

## Challenges in supply chain

### Preamble

**SAFINA, a.s. is aware of the fact, that companies are facing many challenges when trying to manage issues in the supply chain as each supply chain has its own specifics and can be difficult to find general approach.**

### Example of some actual challenges identified by SAFINA

- **Ongoing war conflicts and price volatility**

With ongoing global conflicts and the ever-increasing number of disruptions, 2024 will bring heightened price volatility to energy and labor costs. Russian invasion of Ukraine and economic sanctions on Russia still have affected on global markets.

As the war is continuously hitting economies heavily and in combination with the current rate of inflation, businesses must be prepared for cost increases related to the procurement of raw materials, finished products, and more (Russia produces about a third of the global palladium supply and Russia's war on Ukraine have exposed vulnerabilities to the security of the supply of raw materials critical for industrial production as well chemicals etc).

The consequences of these climbing costs often translate to excess or surplus inventory, mounting storage fees, smaller margins, and lowered revenue and metals manufacturing companies are starting to lose out on their margins. Moreover, pressure to reduce carbon footprint has impacted costs and will only get worse. With that in mind, the challenge becomes accepting the reality of inflation while trying to minimize its impact. Making the right decisions on the pricing of products and the purchase of raw materials and energy has become key to a business's success. Great planning requires clean data and timely information on the impact of changes.

The industry appears to lack a comprehensive solution to this problem. Adopting more agile and foresight-oriented planning strategies, inventory management and reassessment of variable costs (payroll, advertising, etc) is needed to mitigate the impact of these fluctuations and secure margins.

- **Supply Chain Security**

Supply chain security is another key issue. Challenges began with COVID-19 which has forced many countries to realize the full extent of their reliance on metal imports, and this has changed the way that some of them look at metals' projects. Situation have been made worse by Russia's invasion of Ukraine and labour shortages.

This has made parts and products harder to obtain, as well as pushed prices up (e.g., energy, grains, computer chips, oil, and so on). End-to-end transparency, fast reaction times, and scenario planning are key ingredients for an agile supply chain. They are essential for making faster, more informed data-driven decisions. Critical mineral strategies and building up local industry have always been important subjects for those involved with industrial policy, but shortages, economic crises and the fragility of supply chains have brought many of these issues into the mainstream.

Political instability and global conflicts also cause fluctuations in supply and demand, with customers like car manufacturers lacking crucial supplies. But anyway supply chains in today's world, must be more resilient and agile to respond to increasing supply uncertainties, but still have to be transparent and comply with the system of Responsible-sourcing Policy.

## • Sustainability

Metal production has a significant carbon footprint. Increasing demand for energy and low-carbon technologies will boost mineral and metal demand, and the sector needs to be prepared to meet these needs. Despite manufacturers making major efforts to improve recycling rates and reduce emissions, the production of aluminum and steel still contributes more than 10% of CO2 emissions globally.

Models examining future energy demand and composition through the year 2040 show renewables as the fastest-growing energy source. Three of the most common renewable energy technologies – electric vehicles, solar photovoltaics and wind turbines – all have significant and diverse material needs. There is now greater pressure than ever before on manufacturers to produce metals more sustainably (or reduce production) and challenge of an unprepared industry could struggle to meet rapid increases in demand – and possibly slow the integration of renewable technology.

According international organizations that lead the way in sustainability could secure long-term competitive advantage. New technologies are on their way but will take time to mature and implement. This forms a considerable challenge for supply chain executives. Not only are they forced to squeeze out higher efficiency in their processes, but the question of how to do so remains.

## • Human rights risks in the supply chain

Ensuring respect for human rights has always been an integral part of SAFINA identity and it became an official part of the corporate strategy. SAFINA highlights the importance of adhering to social standards throughout the entire value chain and is fully aware the fact, that companies face many social issues in the supply chain and most of the responsible Supply Chain approaches limit themselves to a few basic human rights. Therefore it is necessary to create flexible approach to its supplier code, allowing collaborative approaches to mitigate risks to human rights.

## Conclusion

Regardless above mentioned challenges SAFINA, a.s. expects that all our suppliers will comply with our Responsible-sourcing Policy that contains key topics as:

- War crimes nor genocide
- Violation of international human rights laws
- Torture and inhuman treatment
- Corruption
- Money laundering
- Financing of terrorism
- Child labour
- Forced labour

SAFINA, a.s. is committed to our vision of a responsible world-wide supply chain, what means that SAFINA, a.s. is cooperating only with suppliers who acts in accordance with law, ethical and socials



standards and conduct business in honest manner. Working together with the RMI to harmonise our standards is one example of our approach to partnerships and tool how transform the supply chain. SAFINA, a.s. also appeals to its partners to help us improve our Responsible-sourcing Policy and to provide valuable feedback and to help us to transform supply chains to be more responsible and sustainable.

**Compliance director**

SIGNATURE: .....

**Commercial director**

SIGNATURE: .....

**Contact person responsible for conflict minerals reporting**

SIGNATURE: .....

