

DUE DILIGENCE GUIDANCE FOR THE CARBON AND GRAPHITE INDUSTRY

VERSION 1.0

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1. OVERVIEW

This Due Diligence Guidance for Graphite producers aims at facilitating responsible supply chain management for the members of the European Carbon and Graphite Association (ECGA). The Guidance takes into account the specific risk profile of carbon and graphite supply chains. It builds on several OECD Guidances. The development of the Guidance was coordinated by ECGA.

1.1 Objectives of this Guidance

The Guidance was developed to:

1. Create a common framework of reference for the members of ECGA.
2. Facilitate compliance with upcoming European regulations that include due diligence imperatives.
3. Enable graphite producers to implement the following OECD Guidances:
 - OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector (OECD Guidance on Mining)¹
 - OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD Guidance on Conflicts)²
 - OECD Due Diligence Guidance for Responsible Business Conduct (OECD Guidance on Responsible Business Conduct)³
 - OECD Practical actions for companies to identify and address the worst forms of child labour in mineral supply chains (OECD Guidance on Child Labour)⁴
 - OECD Guidelines for Multinational Enterprises (OECD Guidance on MNEs)⁵

1.2 Principles

The following principles are at the core of any successful due diligence process:

- **Clarity:** Companies communicate clearly on their website their own policies and commitments with regard to due diligence.
- **Context-awareness:** Companies consult with local technical personnel and other local stakeholders before enacting any procedural change.
- **Continuous improvement:** Companies regularly request feedback from their suppliers in order to improve their due diligence procedures.

¹ <https://www.oecd.org/publications/oecd-due-diligence-guidance-for-meaningful-stakeholder-engagement-in-the-extractive-sector-9789264252462-en.htm>

² <https://www.oecd.org/corporate/mne/mining.htm>

³ <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

⁴ <https://www.oecd.org/daf/inv/investment-policy/child-labour-risks-in-the-minerals-supply-chain.htm>

⁵ <http://mneguidelines.oecd.org/guidelines/>

- **Inclusiveness:** Companies ensure that the interests and expectations of opposing groups are all understood.
- **Ownership:** Companies integrate the management of due diligence indicators within their core management systems.
- **Representativeness:** Companies investigate how well their interlocutors represent impacted stakeholders and right-holders.
- **Social fairness:** Companies dedicate special efforts to engage with the most vulnerable groups of right-holders (e.g. women, children, indigenous peoples).
- **Transparency:** Companies publicly report on the due diligence process they already undertook or plan to undertake.

2. DISCLAIMERS

1. The Guidance encourages collaboration between companies to share the best practices of the sector. It is the responsibility of companies to always ensure compliance with relevant antitrust and competition laws.
2. Individual responsibility for due diligence remains at the company-level. Actual conformity with the Guidance is not verified by ECGA.

3. SCOPE OF THE GUIDANCE

3.1 Companies within the scope of the Guidance

The Guidance covers by default all the carbon and graphite products extracted or processed by the members of ECGA, including their subsidiaries, without geographical limitations.

Since companies usually tailor their due diligence processes to their own local context, each extraction or production site may have a different due diligence procedure.

3.2 Products within the scope of the Guidance

The Guidance excludes from its scope the following categories of products:

- The Guidance does not take into account the products of those companies where the presence of carbon or graphite adds no commercial value. For example, it does not concern to products which contain traces of graphite due to the physical setup of the processing plant.
- The Guidance does not take into account other feedstocks than those required to produce carbon or graphite, even if those feedstocks also contribute to the commercial value of the final product.

3.3 Issues within the scope of the Guidance

Companies are advised to focus on the following series of environmental, social and governance issues in their own due diligence process:

- **Environmental issues:**
 - Air, ground, or water pollution
 - Lack of access to food or sanitation
 - Loss of agricultural and fishing areas
- **Social issues:**
 - Absence of essential healthcare
 - Absence of occupational health and safety frameworks
 - Abusive practices, such as child or slave labour
 - Damage to cultural heritage
 - Degrading or inhuman treatments, such as torture or sexual violence
 - Violent suppression of political dissent, such as media censorship
- **Governance issues:**
 - Corruption
 - Extortion
 - Illegal taxation
 - Money laundering
 - Smuggling

Companies are advised to check whether these issues can be found in their own supply chain. They are free to include in their own risk management systems other relevant issues which are not listed here. If they are faced with any specific issue such as forced labour or artisanal mining, they are encouraged to read the relevant OECD Guidances⁶.

3.4 Stakeholders of a Due Diligence process

In order to check whether an issue exists, or to examine how to solve an existing issue, companies may need to consult with outside stakeholders. They are advised to differentiate between two groups of stakeholders: priority and non-priority stakeholders.

⁶ <https://www.oecd.org/publications/oecd-due-diligence-guidance-for-meaningful-stakeholder-engagement-in-the-extractive-sector-9789264252462-en.htm>
<https://www.oecd.org/corporate/mne/mining.htm>

Priority stakeholders include the following:

- Impacted local communities (including nomadic communities, communities living near an extractive concession, downstream a river near the site, along a transport route, or near associated infrastructure such as energy grids or processing plants)
- Indigenous peoples
- Farmers
- Workers (including local and migrant workers)
- Host governments (local, regional, and national)
- Local civil society organisations, community-based organisations, and human rights defenders.

Non-priority stakeholders may be contacted if necessary, but are not directly impacted by the issues at stake

- International non-governmental organisations
- Industry peers
- Investors/shareholders
- Business partners
- The media

4. COLLABORATION

4.1 Collaboration with upstream suppliers and local communities

The issues in scope of this Guidance are complex and multi-faceted. They find their roots in the social and political histories of local communities and territories. Therefore, solving them usually require meaningful engagement with all the relevant local stakeholders. Such on-the-ground collaboration can be necessary for some of the following steps:

- **During step 1:** If grievances need to be collected.
- **During step 2:** If risks need to be assessed on the ground.
- **During step 3:** If mitigation measures need to be monitored.
- **During step 4:** When a third-party needs to assess the efficiency of the previous steps.

4.2 Feedback on existing collaboration schemes

Collaboration efforts may take multiple forms, such as: joint teams, appointment of a joint third-party, multi-stakeholders panels. In any case, it is good practice for companies to regularly review the efficiency of their collaboration efforts to improve their due diligence process.

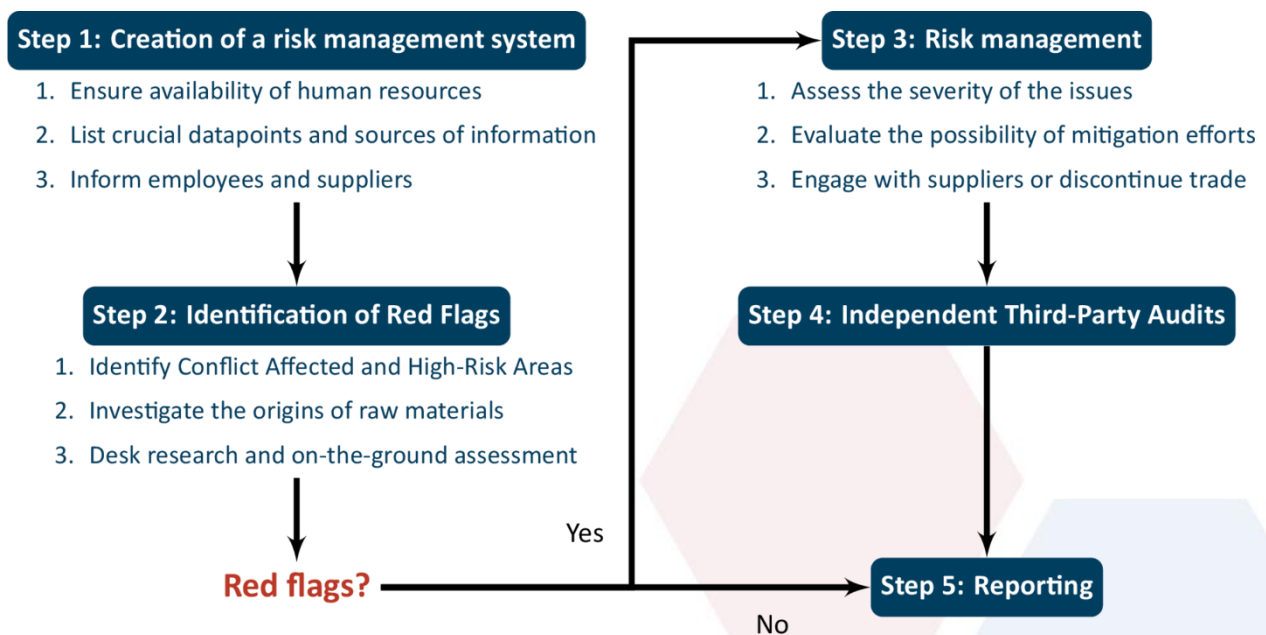
4.3 Relation between this Guidance and other schemes and assessments

ECGA companies are encouraged to subscribe to any third-party assurance program that would meet the criteria set out by this Guidance and the OECD Guidances on Conflicts, Child Labour, Mining and MNEs. They are also encouraged to indicate on their website that they built on the current Guidance to improve their own procedures.

5. DUE DILIGENCE PROCESS

In order to establish a functional due diligence process, both the OECD Guidances on Conflicts and Child Labour advice firms to implement five core steps⁷. The current Guidance reiterates the same advice⁸.

Flowchart 1: The five core steps of a due diligence process



⁷ See “[Annex I: Five-Step Framework for Risk-Based Due Diligence in the Mineral Supply Chain](#)” in the [OECD Guidance on Conflicts](#), as well as “[Due diligence steps to address worst forms of child labour in mineral supply chains](#)” in the [OECD Guidance on Child Labour](#). The OECD Guidance on Responsible Business Conduct proposes a process in six steps. However, the core actions remain the same.

⁸ For reference, the [Standard of the Copper, Lead, Nickel and Zinc industries](#) also uses this five-steps process.

5.1 Step 1: Creation of a risk management system

General objective: *Create and maintain a series of policies and procedures that enable enterprises and their production sites to monitor the issues in scope of this Guidance.*

In order to fulfil this general objective, companies can undertake the following sub-steps:

1. Assign authority and responsibility to senior staff with the necessary competence, knowledge, and experience to oversee the supply chain due diligence process.
2. Ensure availability of resources necessary to gather information about existing or potential issues.
3. Put in place an organisational structure and communication processes that will ensure the dissemination of that information to relevant employees and suppliers.

5.1.1 List of essential datapoints

Natural graphite, synthetic graphite and carbon-based products do not feature the same risk profile. Accordingly, each company will want to tailor its risk management system to the issues that are prevalent in their own supply chain. This section provides a list of crucial datapoints for each type of product. Companies may include other datapoints in their risk management systems.

5.1.1.1 Datapoints common to all products

- Quantities, dates and location of extraction or production
- Corporate structure of their suppliers, including the names of corporate officers and directors; the business, government, political or military affiliations of the companies and their directors
- Displacement of populations, loss of access to traditional means of livelihood
- Strong gender inequalities that prevent women from participating in the labour market
- Taxes paid to government, and other any other payments made to government officials
- Taxes or fees paid to private security groups or armed forces
- Violent and armed conflicts for the control of local resources

5.1.1.2 Datapoints specific to natural graphite

Miners focus on the extraction and transport of natural graphite. In addition to common datapoints, miners and downstream users of mined graphite may collect information on the following topics:

- Artisanal mining, with children or slaves being employed in or around the mines
- Destruction of historical heritage sites
- Disturbance of biotopes, including the discharge of polluting substances into local rivers, such as leaching agents
- Release of fine particles into the air

5.1.1.3 Datapoints specific to synthetic graphite

Producers of synthetic graphite focus on the graphitisation of feedstocks such as petroleum coke. They may also use coal-tar pitch as a binder. Baking such products can result in the emissions of hazardous substances such as polycyclic aromatic hydrocarbons or sulphur dioxide. Therefore, in addition to common datapoints, producers of synthetic graphite and their downstream users may collect information on the following topics:

- Exposure of workers to hazardous chemicals and materials
- Release of CO₂ and fine particles into the air

5.1.1.4 Datapoints specific to carbon products

Producers of carbon-based products such as ramming paste or carbon fibres transform a wide array of carbon sources such as calcined petroleum coke, calcined anthracite, polyacrylonitrile or various types of pitches. Some of those precursors may be hazardous to human health or the environment. For example, the acrylonitrile used to manufacture polyacrylonitrile is harmful to aquatic life. Likewise, some end-products may also contain hazardous substances. For example, the baking of ramming pastes can release carcinogenic polycyclic aromatic hydrocarbons in the air.

In light of the above, the Guidance advises the producers of carbon-based products to pay specific attention to the following risks in their supply chain:

- Exposure of workers to hazardous chemicals and materials
- Release of hazardous chemicals and materials into local biotopes
- Release of CO₂ and fine particles into the air
- Management of Human Resources

Companies will want to make sure that they:

- Dedicate enough human resources to support the implementation, maintenance, and improvement of their own risk management system.
- Ensure that the staff implementing the management system has sufficient education, training and/or experience.
- Train the relevant employees about their risk management system. This may be implemented through participation in industry-driven programs.

5.1.2 Progressive improvement

Ideally, companies should periodically (at least every five years) evaluate the efficiency of their risk management systems, the goal being to improve those systems thanks to the results of their internal assessment.

5.1.3 Retention of information

Companies are advised to keep the collected information for a minimum of five years.

5.1.4 Sources of information

Companies will want to make use all available means of information in order to improve the accuracy of their risk management systems. These means may include:

- Supplier engagement, for example, through consultation or negotiation processes, through questionnaires and/or in-person meetings or remote interviews.
- Desk research through a review of the information available on the Internet and/or through relevant reports issued by international bodies, civil society, media, activist organisations, or private firms (e.g. investment funds).
- Information generated through the company's system of internal control.
- The creation of a grievance mechanism. That system can minimally consist in a web form or an email address that should be permanently monitored. It should:
 - allow any internal and external stakeholder, including whistle-blowers, to voice concerns, including anonymously, without fear of retaliation regarding the circumstances of mineral extraction, transport, trade, handling, processing, and export of graphite.
 - trigger a follow-up process in order to investigate whether the alleged grievance is accurate or justified, and whether a remedy should be deemed necessary. Companies should make reasonable efforts to provide effective remedies.

5.1.5 Supplier engagement

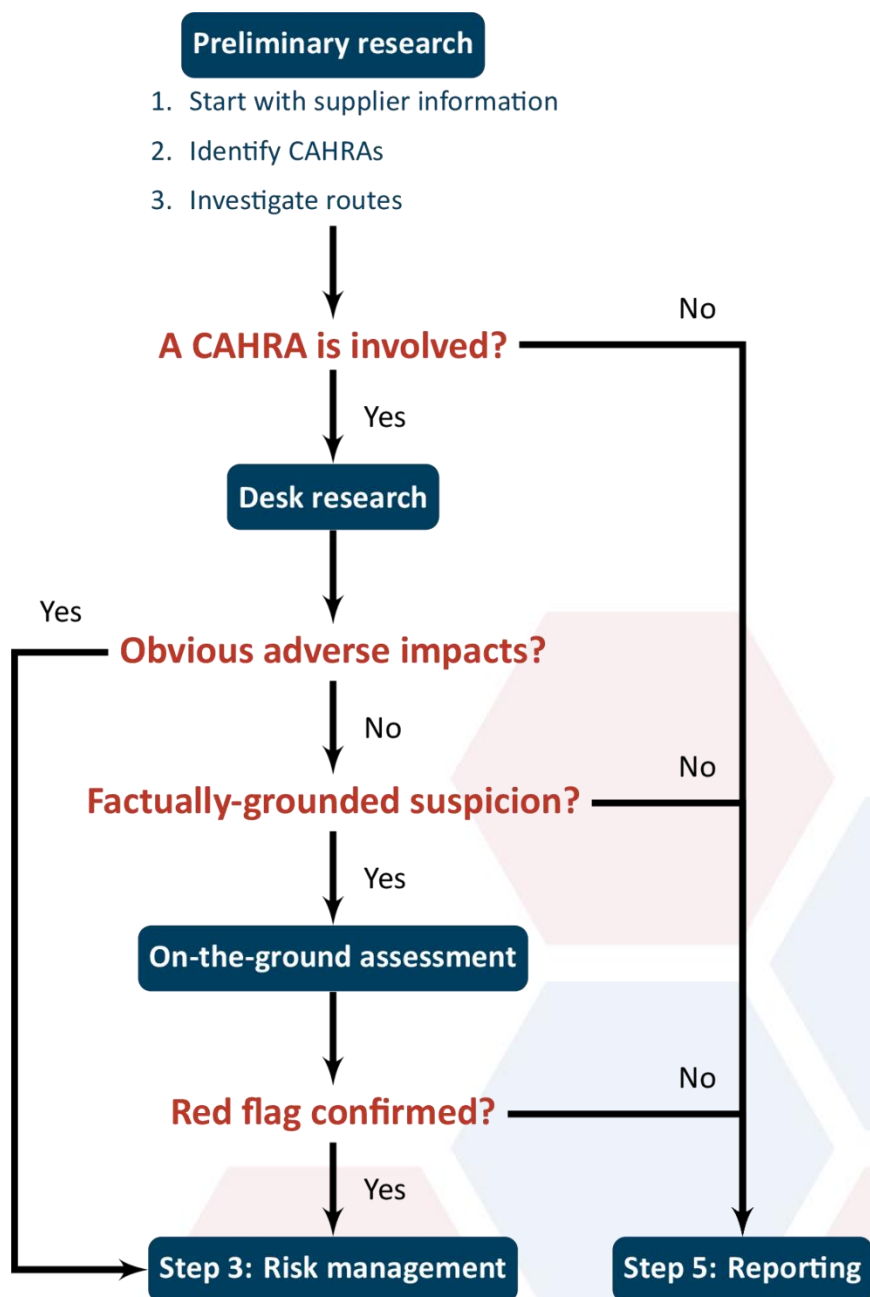
Companies can leverage their influence over their suppliers to solve or mitigate the issues in scope of this Guidance. This influence can take several forms:

- Minimally, companies can communicate their due diligence policies and procedures to their suppliers.
- Whenever practicable, companies can refer to this Guidance and their own risk management system within the contracts or agreements that they sign with their suppliers.
- Ideally, companies will prefer to integrate their own due diligence requirements into contractually established long-term relationships.

5.2 Step 2: Identification of Red Flags

General objective: Red flags are indicators which warrant the application of a comprehensive due diligence process. Companies should look for red flags when they screen their suppliers for issues in scope of this Guidance.

Flowchart 2: How to identify a red flag



5.2.1 Identify Conflict Affected and High-Risk Areas (CAHRAs)

Some suppliers are more at risk than others to be associated with adverse impacts. For example, mines situated in a conflict zone are more at risk for social and governance issues. Therefore, in order to identify red flags, companies should first of all identify Conflict Affected and High-Risk Areas (CAHRAs). CAHRAs are territories which present a higher-than-usual likelihood of adverse impacts, either because they have already been flagged in the past, or because a new issue has just occurred, such as the start of a conflict or an industrial leakage.

The search for CAHRAs can be narrowed based on general indicators such as the existence of conflicts, the existence of grievances voiced by local stakeholders, or the strength of local regulatory authorities.

The determination of CAHRAs can vary depending on the issue. For example, when they are buying refined graphite, companies should check whether the refinery plant is in an area which already showcases environmental issues:

- Has the area been identified by international or national organisations or academics as being ecologically fragile or having high ecological value?
- Are there other extractive or refining sites in the area, leading to cumulative environmental impacts?
- Are the public authorities managing key environmental indicators such as water or air quality?

Individual companies are free to choose which methodology they apply to determine CAHRAs. However, it is preferable to make sure that their determination process

- is documented, consistently implemented, and frequently reviewed, and
- relies on credible sources of information, such as academic or institutional reports.

5.2.2 Investigate the origin of raw materials

In order to know whether they should raise a red flag or not, companies need to know the exact origin of the raw materials they are buying, such as raw graphite or feedstocks for the production of synthetic graphite. This implies that they need to trace back the entire custody chain from the initial extraction or production area of the raw material to their own production sites. This should allow them to flag whether the raw material

- originates from or has been transported via a CAHRA, or
- is claimed to originate from a country that has limited known reserves of that raw material, or
- is claimed to originate from a country in which raw materials from CAHRAs are known to transit.

Moreover, companies will want to check whether their suppliers have a shareholder interest or any other interest in companies that supply raw materials from or operate in one of the CAHRAs. For example, in the context of the current war in Ukraine, it is not only important for the members of ECGA to stop the purchase of the coal-tar pitch produced by Russian firm RUSAL. It is also important not to buy products

manufactured by the main shareholder of RUSAL, En+ Group. Indeed, this main shareholder is currently sanctioned by the US government, as well as its founder, the Russian oligarch Oleg Deripaska.

5.2.3 Reasonable efforts and desk research

If the graphite they bought originated from or transited through a CAHRA, companies are advised to first resort to desk research in order to assess the potential existence of known issues for that graphite in particular. It is preferable for this desk research to be exhaustive and to include at least the following information:

- Export, import and re-export documentation including the identification of the exporter.
- The adherence of the supplier to international frameworks or multi-stakeholder initiatives related to issues in scope of this Guidance.
- The presence of the supplier in a relevant national or international sanctions list.
- The existence of policies and procedures adopted by the suppliers to comply with OECD Guidances on Conflicts, Child Labour, Mining, MNEs and Responsible Business Conduct.
- Evidence of the implementation of such policies, including:
 - Documents submitted by the supplier.
 - Second-party or third-party certification or assessment reports.
 - Responses to media allegations on potential or actual adverse impacts.
- The supplier's social, environmental and governance reporting practices.
- The supplier's disclosure of its ownership, including beneficial ownership, and of its corporate structure.
- Whether the supplier operates in a country which participates in the Extractive Industries Transparency Initiative (EITI), and whether it commits to and implements the EITI Principles and Criteria.
- Whether the supplier and/or the information shared by the supplier has been independently assessed or validated.

5.2.4 On-the-ground assessment

If companies notice unusual circumstances or any other hint that gives rise to a reasonable, factually-grounded suspicion that adverse impacts might be present, they will want to carry out a deeper risk assessment. For this purpose, the following steps are advised:

1. Fully lay out the results of their desk research, and precise which information is lacking or gives rise to suspicion,
2. Report to senior management,
3. Engage with their supplier in order to request further information and, if the supplier provides lacking or inconclusive data, and

4. Collect information on the ground.

A full on-the-ground assessment may require companies to engage with all local stakeholders along the principles that were stated in section 1.2 of this Guidance. Companies are advised not to immediately carry out such an assessment on a simple suspicion. Instead, an on-the-ground assessment should rather be undertaken when all former steps failed to establish the absence of adverse impacts. An on-the-ground assessment usually consists in the following steps:

- Define the scope of the assessment and the capacities of the assessment team.
- Use an evidence-based approach, through the collection of verifiable, reliable, and up-to-date evidence.
- Ensure that company assessors are independent from the activity being assessed and free from conflict of interests. Company assessors shall commit to reporting truthfully and accurately, upholding the highest professional ethical standards, and exercising due professional care.
- Ensure the appropriate level of competence, through employing experts with knowledge and skill in the following areas: the operational contexts assessed, the substance of risks covered by the policy, the organisation of the supply chain, OECD Guidances on Conflicts, Child Labour, Mining, MNEs and Responsible Business Conduct, this Guidance and its assessment principles and procedures.
- Facilitate the work of the assessment team, by allowing access to information gained by the company throughout the due diligence process.
- Ensure that the assessment team consults with all relevant stakeholders.

5.2.5 Continuous monitoring

Companies are advised to maintain ongoing risk monitoring at planned intervals and account for change in circumstances in relation to the red-flagged suppliers. If red flags are identified, companies are advised to proceed with the design and implementation of a risk management strategy. In the absence of red flags, companies may simply publish a summary of their findings in their annual due diligence report.

5.3 Step 3: Risk management

General objective: *Manage the potential and actual adverse impacts identified during the risk assessment.*

“Red flags” do not warrant on their own the termination of business ties with suppliers. Rather, they constitute a first step for further engagement with flagged suppliers, the goal being to solve or mitigate the issues instead of depriving local communities from their income. For the same reason, companies are encouraged to continue monitoring their suppliers even after they stopped trade, so that local communities can recover as soon as the issues have been solved.

Companies may exercise their influence by:

- Engaging directly with suppliers.

- Engaging with business associations and multi-stakeholder initiatives.
- Engaging with local or central governments.

The effectiveness of a successful risk management plan can be tracked through appropriate qualitative and quantitative indicators and/or by drawing on feedback from stakeholders.

It is preferable to adapt the level of precision of indicators to the actual capacities of the suppliers. In particular, when artisanal and/or small-scale mining operators are present in the supply chain, companies will want to adapt their requirements to the level of monitoring that operators can effectively implement.

Typically, in the case of artisanal mining in a remote area, companies are advised not to expect all reporting to be done online in real-time. Instead, they will want to regularly hold physical meetings close to the mining locations, at places where the local population normally gather for public meetings or can easily travel to. Alternatively, if such places are sparse, companies might want to provide transportation for people in remote or isolated areas so that they can attend or participate in meetings or other engagement activities. Such methods favour more detailed feedback than simply videocalls or exchanges of emails.

5.3.1 Potential mitigation strategies

When companies identify confirmed red flags, their reaction is expected to be proportionate to the risks incurred by the local stakeholders. Depending on the issues and the risks on-the-ground, adequate risk mitigation strategies may be:

- Continuing trade throughout the course of measurable risk mitigation efforts,
- Temporarily suspending trade while pursuing ongoing measurable risk mitigation, or
- Disengaging from a supplier after failed attempts at mitigation or where a company deems mitigation not feasible or unacceptable.

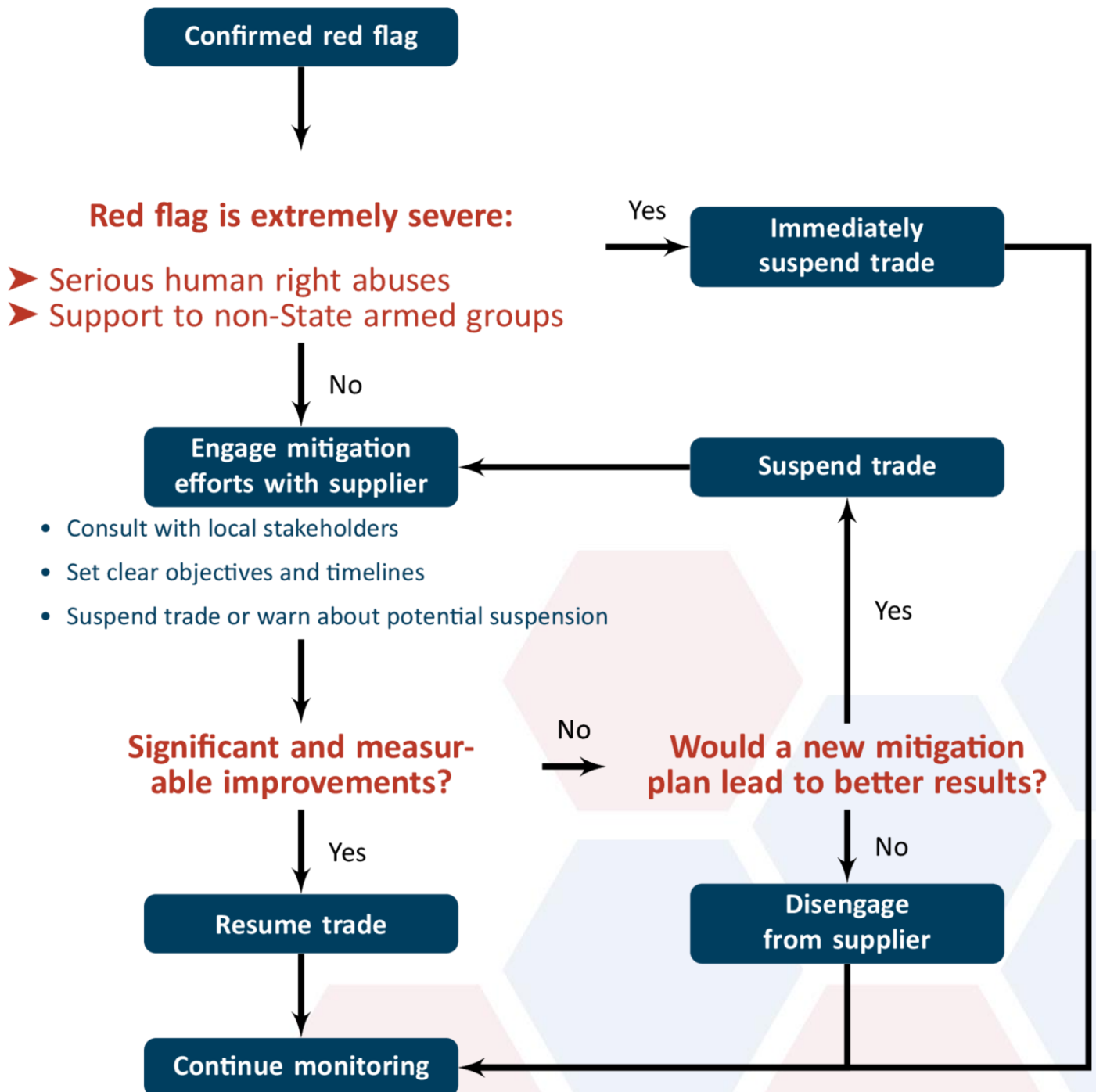
Companies are advised to first use their influence in order to solve or mitigate the red flags. For that purpose, they can:

1. Devise a mitigation program with the supplier and the local stakeholders
2. Set deadlines in the frame of that mitigation program
3. Build local competences around the issues that need to be solved

In order to improve its chances of success, a mitigation program shall include clear performance objectives and qualitative and/or quantitative indicators to measure and promote significant improvements within reasonable timescales, which can be set by the company itself if not already directed by local regulations.

Even if a company disengages from a supplier due to the severity of the issue or the lack of success of its mitigation plans, it is still encouraged to continue monitoring the evolution of the issue afterwards, in order to potentially resume trade after noticeable improvements. Indeed, communities fragilized by severe issues can benefit from a return to economic normalcy after such issues have been solved.

Flowchart 3: How to manage a confirmed red flag



5.3.2 Periodic evaluation of risk management plans

It is a best practice for companies to periodically evaluate the effective implementation of their risk management plans, and also to review their risk management plans if new circumstances arise on the ground.

5.4 Step 4: Independent third-party audits

General objective: *Carry out independent third-party audit of the risk management systems*

5.4.1 Core criteria for an audit

When they request an audit of their due diligence policies, companies are advised to make sure that the audit complies with the ISO International Standard 19011:2002, which states detailed requirements on audit programmes (including programme responsibilities, procedures, record-keeping, monitoring and reviewing), and presents a step-by-step overview of audit activities.

5.4.2 Strategic points

It can be difficult to determine which suppliers to assess and costly to conduct multiple assessments of multiple suppliers. For this reason, undertaking assessments at strategic points in the supply chain may help to avoid redundant assessments and spare valuable time. Such strategic points are defined as follows:

- Key points of transformation in the supply chain.
- Stages in the supply chain where a few actors process most of the raw material.
- Stages in the supply chain with the producers know well their client base and can control the circulation of raw materials by influencing both production and trade.
- Stages where the manufacturer can exert leverage on downstream enterprises.

Within the natural graphite industry, refiners are strategically positioned actors that best correspond to those criteria. Within the synthetic graphite industry, the enterprises which graphitise petroleum coke are in a similar situation. For carbon products, the manufacturers of precursors, such as the producers of acrylonitrile, are usually best positioned. This said, any other actor can also wish to undergo an audit of its due diligence practices.

5.5 Step 5: Reporting

General objective: *Report on diligence policies and best practices.*

Reporting allows stakeholders to understand the steps taken by companies regarding responsible sourcing. Public reporting motivates companies to improve their practices and to generate public

confidence in their supply chains. It is recommended that reporting is undertaken in line with internationally recognised principles, including:

- **Accuracy:** The reported information is sufficiently accurate and detailed for stakeholders to assess a company's due diligence performance.
- **Clarity:** Companies make information available in a manner that is understandable and accessible to stakeholders.
- **Comparability:** Companies select, compile, review, and report information consistently, in a manner that enables stakeholders to analyse performance trends over time.
- **Reliability:** Companies collect, retain, compile, review and report information and processes used in the preparation of the report in a way that can be subject to examination.
- **Timeliness:** Companies report on a regular schedule.

Companies which set up internal due diligence policies are encouraged to annually report on their risk management system, with due regard for business confidentiality and other competitive concerns. A company report is expected to describe, at a minimum:

- The company's policy.
- The management system implemented by the company.
- The methodology designed to identify red flags.
- The results of the red flags review process.

If red flags have been confirmed, a report should also describe the strategy adopted to respond to such risks, including:

- The actions taken to mitigate adverse impacts, including, where relevant, the involvement of stakeholders.
- A summary of the methodology for monitoring the risk management plan.
- Whether improvement was made towards eliminating identified issues.

If the company is a mining company operating in an EITI implementing country, the company will want to describe how it meets the expectations for EITI supporting companies as set out by the EITI. Such information may be integrated into sustainability reports, corporate social responsibility reports, or other annual reports.