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COMMISSION DELEGATED REGULATION (EU) .../...

of 11.1.2019

supplementing Regulation (EU) 2017/821 of the European Parliament and of the Council as regards the methodology and criteria for the assessment and recognition of supply chain due diligence schemes concerning tin, tantalum, tungsten and gold

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE DELEGATED ACT

Regulation (EU) 2017/821¹ (hereinafter "the Regulation") sets out due diligence requirements for EU importers of tin, tantalum, tungsten and gold which will apply from 1 January 2021. As set out in Article 1 of that Regulation, it aims to provide transparency and certainty as regards the supply practices of Union importers and of smelters and refiners sourcing from conflict-affected and high-risk areas. Natural mineral resources and associated revenues can, in such areas, fuel the outbreak or continuation of violent conflict, undermining endeavours towards development, good governance and the rule of law. Breaking the nexus between conflict and illegal exploitation of minerals is a critical element in guaranteeing peace, development and stability; and hence a major objective of the Regulation.

A number of voluntary supply chain due diligence schemes² with the same or similar objectives as the Regulation already exist and more may emerge in the lead-up to (or after) 1 January 2021. Such schemes could contribute to achieving the aims of the Regulation. Article 8(3) of the Regulation therefore enables the Commission through implementing acts to recognise those schemes which "when effectively implemented by a Union importer of minerals and metals, enable that importer to comply with the Regulation". Any such recognition by the Commission would follow from an application by the scheme owners and would not be done ex officio by the Commission, as follows from Article 8(1) of the Regulation.

For this purpose, Article 8(2) of the Regulation provides that "[t]he Commission shall adopt delegated acts in accordance with Article 19 [on exercise of delegation], supplementing this Regulation by setting out the methodology and criteria allowing the Commission to assess whether supply chain due diligence schemes facilitate the fulfilment of the requirements of this Regulation by economic operators and allowing the Commission to recognise schemes". Hence, Article 8(2) of the Regulation is the legal basis of this Commission Delegated Regulation.

The Regulation is consistent with and makes ample reference to the OECD's Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. This Delegated Regulation is based on the same approach: In essence it brings into the EU's legal order, mutatis mutandis, an already existing OECD methodology for assessing mineral supply chain due diligence schemes³, which was finalised in April 2018 and developed in a multi-stakeholder project. This approach is necessary to ensure a coherent approach between the EU and the OECD towards due diligence schemes, and is feasible thanks to the consistency between the requirements of the EU Regulation and the OECD Guidance.

Once the Commission Delegated Regulation enters into force, the Commission will be in a position to receive and assess applications for recognition based on the methodology and

¹ Regulation (EU) 2017/821 of the European Parliament and of the Council of 17 May 2017 laying down supply chain due diligence obligations of Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas.

² For the purpose of Regulation (EU) 2017/821 and this Delegated Regulation, due diligence schemes means "a combination of voluntary supply chain due diligence procedures, tools and mechanisms, including independent third-party audits, developed and overseen by governments industry associations or groupings of interested organisations".

³ <http://mneguidelines.oecd.org/OECD-Due-Diligence-Alignment-Assessment-Methodology.pdf>

criteria set out therein; and on that basis adopt implementing decisions granting a recognition of equivalence with the requirements of Regulation (EU) 2017/821.

2. CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT

The general approach to the Commission Delegated Regulation was presented to the Commission's expert group composed of representatives of the Member States on responsible sourcing of tin, tantalum, tungsten and gold – in which the expert of the European Parliament is an observer – on 9 March 2018. The first draft of the Commission Delegated Regulation was consulted with Member States in view of a meeting of the expert group on 15 May 2018, and a second version taking into account the comments made was shared with the expert group on 20 July 2018, inviting for more comments and input. The draft was also shared with the expert group after the Commission's inter-service consultation but before the start of the Commission adoption procedure.

The Commission also gave a technical briefing on the Delegated Act to the European Parliament on 6 June 2018, with invitations extended to both the INTA and DEVE committees.

The OECD secretariat has been consulted on its role in issuing draft opinions on the draft assessment reports (as set out in Article 8 of the Commission Delegated Regulation).

Moreover, as set out in section 1 of this explanatory memorandum, the Commission Delegated Regulation in essence brings into the EU's legal order, *mutatis mutandis*, an already existing OECD methodology which was developed through a project with participation and consultation of five due diligence schemes and one NGO.

The preliminary, general approach to the Commission Delegated Regulation has also been presented and discussed at events such as at the OECD Forum on responsible mineral supply chains in April 2018 and in meetings with interested stakeholders, including civil society.

3. LEGAL ELEMENTS OF THE DELEGATED ACT

Article 1 sets out the subject matter and scope of the act, i.e. to lay down the rules on the methodology and criteria to be used by the Commission for the assessment and recognition of supply chain due diligence schemes. It also clarifies that any such assessment and recognition will only be with regard to schemes or part of schemes which relate to the metals and minerals covered by Regulation (EU) 2017/821.

Article 2 provides definitions of terms used in the act, in part by making clear that the definitions in Regulation (EU) 2017/821 also apply to this act.

Article 3 sets out the minimum requirements for applications for recognition to be admissible, and the rules relating to incomplete applications.

Article 4 sets out the general conditions for recognition, i.e. the need to demonstrate that a scheme's overarching due diligence principles, its requirements for economic operators participating in the scheme, and the specific responsibilities of the scheme itself are aligned with the applicable requirements of Regulation (EU) 2017/821, consistent with the OECD Due Diligence Guidance. It also refers to the relevant section of the OECD Methodology to be applied for this assessment.

Article 5 sets out the specific criteria to be assessed in order to determine whether the general conditions for recognition are satisfied, by referring to the relevant part of the OECD Methodology. It also sets out the rules to determine the applicability of those specific criteria for a specific application.

Article 6 sets out the procedure that the Commission may follow to complete the information provided in an application to enable its assessment of the specific criteria, including interviews and attendance of third party audits.

Article 7 sets out the methodology to evaluate the applicable specific criteria, to determine whether the scheme should be rated fully, partially or not met aligned with regard to a specific criterion. It also refers to the relevant section of the OECD Methodology to be applied for this purpose.

Article 8 sets out the approach to the assessment report (including consultation of the applicant as well as the OECD Secretariat on the draft report).

Article 9 sets out the steps to be followed after the Commission comes to conclusion on whether the general conditions for recognition are fulfilled.

Article 10 sets out the limitations to repeat applications following failed applications.

Article 11 sets out the process for e.g. remedial action needed if deficiencies of recognised schemes are identified and for possible withdrawal of recognition.

Article 12 sets out the applicable principles with regard to transparency on recognised schemes and confidentiality of information and sources.

Article 13 sets out the principles applicable to cooperation between the Commission (or an entity acting on its behalf), applicants, Member State competent authorities, the European Parliament, and as appropriate the OECD Secretariat during implementation of the act.

Article 14 sets out that the act shall enter into force 20 days after publication in the Official Journal and that is binding and directly applicable.

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) 2017/821 of the European Parliament and of the Council of 17 May 2017 laying down supply chain due diligence obligations for Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas⁴, and in particular Article 8(2) thereof,

Whereas:

- (1) Natural mineral resources hold great potential for development but can, in conflict-affected or high-risk areas, fuel the outbreak or continuation of violent conflict, undermining endeavours towards development, good governance and the rule of law. In those areas, breaking the nexus between conflict and illegal exploitation of minerals is a critical element in guaranteeing peace, development and stability.
- (2) Regulation (EU) 2017/821 sets out due diligence obligations for Union importers of tin, tantalum and tungsten, their ores, and gold which will apply from 1 January 2021. The Regulation is designed to provide transparency and certainty as regards the supply practices of Union importers and of smelters and refiners sourcing from conflict-affected and high-risk areas.
- (3) A number of voluntary supply chain due diligence schemes with the same or similar objectives as Regulation (EU) 2017/821 already exist. Regulation (EU) 2017/821 provides for the possibility for the Commission to recognise schemes which, when effectively implemented by a Union importer of minerals or metals, enables that importer to comply with that Regulation.
- (4) It is therefore necessary to establish the methodology and the criteria to be used by the Commission to determine whether a scheme should be granted recognition by the Commission.
- (5) Recital (14) of Regulation (EU) 2017/821 sets out, inter alia, that the requirements for supply chain due diligence schemes should be aligned to the OECD Due Diligence Guidance and meet the procedural requirements such as stakeholders' engagement, grievance mechanisms and responsiveness. That recital also sets out that Union importers retains individual responsibility for compliance with the due diligence obligations, irrespective of whether they are covered by a supply chain due diligence scheme recognised by the Commission
- (6) The requirements of Regulation (EU) 2017/821 are consistent with the OECD Guidance. To ensure consistency between also this Regulation and the OECD's work,

⁴ OJ L 130, 19.5.2017, p. 1.

the OECD's Methodology for the Alignment Assessment of Industry Programmes with the OECD Minerals Guidance (the 'OECD Methodology'), should serve as the basis for the Commission's methodology and criteria for assessment and recognition of supply chain due diligence schemes.

- (7) The OECD Secretariat should, as appropriate, be consulted prior to the finalisation of the Commission's assessments of applications for recognition and should be given the opportunity to issue an opinion on the draft report and the preliminary conclusions.
- (8) The competent authorities of the Member States are responsible for the application and effective and uniform implementation of Regulation (EU) 2017/821 throughout the Union. The Commission should therefore share information on applications for recognition and its assessment of them with Member State competent authorities so as to afford the competent authorities the opportunity to contribute effectively to the Commission's assessment.
- (9) Article 8(3) of Regulation (EU) 2017/821 sets out that the Commission is to take into account the diverse industry practices covered by a scheme and that it is also to have regard to the risk-based approach and method used by a scheme to identify conflict-affected and high-risk areas, and the listed results thereof.
- (10) This Regulation does not cover verification of schemes that have already been recognised, nor the requirements relating to changes to schemes over time, while those matters are dealt with by Article 8(4) and (5) of Regulation (EU) 2017/821.
- (11) The Union should endeavour to cooperate as appropriate with other jurisdictions to support the development and implementation of due diligence schemes consistent with the OECD Due Diligence Guidance,

HAS ADOPTED THIS REGULATION:

Article 1

Subject matter and scope

1. This Regulation sets out rules on the methodology and criteria allowing the Commission to assess whether supply chain due diligence schemes concerning tin, tantalum, tungsten and gold facilitate the fulfilment of the requirements of Regulation (EU) 2017/821 by economic operators and to recognise such schemes, pursuant to Article 8 of that Regulation.
2. This Regulation only applies to schemes or part of schemes which relate to the metals and minerals falling within the scope of Regulation (EU) 2017/821, as set out in Annex 1 of that Regulation.

Article 2

Definitions

1. For the purposes of this Regulation, the definitions in Regulation (EU) 2017/821 apply.

The following definitions shall also apply:

- (a) 'scheme' means 'supply chain due diligence scheme' or 'due diligence scheme' as defined in point (m) of Article 2 of Regulation (EU) 2017/821;

- (b) 'applicant' means the entity that has submitted or intends to submit an application for recognition of a scheme;
 - (c) 'scheme owners' means those entities referred to in Article 8(1) of Regulation (EU) 2017/821;
 - (d) 'economic operators participating in the scheme' means natural or legal persons that are subject to an audit under the requirements of the scheme or that are otherwise associated with or participate in the scheme in such a way that they are expected by the scheme to meet its standards and policies;
 - (e) 'OECD Methodology' means the OECD's Methodology for the Alignment Assessment of Industry Programmes with the OECD Minerals Guidance, including its Annex, published with the OECD note COM/DAF/INV/DCD/DAC(2018)1;
 - (f) 'overarching due diligence principles' means the principles set out in section A of Annex 1 to the OECD Methodology;
 - (g) 'repeat application' means
 - (i) an application concerning a scheme which has already been subject to at least one earlier application that was either declared inadmissible or was unsuccessful or withdrawn;
 - (ii) an application concerning a scheme which has had its recognition withdrawn by the Commission.
 - (h) 'general conditions for recognition' means the conditions set out in Article 4;
 - (i) 'specific criteria for assessment' means the criteria set out in Article 5.
2. For the purposes of this Regulation, the term 'industry programme' used in the OECD Methodology shall be understood to have the same meaning as the term 'scheme'.

Article 3

Requirements for and admissibility of applications

1. Scheme owners may apply to have the schemes that are developed and overseen by them recognised by the Commission in accordance with this Article.
2. In order to be admissible, applications shall contain the following information:
 - (a) the identity of the applicant;
 - (b) the name and contact details of the person who will be responsible for the assessment and hence be the Commission's contact person;
 - (c) a description of the scheme's objectives, the metals and minerals covered by the scheme, the types of economic operators participating in the scheme, and in which part of the value chain those economic operators are active;
 - (d) information with regard to the scope of the application, clarifying whether the application relates to a specific part of a scheme or to a specific part of the value or supply chain;
 - (e) evidence that the design of the scheme's policies and standards is coherent with the supply chain due diligence principles as set out in point (d) of Article 2 of

Regulation (EU) 2017/821, in a manner consistent with the five-step framework as set out in Annex 1 to the OECD Guidance;

- (f) a list of economic operators participating in the scheme, and other entities that are members of or otherwise associated with the scheme;
 - (g) if available, any other assessment of the scheme, including self-assessments, assessments by competent authorities in another jurisdiction, and assessments by a third party;
 - (h) if applicable, the relationship between the application and any earlier application.
3. Applicants may include any other information that they consider relevant.
 4. Within 45 calendar days after having received an application, the Commission shall determine whether the application is admissible and shall inform the applicant thereof.
 5. If the Commission considers that the evidence referred to in point (e) of paragraph 2 has been provided but that other information referred to in paragraph 2 is missing, it shall inform the applicant in due time and in any event before the expiry of the time-limit laid down in paragraph 4, and invite the applicant to complete the application within 30 calendar days.
 6. If the Commission considers that the evidence referred to in point (e) of paragraph 2 has not been provided, or if an applicant does not complete the application before the expiry of the time-limit laid-down pursuant to paragraph 5, it shall declare the application inadmissible and shall notify the applicant thereof and shall not proceed with further assessment of the application.
 7. By submitting an application, scheme owners accept that the scheme will be subject to the assessment provided for in this Regulation. However, applicants may withdraw their application at any time.

Article 4

General conditions for recognition of equivalence

1. A scheme shall be granted recognition of equivalence if the scheme's overarching due diligence principles, its requirements for economic operators participating in the scheme, and the specific responsibilities of the scheme itself are aligned with the applicable requirements of Regulation (EU) 2017/821.
2. The requirements of paragraph 1 shall be considered met where the Commission considers that the conditions for the scheme to be rated as 'fully aligned' in accordance with Section 4 of the OECD Methodology are satisfied based on its assessment of all applicable specific criteria having regard both to the scheme's policies and standards and the scheme's implementation of them.

Article 5

Specific criteria for assessment

1. The Commission shall assess the scheme against the applicable specific criteria set out in Annex 1 to the OECD Methodology, in accordance with Articles 6, 7 and 8.

2. The Commission shall determine, for each individual assessment, the relevance of each of the specific criteria in Annex 1 to the OECD Methodology, taking into account the nature, scope and specificities of the scheme subject to the assessment. It shall for this purpose consider the applicability of the specific criteria indicated in Annex 1 of the OECD Methodology. It may also, consider deviation from the specific criteria indicated in Annex 1 to the OECD Methodology if needed to ensure that the assessment corresponds to the scope and requirements of Regulation (EU) 2017/821 with regard to, inter alia, the type of entities that are subject to the obligations of that Regulation.

Article 6

Completion of the information provided in the application so as to enable the assessment of specific criteria

1. The Commission shall as appropriate complete the information contained in admissible applications to enable it to carry out its assessment of the applicable specific criteria under Article 5(2). In particular, this may include:
 - (a) reviews of documents the Commission considers relevant, such as the scheme's bylaws or equivalent and other policy documents; terms of reference of relevant committees of the scheme; audit reports of economic operators participating in the scheme; reports from experts and relevant stakeholders; any other assessment of the scheme, including self-assessments, assessments by competent authorities in other jurisdictions, and assessments by a third party; and any other relevant information relating to the management of the scheme;
 - (b) interviews with representatives of the scheme, the management of economic operators participating in the scheme, auditors, and other relevant stakeholders;
 - (c) attendance at and observation of third party audits of economic operators participating in the scheme against the requirements of the scheme, and assess the corresponding audit reports.
2. When implementing paragraph 1, the Commission may request the applicant to submit any additional information or documentation and to facilitate interviews and attendance of third party audits.
3. The Commission shall determine what additional information is necessary in order to enable it to carry out the assessment of all applicable specific criteria. It may for this purpose consider the guidance set out in Section 2 of the OECD Methodology.

Article 7

Methodology for the evaluation of the specific criteria

1. The evaluation of each applicable specific criterion shall consider both the design of the scheme's policies and standards and the scheme's implementation of them in accordance with section 3.2 of the OECD Methodology.
2. The Commission shall determine whether a scheme is 'fully', 'partially' or 'not' aligned with regard to all applicable specific criteria in accordance with section 3.2 of the OECD Methodology.
3. The evaluation of the applicable specific criteria shall not take into account any potential policies, standards, activities and other aspects of a scheme which do not

relate to due diligence of supply chains of the metals and minerals covered by Regulation (EU) 2017/821; nor shall it take into account policies and other information concerning companies that do not fall within the scope of that Regulation, unless explicitly requested to do so in the application and agreed to be the Commission.

4. The Commission may consider any potential relevant assessment of the scheme carried out by credible third parties when evaluating the application even if such assessments are not included in the application.
5. The evaluation of applicable specific criteria for which the scheme relies fully or in part on policies, standards and activities by another scheme or a similar entity external to the applicant shall consider whether:
 - (a) a credible assessment of such entities has been undertaken by the scheme and how such assessments are or will be kept relevant and updated over time, and
 - (b) such entities are schemes which have been granted recognition of equivalence under this Regulation.

Article 8

Report on the assessment

1. The Commission shall prepare a report setting out its assessment of whether the scheme meets the general conditions for recognition and the applicable specific criteria. The report shall be finalised pursuant to paragraphs 2, 3 and 4.
2. The draft report shall be communicated to the applicant, which shall be granted 15 calendar days to comment.
3. After considering any comments received from the applicant, the Commission shall, as appropriate, consult the OECD Secretariat on the draft report, and may provide it with any supporting documentation necessary for the OECD Secretariat to formulate its opinion. The Commission shall invite the OECD Secretariat to submit its opinion within 30 calendar days. The opinion shall in particular concern the assessment of the general conditions for recognition and specific criteria.
4. The Commission shall finalise the report no later than nine months after it has declared the application admissible pursuant to Article 3, unless notifies to the applicant in advance that it will finalise the report later.

Article 9

Process following the conclusion on the general conditions for recognition

1. If the Commission considers that the general conditions for recognition of equivalence are fulfilled based on the assessment methodology set out in this Regulation, it shall follow the procedure set out in Article 8(3) of Regulation (EU) 2017/821.
2. If the Commission considers that the general conditions for recognition of equivalence set out in Article 4 are not fulfilled, the Commission shall notify the applicant and the competent authorities of the Member States thereof and provide the applicant with a copy of the final assessment report referred to in Article 8(1).

Article 10

Repeat applications

1. A repeat application shall not be submitted within twelve months after the notification provided for in Article 9(2) or in Article 3(6), or the withdrawal of the application.
2. By way of derogation from paragraph 1, a repeat application with respect to the same scheme may be made three months after the notifications referred to in paragraph 1 if an improved grading of less than ten percent of applicable specific criteria would be sufficient for the general conditions for recognition of equivalence set out in Article 4 to be met.
3. All the information referred to in Article 3(2) shall be provided in repeat applications, even if part of that information was contained in a previous applications.
4. In addition to the information referred to Article 3(2), a repeat application concerning a scheme that was subject to a previous, unsuccessful application shall contain detailed information concerning all measures taken with regard to the specific criteria that the Commission did not consider "fully aligned" in its assessment of the most recent unsuccessful application.

Article 11

Measures taken pursuant to Articles 8(6) and 8(7) of Regulation (EU) 2017/821

1. The Commission shall follow the steps set out in paragraphs 2, 3 and 4 of this Article when applying Article 8(6) and 8(7) of Regulation (EU) 2017/821.
2. Where the Commission identifies deficiencies in a recognised scheme, it shall notify the scheme owner thereof and shall grant the scheme owner three to six months to take remedial action. That period may be extended by the Commission taking into account the nature of the deficiencies.
3. The scheme owner shall notify to the Commission of the remedial action taken within the time-limit established pursuant to paragraph 2. The notification shall contain substantiated evidence of such remedial action.
4. The Commission shall not initiate the procedure for the withdrawal of recognition provided for in the second subparagraph of Article 8(7) of Regulation (EU) 2017/821 before the time-limit established pursuant to paragraph 2 of this Article has elapsed.

Article 12

Transparency and confidentiality

1. The Commission shall establish a register of schemes to which it has granted recognition of equivalence and shall make it publically available. The Commission shall ensure that the register is updated in a timely manner whenever it grants or withdraws recognition of equivalence.
2. The report referred to in Article 8(1), shall be made publicly available if the Commission grants a scheme recognition of equivalence. The opinion on the draft report provided by the OECD Secretariat shall also be made publically available unless the OECD secretariat requests that its opinion remains confidential.

3. The Commission shall ensure that any information identified as confidential by the Commission, applicants or any natural or legal person contributing to the assessment under this Regulation is treated in accordance with Regulation (EC) No 1049/2001 of the European Parliament and of the Council⁵.

Article 13

Cooperation and support

1. Applicants shall ensure that the Commission is granted access to all information the Commission considers necessary to assess the specific criteria, including by facilitating interviews with participating economic operators and attendance of third party audits.
2. The Commission shall end or suspend its assessment if the applicant does not comply with paragraph 1 and shall notify the applicant accordingly. The notification shall set out the reasons why the Commission has ended or suspended its assessment. If the Commission ends or suspends the assessment, the scheme owner may submit a repeat application no earlier than twelve months after the date of the notification.
3. The Commission shall share information with Member States' competent authorities designated pursuant to Article 10(1) of Regulation (EU) 2017/821 so as to enable them to contribute effectively to its assessment under this Regulation and to exercise their responsibility for effective and uniform implementation of Regulation (EU) 2017/821.

The Commission shall in particular:

- (a) inform the Member States' competent authorities of the scheme owners that have applied for recognition pursuant to Article 3 and invite them to submit any information and assessment of relevance to the assessment;
 - (b) upon request from a Member State's competent authority, make available the full application to that authority;
 - (c) consider any information of relevance for the assessment of an application under this Regulation provided by the Member States' competent authorities;
 - (d) consider any information provided by the Member States' competent authorities in relation to deficiencies in schemes identified by the Commission and inform them any notification made pursuant to Article 11(3);
4. The Commission shall keep the European Parliament updated on the implementation of this Regulation as appropriate and shall consider any information relevant for its implementation the European Parliament submits to the Commission.
 5. In addition to the consultation provided for in Article 8(1), the Commission may consult the OECD Secretariat or ask for its support in carrying out its responsibilities under this Regulation.

Article 14

Entry into force

⁵ Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p. 43.)

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 11.1.2019

For the Commission
The President
Jean-Claude JUNCKER