The Honorable Mary L. Schapiro  
Chairman  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549  

RE: Cost Estimates for Section 1502 of the Dodd-Frank Act (conflict minerals)  

Dear Chairman Shapiro:  

IPC – Association Connecting Electronics Industries is writing in response to the January 17, 2012 and previous submissions made by Claigan Environmental of Ontario, Canada (Claigan), concerning the expected costs of implementation of the “Conflict Minerals” rule pursuant to section 1502 of the Dodd-Frank Act. IPC believes Claigan’s submission is misleading and inaccurate. We believe Claigan’s cost estimates are based on a number of erroneous assumptions and are not representative of costs likely to be experienced by companies affected by the aforementioned regulations.  

IPC apologizes for the late nature of this letter but is nevertheless providing these comments in the hopes that you will not base any part of your rulemaking decisions on the misleading and inaccurate Claigan submissions.  

October 28, 2011 Claigan Report  

This initial submission is the basis for all future Claigan submissions. The number of errors in this initial submission cast doubt on the usefulness of this and future Claigan submissions.  

Claigan wrongly assumes a direct cost comparison between electronics companies’ burden in complying with the European Union Restriction on Hazardous Substances (RoHS) Directive and affected industries’ burden in complying with the proposed conflict minerals regulations. Although conflict minerals regulations do not include the technical challenges of materials substitutions, the challenges related to compliance with the proposed conflict minerals regulations will likely exceed those of compliance with the EU RoHS Directive. While the EU RoHS Directive compliance requires knowledge about the presence/absence of substances in products, conflict minerals legislation requires companies to trace the source of the minerals in their products all the way back to the smelter. Many of the easiest and simplest ways of assuring compliance with the EU RoHS Directive involve non-invasive scanning of a product by X-ray...
fluorescence (XRF). There is no corresponding simple “check” for conflict minerals compliance – thus necessitating supplier audits which Claigan Environmental has omitted from their estimate. Although supplier audits are not required by the SEC, they would likely be conducted by any company required to report to the SEC due to the penalties associated with incorrect statements on SEC filings. It is highly unlikely that a CEO/President of a company would sign off on an SEC filing where the information was taken from a supplier letter or form without any verification of its completeness.

Further Claigan’s citation of RoHS compliance costs of 0.8% of revenue is factually incorrect and misleading. The EU study referenced by Claigan estimates compliance costs to be between 1 and 2% of “turnover.” A second study, conducted by the Consumer Electronics Association (CEA), which was also referenced by Claigan, cites RoHS compliance cost of 1.1% of industry revenue. This average also neglects the significantly higher impact on Small and Medium Enterprises (SMEs), estimated at 5.2% of turnover in the EU study and approximately 5.5% by CEA for $5M-$10M companies.

Claigan makes several additional incorrect assumptions in this study that are carried over to future studies, tainting all subsequent conclusions:

1. Claigan grossly understates the breadth of industry sectors impacted. The statement, “an argument can be put forward that 3TG reporting will be required by more than just the electronics supply chain” is an understatement. Also, they cite the CEA study on RoHS for an estimate of 90,000 electronic OEM, component suppliers and EMS. This estimate is an incomplete assessment of the impacts of the RoHS Directive as it omits PCBs, wire and cable, raw materials, and a number of other sectors that were affected by RoHS.

2. Claigan goes on to reduce its erroneous estimate of impacted companies by an additional 50 percent. This reduction is based on the completely unsupported assumption about the number of suppliers impacted by the regulations. In their estimate Claigan states, “But for conservative purposes it seems fair to reduce this number by at least 50%.” It is entirely unclear what is fair or conservative and why or how they chose to reduce the estimate of affected companies by 50 percent.

3. The proposed rules would require issuers to file and have audited a conflict minerals report for all recycled materials in their supply chain, yet Claigan assumes this is not the case by stating, “The [cost estimates] would also change drastically if the final rules issued by the SEC….brings 3TGs in recycled material into scope.”

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3Study on RoHS and WEEE Directives N° 30-CE-0095296/00-09. March 2008.
4. Claigan makes the erroneous assumption that no legal changes are needed as existing, standard supplier contracts contain standard provisions requiring suppliers to comply with relevant laws. Claigan overlooks the fact that these provisions would not cover conflict minerals as the suppliers (unless they are also SEC issuers) have no legal compliance obligation. Supplying their customers (the issuers) with information may be necessary to the issuer’s compliance, but the law places no legal obligation on the supplier and therefore would not be covered by existing contract clauses.

5. Claigan states, “There is no reasonable basis for the cost of the software for conflict minerals to be more expensive.” Tracing the source of minerals as opposed to presence/absence of a metal (as in the EU RoHS Directive) may indeed require more sophisticated software, especially as this virtual supply chain must be auditable, another requirement that RoHS does not have.

6. Claigan’s faulty assumption that, “the legal notices that go out in year one will not need to be sent in successive years,” fails to account for the frequent changes in suppliers that many companies experience in order to maintain competitive pricing. Supplier contracts do not all begin and end at once, and may extend for three to five years or more. Employee training costs, outside legal counsel, and contract modification also appear to not be considered by Claigan.

7. Claigan’s assumption that training will be minimal fails to account for employee turnover.

December 1, 2011 Claigan Report

This submission is vague and entirely non-transparent regarding its information sources. Claigan states that the basis for their reduced cost estimates was derived, “during budgeting discussions with affected corporations.” Claigan does not specify what types of companies (what industry, size, etc.) were queried, how many companies were queried or what size the companies were. Additionally, indication of the size, representativeness or a statistical significance of the sample population is not provided, raising significant doubts regarding the validity of the submission.

Significant errors in this submission include the following:

1. Regarding estimated audit costs, Claigan states, “This section is not our area of primary expertise and we welcome costing input from 3rd party auditors,” and then reduces previous third party audit costs by 1/3.

2. Claigan reduces the ridiculously low $100 per supplier data gathering costs even further to $40 based on “entry into the market of professional data providers.” No providers are identified or referenced, nor is IPC aware of any. Again, Claigan fails to mention supplier audit needs.
3. Claigan again naively claims that companies have only hundreds, not thousands of affected suppliers. This assessment is based on supplier lists from a mere 2 companies—a statistically insignificant number which cannot begin to represent the breadth of affected companies.

December 16, 2011 Claigan Report

Significant errors in this submission include the following:

1. Claigan states that their cost to quote of $228,000 is worst case, stating, “228K is higher than most service quotations being issued for complete conflict minerals program.” No further information on these quotes is provided (i.e. who made them or what they include). Furthermore, since final regulations have yet to be issued, one must regard skeptically any service quotes for a “complete program.”

2. Claigan further reduces the estimate of affected suppliers again, stating that companies have overestimated the number of affected suppliers by a factor of 5 to 10. They base this reduction on, “Careful inspection of actual bills of materials from a cross sample of companies.” No information about the number, size or type of this “cross sample” is provided. Furthermore, bills of material are usually for individual products, not all the products a company may make.

3. Claigan incorrectly states that the Tulane Study\(^5\) heavily references the NAM Study\(^6\) when in actuality; the Tulane Study cites IPC numbers, uses their own cost model, and compares their costs to NAM.

January 17, 2012 Claigan Report/ NAM’s Recent Comments

1. Claigan makes the outlandish and unsupported claim that their previous estimate of supply chain costs should be reduced because, “vast majority” of reporting issuers are using the EICC/GeSI template. This claim of “vast majority” of reporting issuers appears to be based on examination of conflict minerals policy statements issued by eight electronics firms. This assumption about the number is simply not correct, as the vast majority of affected companies are awaiting the final SEC regulations before developing full compliance programs. Claigan’s submission further misrepresents the EICC/GeSI template by calling it a “standard,” when in fact it was created, reviewed, and approved by a small group of consumer electronics companies and their suppliers and in no way represents an industry standard. While some companies have chosen to use the EICC/GeSI template,

\(^5\)Tulane University Law School Payson Center for International Studies, A Critical Analysis of the SEC and NAM Economic Impact Models and the Proposal of a 3rd Model in view of the Implementation of Section 1502 of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act

the majority of companies are displeased with the format and have not committed to using it.

2. The EICC/GeSI conflict free smelter (CFS) certification program does not yet constitute a reliable source of conflict-free conflict minerals. Only 11 smelters - all tantalum smelters have been certified as conflict free smelters - no smelters of the other three conflict minerals have been certified as conflict free to our knowledge. Furthermore, the 11 smelters identified as conflict-free are outside the DRC region, thus forcing those relying on the CFS program to enforce a “de-facto” embargo on the DRC.

3. The argument that the Tulane Study does not mention “country of origin” is circular. What constitutes a “reasonable country of origin” inquiry is central to the underlying cost/benefit analysis. The Tulane Study pointed out that previous SEC and NGO cost estimates failed to consider the expensive steps many firms - especially those outside the electronics industry - face in trying to satisfy such a standard. Moreover, Claigan does not address costs that may occur if SEC does not provide an exception for trace levels of these minerals - or at least an intentionally added standard - in the final rules. The cost of tracking and reporting trace levels of these minerals for many thousands of products could be considerable.

4. By focusing on statements from large electronics industry firms, Claigan completely ignored the burden and compliance costs that small businesses in reporting issuer supply chains will incur.

5. Claigan's seven-step process is unrealistic for many manufacturers, especially large manufacturers with complex supply chains. The seven-step process overlooks a number of issues and necessary tasks, and consequently Claigan's quotes are unrealistically low (at least for larger manufacturers). As noted above, the idea that large manufacturers of complex parts with millions of part numbers, could rely upon an excel spreadsheet (such as the EICC-GeSI Conflict Free Reporting Template) to collect, organize, and store information for a large supply chain is unrealistic. Nor has the spreadsheet offered by EICC-GeSI been proven or validated for conflict minerals data collection except by a small subset of electronics manufacturers.

6. There is no standard audit protocol currently available for validating supplier information in terms of conflict minerals (this internal "audit" appears to be required under the OECD Guidelines, which are not even mentioned in Claigan's process). It is unrealistic to believe that corporate officers would provide the SEC with a report based merely on suppliers information from a form derived from a software template like EICC/GeSI.

Finally, it would be instructive to know who or what organization “asked [Claigan] to make a further detailed submission…” While of course the IPC is not a disinterested party in this matter as it will affect the vast majority of IPC members, neither is Claigan. It stands to receive business
as a result of SEC regulations through its consulting services designing company compliance programs.

If you have any questions or wish to discuss this further please do not hesitate to contact me.

Sincerely,

Fern Abrams
Director, Government Relations and Environmental Policy