC). When Victoria highlighted these points to the investment team, it was agreed that this was a material risk for companies involved in the cobalt supply chain, and that it needed to be raised with management.

What Did Our Engagement Look Like?

We began by sending emails and calls to a particular company to raise our concerns. While our interest appeared to elicit some surprise, we were still provided with useful information. The firm arranged for us to talk to the in-house expert on the cobalt supply chain. These conversations indicated that this company had been fairly active in assessing cobalt and had actually produced a report on the topic. However, management had felt it better not to publish the report, albeit that it was working on the points raised. The points covered a series of initiatives which were at an early stage in the DRC and would need monitoring for success. They also stressed the practicalities of working in the DRC and the complexities of the supply chain.

These conversations greatly improved our understanding of actions on cobalt mining, and highlighted stages where we could be of assistance. The company had no meaningful disclosure in this area, and the general market perception was that it was not concerned about the issue. This was clearly not a fair representation, and so we contacted the CEO, via investor relations, to urge the company to publish its report on cobalt. We were pleased that this happened immediately. We also took the opportunity to urge the company to take on board the recommendations and to stress how important we felt this issue was to the company, something which clearly raised its profile internally.

At this point (June 2017), it was clear that this topic affected more than just one firm. No user of batteries could realistically claim not to be linked to cobalt from the DRC given the opaque supply chain, and given that battery usage covers a wide variety of companies. By now, we had seen that working via the Responsible Cobalt Initiative (RCI) was the best way to drive real change.
For the rest of 2017, therefore, our focus was on talking to other companies and supporting the RCI. In October, we talked to the Chinese Chamber of Commerce for Metals, Minerals and Chemicals, explaining our concerns. We discussed the actions it is taking and its work with the RCI. All of this helped us build our own knowledge, but also maintain pressure across the supply chain. In November, we attended the Geneva meeting of the RCI, which brought together miners, car and battery manufacturers, non-governmental organizations, the Organisation for Economic Co-operation and Development (OECD) and the Chinese government. As one of the few asset managers at the meeting, we were able publicly to support its work while urging greater action from all the participants at the meeting.

In 2018, we continued to focus on this issue and became part of the Principles for Responsible Investment (PRI)-supported Engagement on Responsible Sourcing of Cobalt steering committee with a global coalition of PRI investors who are active in the area. In particular, we followed up on the initiatives that were discussed in 2017 to monitor progress. We pushed specifically on the issue of a supply-chain audit and the need for surprise audit visits to give credibility to the program.

In 2019, alongside PRI signatories, we have been co-leading cobalt-specific engagements with a number of companies. We have held discussions to establish the companies' understanding of the situation, what actions they are taking to identify risks in the supply chain, and how they plan to implement the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. The guidance aims for greater transparency and auditing in the supply chain.

As part of our wider work addressing child labor in the cobalt supply chain, responsible investment analyst Victoria Barron also recently attended the 2019 OECD Forum on Responsible Mineral Supply Chains, to learn more about developing human rights regulations, supply-chain due diligence, and civil society’s concerns. In plenaries, she urged corporate attendees to adopt the new OECD Due Diligence Guidance for Responsible Supply Chains of Minerals, and asked all actors along the cobalt supply chain, including the DRC government, to work together on the ground to improve working conditions.

Has Anything Changed?
Overall, we believe that a number of steps have been taken that will improve lives in the DRC, and were particularly impressed when one company announced a joint initiative with other involved firms to launch a cobalt pilot project in the DRC, with the aim to improve artisanal mining working conditions, as well as living conditions for surrounding communities.

We will continue to engage with our invested companies on this topic, and work with other investors to improve transparency along the cobalt supply chain. We also need to monitor the results of the continuing programs in the DRC to measure success in reducing child labor, and to stay engaged with RCI and ensure it remains aware that this an issue which investors care about. The approach we took regarding issues with cobalt mining shows the purpose and engagement with which we aim to address all ESG issues.
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