

# The Gold Paper



Produced in conjunction with the British Jewellers' Association and National Association of Goldsmiths



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## **Foreword**

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In the past ten years, ethical initiatives across all levels and segments of the gold jewellery sector have flourished. The supply chain is a complex one with a proliferation of companies and individuals playing their part in bringing products to market. The result is a web of complimentary, sometimes conflicting, and often overlapping schemes, each with their own priorities, timescales, and ultimate objectives.

Conflicts, politics, shifting allegiances, vested interests and many other factors are continually re-shaping the world in which we live.

The result is a complicated matrix that is not easy to navigate. Customers seeking greater understanding, and jewellers committed to the ideals of ethical trading find themselves baffled by the plethora of initiatives. That is why first the N.A.G and the BJA, and most recently the Gem-A have come together over the last eighteen months to form a joint ethics working party to try and answer some of the more pressing questions; to put the plethora of initiatives in context and devise some straightforward and unambiguous guidance for jewellers.

## **Executive Summary**

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This report details the sectors of the UK jewellery industry involved with the trade of gold. The objective of the study was to gain detailed understanding of the movement of gold in the supply chain, including the risks from designated conflict zones which affect gold trade and subsequently the gold supply chain.

Due to the gold's use as both a high value product and as financial currency which is both portable and can be transported in various forms, there is high risk associated with the gold trade regarding security, its potential to finance criminal activity and its relative lack of traceability. Furthermore, the extraction of gold can be extremely dangerous, invoking serious effects on the communities around mine sites, ranging from social problems to severe human rights violations. In addition, lack of environmental stewardship, through to extreme environmental catastrophes bring further risk. Civil society, lobbyists and media bring these transgressions to the attention of the public and to consumers.

In 2011-2012 the ethics working party conducted a series of industry consultations and workshops to take stock of the issues of human rights, negative community impacts and environmental threats which exist within jewellery supply chains. Associations between the jewellery industry supply chains and negative impacts on producer communities, or trade with conflict zones may ultimately pose a threat to consumer confidence. The study then examined where bottle necks to progress existed and circumstances which may prevent 'ethical' objectives such as traceability, transparency, chain of custody and environmental stewardship from being successful.

Consultations also considered the impact of a selection of ethical initiatives on a cross section of the industry, giving consideration to both the 'input' of gold via primary gold mining sources and second-hand or scrap metal, then the 'outputs' of gold into the streams of commodity trading (investment) and consumer product gold (specifically jewellery).

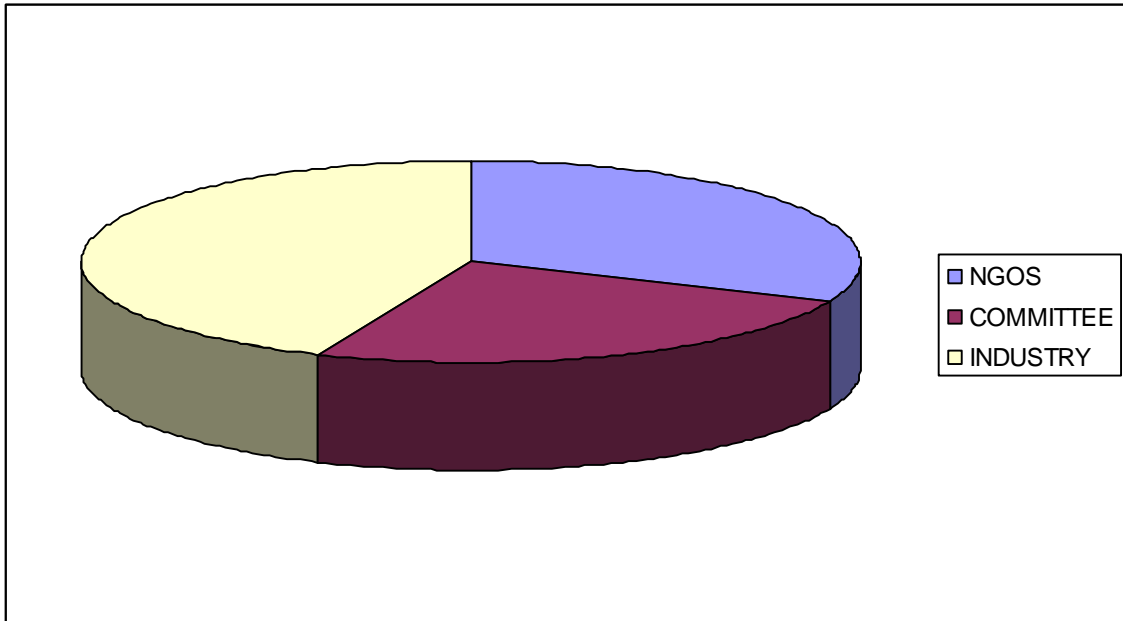
## Consultations and Participants

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Two separate consultations took place. The first was held with 5 NGO's, 3 of which actively engage with gold strategy in campaigns. A further consultation was then held with 7 individuals representing industry and banking (specifically active in trading in gold) and 4 committee members.

All were carried out in person, with the exception of NGO Earthworks, who participated via Skype connection. The consultations were hosted by the N.A.G in their London offices.

Follow up for fact checking and to gain more detailed and specific information was carried out by email and telephone.



*Fig 1. Chart showing proportion of participants in consultations.*

## **The Committee**

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### **Michael Hoare, National Association of Goldsmiths**

The National Association of Goldsmiths (N.A.G) was established in 1894 to serve and support the Jewellery Industry of Great Britain and Ireland. The Association promotes high professional standards among its membership to inspire consumer confidence and to enhance the reputation of its members. There is a Code of Practice to which elected Members must agree to adhere and by which applicants for membership are judged.

Government, Trading Standards, industry and the media turn to the Association for advice and also have a strong international presence, in particular through very close association with the International Jewellery Confederation ([CIBJO](#)).

### **Simon Rainer, British Jewellers' Association**

The British Jewellers' Association is the national trade association which promotes and protects the growth and prosperity of UK jewellery and silverware suppliers. With over 1000 member companies, BJA represents manufacturers, bullion suppliers, casting houses, diamond and gem dealers, designer jewellers, silversmiths, craftsmen and women, equipment suppliers, wholesalers, galleries, internet retailers and traders.

Formed in 1887, the BJA has given strong leadership for the industry for nearly 125 years.

Their mission is to “promote and protect the growth the UK jewellery & silverware industry.”

The BJA are committed to:

- Helping members to improve their prosperity
- Protecting the UK jewellery and silverware industries
- Increasing the UK market share for BJA members
- Increasing the share of export markets for BJA members

The BJA provides its members with a wide range of business services specially geared towards the jewellery and silverware industry which are specifically designed to save members time and money. The BJA also works hand in hand with major organisations, European and Domestic legislature, and key influencers to make sure that the views of members are heard.

The BJA is part of the British Allied Trades Federation – a group of six trade associations in the consumer goods field, based in Birmingham's historic Jewellery Quarter. It has its own permanent Secretariat, which is based in Birmingham. Managed by a Chief Executive Simon Rainer, who is responsible to the BJA National Committee under the leadership of an elected Chairman. Members are kept closely informed of all decisions taken by the committee and are encouraged to participate in the running of their association.

## **Greg Valerio**

Greg is a fair trade jeweller with a background in human rights and environmental advocacy. He has been a pioneer and fundamental to the international development and realisation of fair trade jewellery and traceable supply chains from mine to retail. Greg is passionate about the jewellery industry's potential to transform lives amongst small-scale miners through the power of mine to market traceability and transparency. Jewellery is an iconic luxury purchase of which the source is the opposite extreme. Greg believes this reality needs to change and this is the premise for all of his advocacy and campaign work inside and outside the jewellery trade.

He is the founder of Cred Jewellery and co-founder of Fair Jewellery Action.

He initiated and currently serves on the British Jewellers' Association and National Association of Goldsmiths ethics working group. He acts as an adviser to the Diamond Development Initiative.

In 1996 Greg started CRED Jewellery the pioneering fine jewellery company. Cred Jewellery was the UK and Europe's first jewellery company to retail fair trade green gold and platinum jewellery collections.

Some of the highlights of his work has been the publication in 2003 of 'Towards an Ethical Jewellery Business' and the introduction in 2004 of fully certified green gold wedding rings to the UK in partnership with Oro Verde. In 2008 CRED Sources was established as a bullion platform for fair trade and recycled metals. In 2009 he launched the worlds first high street jewellery boutique in Chichester (UK) that is fully traceable and recycled across all its jewellery collections. In September of the same year with social objectives of the business achieved he left CRED Jewellery with the aim of returning to his advocacy and campaigning roots to continue to catalyze the broader movement for certified fair trade jewellery both in the UK and internationally.

## **Vivien Johnston**

Vivien Johnston is a trained goldsmith, design graduate, Fellow of the Royal Society of Arts, Ambassador for UK Enterprise and stakeholder of the Alliance of Responsible Mining (ARM). Vivien has also been appointed Adviser To The Board, The Jeweltree Foundation (Maastricht) and is a member of the Steering Committee for Manufacturing Standards, Fair Jewelry Action (USA & International).

Fifi Bijoux was founded by Vivien in 2006 to pioneer a sustainable business model promoting positive ethics in mining and jewellery. She also works as a consultant for companies engaged with extraction and processing of precious natural resources and international jewellery brands seeking to create best practice for ethical sourcing and supply chains.

Since 2011, she has been appointed by the National Association of Goldsmiths, The British Jewellers' Association and recently Gem-A to steer an ethics working group. This involves engaging with senior industry representatives, governmental policy developers, producers and retailers. The outcomes are communicated through trade press publications and where appropriate, consumer press and broadsheets.

Vivien has been invited to speak about her work across the globe; including Mongolia, Brazil, Geneva and Washington DC. Her knowledge of the challenges faced by the

jewellery industry as well as the human rights and environmental issues within mineral mining extend far beyond the scope of her own brand.

As well as gaining international acclaim for her designs and brand integrity, career highlights include being awarded the accolade of 'Professional Jeweller Hot 100 Trailblazer' 2012 and Future 100 'Young Social Entrepreneur 2011' as well as being selected as a finalist for both Cosmopolitan magazine 'Woman of the Year' and Red Magazine 'Red Hot Woman of the Year' awards.

Her previous experience includes holding the position of Head of Design for a UK commercial jewellery company at age 26. In this role, she promoted the development of a responsible sourcing policy, supply chain management, designed quality control systems and over-saw the brand's identity.

## **Understanding Current Sourcing Practice**

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### **Overview**

There are two distinct sources of gold which enter the UK supply stream. These are from i) Primary gold sources and ii) Second hand or Scrapped gold which travels through gold refineries.

- i) *Primary gold describes newly extracted gold from a mine source prior to it being refined, for example as ore.*
- ii) *Second hand gold is grouped into 2 grades. Low grade is low value electronic scrap. High value grade scrap circulates within jewellery supply chain and it is specifically the high value scrap which will be referenced for the purpose of this report.*

The following points were considered during consultation sessions:

- Structure of Gold Supply Chain
- Jewellery Industry % as Gold Users
- Gold as an Investment product
- Gold as Alternative Currency
- Importance to Electronics Industry
- Barriers and Opportunities created through trade with Asian markets
- Cross Border threats to control of supply chains
- Legislation/Government intervention
- VAT on imported useable gold
- Unintended Negative Consequences
- How to communicate the work of OECD/ LMBA to the consumer

### **i) Primary Gold**

Gold smelting is the initial process used to refine gold from an unconcentrated source. In the case of Primary gold, smelting can often be carried out at the mine source, reducing the ore to a partially pure state and formed into 'doré' bars.

Sources of newly mined are predominantly grouped into LSM (large scale or medium scale industrial mining) or ASM (artisanal or small scale mining).

LSM	Formalised extraction processes using industrial and mechanised methods. Corporate, legally registered companies. Examples are Anglo Gold Ashanti, Rio Tinto and Newmont.
ASM	Usually informal or semi-formal gold collection using basic hand tools or simple mechanised equipment. Often carried out by individuals, sometimes seasonally or as a nomadic activity, or by groups (or 'teams'). Mercury is frequently utilised to recover gold from host rock. Examples of ASM are Oro Verde (a Fairtrade and Fairmined Ecological certified mine), Eco Andina and the Goldfields of Kalgoorlie, Australia.

## Ore

Ore can be processed at the site of the mine to recover gold or gold concentrate using a variety of methods depending on the type of host rock or characteristics of the ore and method of extraction. These include crushing, amalgamation, leaching and flotation techniques.

## Smelting

It is possible to smelt gold at some mine sites into bars (called doré bars).

Some concentrates and ores require further treatment to releases the gold. Mercury and cyanide are commonly used, particularly when extracting from hard-rock areas. Activated carbon, bio- oxidation or sulphide concentration may be used to release gold content from certain host rocks. Depending on the specific gold-bearing material, processing or purifying the gold may require extensive and capital-intensive processing.

Alluvial gold deposits may also be found as grains or nuggets in rivers, sand or gravel, and these are collected using panning techniques, digging, (ASM), open-cast methods or using hydraulic pressure.

Mercury should be removed before smelting and in some instances, iron may need to be removed also, using nitric acid or an oxidization process.

Where the gold cannot be smelted at source, it may be sent for cyanide leaching.<sup>1</sup>

## ii) Second Hand Gold

Scrap gold describes gold in a pre-fabricated state, for example as 9ct or 18ct jewellery which has been alloyed with other metals. If this has been produced for the UK market, it should be marked by the assay office. There are items which may have been purchased outside the UK in which case these may not display an assay mark or have varying gold content.

Scrap gold is collected by jewellers, gold shops, pawnbrokers and 'cash for gold' schemes that can be run by individuals or even 'supermarket' banks<sup>1</sup>. The gold is then sold on either directly or indirectly to refineries, some of whom operate their own trading/broker platforms. Gold is the ultimate 'hot potato' and dealers, whether buying or selling

<sup>1</sup> [http://en.wikipedia.org/wiki/Gold\\_extraction](http://en.wikipedia.org/wiki/Gold_extraction)

<http://www.sgs.com/~media/Global/Documents/Technical%20Documents/SGS-MIN-Tech%20Pub-2004-03%20Process%20Mineralogy-LR-EN-11-09.pdf>

The World Council –Draft Standards for Chain of Custody- for consultation. Version 3.5 16 June 2011



gold, will most commonly aim to trade it on the same day as it comes into their possession. The steep fluctuations in gold prices combined with the costs of 'holding' gold make it a volatile business. Until the gold reaches a final destination either as an investment bar or is purchased for consumer product manufacture, it is typically traded and sold at the earliest opportunity and in the case of smaller traders, almost always for cash.

## **Refining**

Both doré bars and scrap gold require further refining, using chemical and/or electrolysis methods to achieve purity.

Refining of gold from second hand sources involves taking gold in a pre-fabricated form (e.g. an old piece of jewellery, damaged chain or alloyed product) and undertaking a distillation process which returns the gold to its pure state and separates it from other minerals. This 'recycling' of gold means that gold in its pure form can be reformed into multiple formats or products.

After refining the gold to its pure state (999.9 parts gold) the refinery may then alloy the pure gold with other metals to create fabricated products for use by the jewellery industry such as wire, sheet, findings and chains.

The refined gold may also be poured into ingot bars, to be traded according to monetary value, as defined by the current fix price.

These processes are carried out in many locations around the world. Gold may be shipped from country to country to undergo processing. Scrap gold may enter the supply chain from any source at any time. Gold has an infinite lifespan and therefore may take decades or even centuries to re-enter the supply chain between modifications or re-fabrications.

## **Outputs-Gold Entering the Product Supply Chains**

Gold is subsequently refined to separate it from other trace minerals. This is carried out by a chemical process (Aqua Regia) and/or by electrolysis.

Smelting and refining can take place in a different geographical location to the mine. Processing plants may combine gold from multiple primary and second-hand sources during the procedure to achieve pure gold products (ingots or casting grain for example).

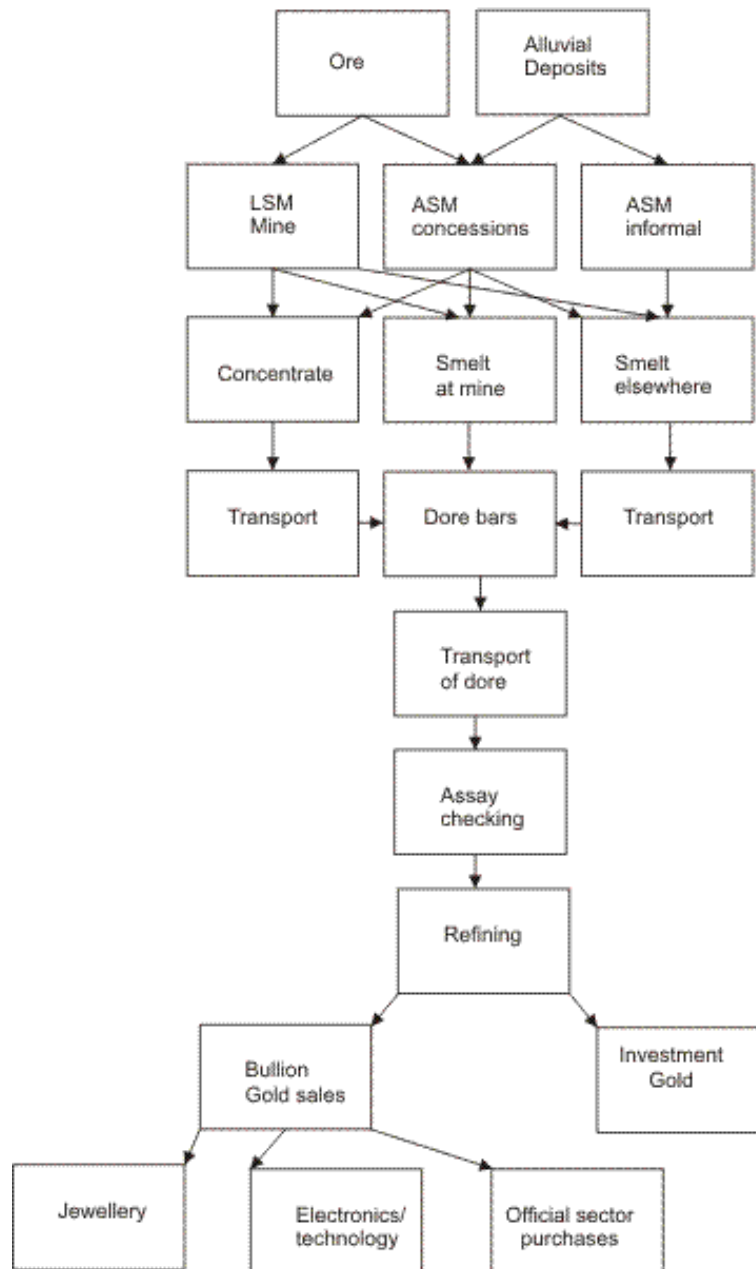
Gold from both primary and second-hand gold sources will typically be combined within the refinery process.

## Supply Chain Maps

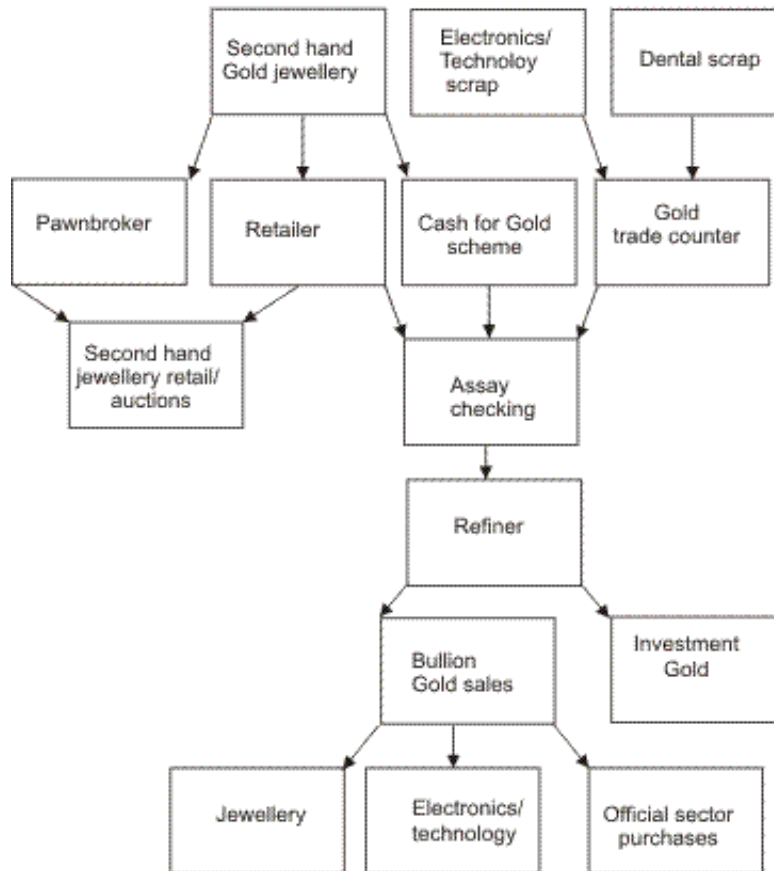
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The following are illustrative examples of standard gold supply chains. These illustrations are not exhaustive of all sources, processes or involved parties.

### Example Supply chain Mine to refinery



## Example Supply chain Second Hand Gold



### **Current Standards and Initiatives**

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The consultations considered a variety of new and existing measures which seek to control the gold industry. Objectives range from due diligence measures to avoid money laundering and other criminal activities, avoidance of harm and conflict, responsible source assurances, through to developmental objectives.

#### **The Universal Declaration of Human Rights**

The United Nations charter, adopted in 1948 by the UN General Assembly, compels thirty articles of fundamental human rights to be protected internationally by the rule of law among member states.

The Declaration details freedoms, equality, human dignity, the right to life, liberty and security, fairness, recognition and protection before the law for all persons. It states the expectation for all persons to have the right to participate in government and in voting procedures, fair entitlement to social security, terms of employment, a reasonable standard of living, access to education, community and cultural life.

## **OECD**

OECD (Organisation for Economic Co-operation and Development) is a forum for international governments to work collectively to solve problems including those of economic, social, environmental and trade.

It has 34 member countries from Europe, North and South America, Canada and Asia Pacific.

The OECD *Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* was created to provide recommendations for companies who source minerals and to avoid involvement in supply chains which may further conflict and damage human rights.

The *Gold Supplement* is among the supplements developed by OECD for specific minerals and recognises the particular challenges in conducting due diligence to mitigate risks during gold sourcing, processing and various end uses. OECD includes a recommendation for supplier capacity building measures, which goes beyond risk awareness.

The recommendations are not legally binding, but are described as reflecting '*the common position and political commitment of adhering countries*'.<sup>2</sup>

OECD makes provision for 'Grandfathered' stocks; investment gold held in vaults, exchanges or refineries with a 'verifiable' date earlier than January 1<sup>st</sup> 2013 as an exclusion to the conditions of known provenance.

The Gold supplement takes special account of ASM gold production and makes a clear distinction between expectations of small scale enterprises and informal gold mining by individuals, communities or groups.

OECD majors on due diligence, accountability and transparency issues, including 'early warning system' recommendations for risks, reportage of 'unusual activity' (where production from a region may make a sudden unexplained increase) and advice to install independent on-the-ground assessment teams.

## **RJC**

RJC (Responsible Jewellery Council) is a not-for-profit organization with over 390 member companies internationally.

The purpose of RJC is to promote transparency, accountability, social practices, environmental responsibility and human rights throughout the jewellery supply chain, from producer mines through to retail.

The RJC is also an official participant in the United Nations Global Compact.

Commercial members of the RJC are required to undergo an audit from third-party accredited auditors to ensure compliance with the Code of Practices.

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<http://www.oecd.org/fr/daf/investissementinternational/principesdirecteurspourlesentreprisesmultinationales/mining.htm>

RJC produced a voluntary Chain of Custody certification scheme in 2012 to assist members in conducting due diligence and guidelines for responsible sourcing in high risk/conflict countries.

RJC includes special references to ASM gold producers, including best practice measures such as creating economic development for ASM, fostering cooperation between import and export countries, addressing community displacement and remediation for child labourers.

### **Fairtrade and Fairmined Gold**

Fairtrade and Fairmined gold is the world's first, independent, ethical certification system for gold and associated precious metals from artisanal and small-scale miners. The Standard is owned by Fairtrade International and the Alliance for Responsible Mining and covers:

- Social and economic development
- Environmental development - for example management of toxic substances and restoration
- Labour conditions - such as health and safety or the elimination of child labour
- Traceability and transparency in the supply chain

Miners who sell on Fairtrade and Fairmined terms are guaranteed a minimum price, which is set at 95% of the London fix price, as set by the LBMA at point of export. They also receive an additional sum of money called the Fairtrade premium, which is calculated as 10% of the LBMA fix (or 15% for Ecological certified gold which is mined without the use of cyanide or mercury) and is invested into social and environmental projects of their choosing, such as providing equipment for local schools or improving water supply to their communities.

Only businesses registered within the Fairtrade system can buy and sell certified gold and apply the Fairtrade and Fairmined dual label to finished products.

At present, the primary bullion suppliers of FTFM gold in the UK are Cookson Precious Metals and Cred Sources.

### **World Gold Council (WGC)**

WGC has recently announced a Conflict-Free Gold Standard for global use, which seeks to avoid harm and prevent fuelling armed conflicts, armed groups, or negatively impacting on human rights within conflicts.

The World Gold Council consulted with industry, government and civil society in developing and reviewing the standard.

The standard employs use of flow-chart decision making systems in order to determine conformance or non-conformance for handling of gold on site, movement of gold and processing of gold. It contains frameworks to address externally sourced gold as well as remedial actions for deviations, making clear reference to relevant internationally recognised standards or conventions (e.g., UN International Declaration of Human Rights, OECD, etc) throughout each section of the gold's journey from mine to refinery. An external assessment process is designed to assure compliance with the standard.<sup>3</sup>

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<sup>3</sup> [http://www.gold.org/about\\_gold/sustainability/conflict\\_free\\_standard/](http://www.gold.org/about_gold/sustainability/conflict_free_standard/)

## **Dodd Frank Wall Street Reform and Consumer Protection Act**

Created as a response to the financial crisis which occurred in 2008, the Dodd Frank Act was designed to regulate the American financial sector. Adopted by US Federal Law, the Act imposes significant restrictions and new legislation to those involved in financial services.

Precious Metal Trading was included in the reform, affecting the trade of gold as one of the '3TG' metals (tin, tantalum, tungsten and gold).

Gold from designated conflict sources is prohibited and companies must demonstrate that they have observed due diligence in ensuring they do not source from conflict zones. Where necessary, companies must produce 3<sup>rd</sup> party verification of this information.

## **London Bullion Market Exchange (LBMA)**

The LBMA 'Responsible Gold Programme' requires that all 'Good Delivery' members comply with guidelines designed to add greater transparency, based on the framework of the OECD guidelines as well as international anti-money laundering principles.

LBMA were involved in drafting the Gold Supplement for OECD and acted as a co-facilitator for the Drafting Committee as well the OECD Interim Governance Group which is responsible for OECD Implementation.

Audits will initially be voluntary for the 2011 production, however they are mandatory for the 2012 production. The LBMA has recently released its Third Party Audit Guidance which provides auditors with guidance in conducting Responsible Gold Audits.

The Good Delivery specifies standards which must be adhered to by the refiner accredited by LBMA.

These are outlined as follows: <sup>4</sup>

- *Have an established track record of at least three years of producing the refined metal for which the listing is being sought*
- *Produce a minimum quantity of refined metal per year – 10 tonnes of gold and 50 tonnes of silver*
- *Have a tangible net worth of at least £15 million equivalent*
- *Furnish evidence of their ownership structure and directors*
- *Provide, if required, a suitable letter of endorsement, e.g., from the central bank or an acceptable commercial bank in their country of operation*
- *New Requirement: successfully pass a Responsible Gold Audit*

The LBMA is now looking at ways to assist Bullion Banks in meeting their responsible sourcing requirements from the OECD Guidance.

## **Gold Standard**

A UK initiative which launched in 2012, the 'Gold Standard' is a voluntary set of guidelines aimed at retailers to promote due diligence when buying second hand gold over the counter from customers in 'cash for gold' schemes. The N.A.G, BJA and the

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<sup>4</sup> [http://www.lbma.org.uk/pages/index.cfm?page\\_id=4&title=good\\_delivery](http://www.lbma.org.uk/pages/index.cfm?page_id=4&title=good_delivery)

National Pawnbroking Association collaborated with the Trading Standards Institute, the National Measurements Office and the Association of Chief Police Officers in the development of the charter, seeking to reduce criminal activity around the over-the-counter sale of gold in Britain.

In following these voluntary protocols, retailers can avoid playing an unwitting role in illicit gold sales. Principles behind the initiative are:

- Ensuring and communicating accurate weights and measures
- Verification procedures ('know your customer') and record keeping
- Signature from the customer to acknowledge legitimate ownership of the gold for sale
- Retention of records and informing police of dubious activity

Whilst due diligence on this local scale specifically targets criminal activity, it never-the-less provides a solid set of good habits for retailers who do purchase second hand gold. What's more, although voluntary, it is able to be readily implemented into existing businesses and also lends itself to be adopted by gold trade counters, or small refiners.

This initiative goes some way to addressing the basic issues of money laundering, criminal finance through gold sales, security, infrastructure and transactional record keeping. Indeed, it shares many of the same objectives as LMBA, Dodd Franks and WGC. The key difference is that this is a voluntary 'code' which is neither enforced nor audited.

A concern when adopting any new regulation is the unintended negative consequences of a sudden enforcement of standards. Without due consideration or appropriate 'gestation' periods these types of standards can, in implementation, fail vulnerable individuals or businesses, create unsustainable levels of bureaucracy or drive unwanted behaviours further underground and thus exacerbate the problems.

However, as it remains a criminal offence to handle or sell stolen goods in the UK, there is every incentive for retailers to take such sensible measures to protect their own integrity.

### **Extractive Industries Transparency Initiative (EITI)**

EITI is a multi-stakeholder platform including participants from government, civil society, oil, gas and mining companies and investors. 37 countries implement the EITI standard, which is designed to ensure the citizens of resource-rich countries benefit from their natural resources. The transparency initiative seeks to eradicate conflict and corruption in the extractive industries and improve governance of natural resources. A key feature of this is the 'Publish What You Pay' programme which reconciles and verifies the taxes and royalties paid by extraction companies with the government's disclosure of those payments. An international secretariat is responsible for maintaining the standard. The EITI rules highlight the positive economic benefits of revenue generated from natural resources as means of poverty alleviation, through sustainable development, environmental stewardship and accountability. A multi-stakeholder group in each country (including civil society) is responsible for overseeing compliance, with a requisite for the publication of public reports and financial audits of accounts to international auditing standards.

## Roadblocks to Transparency

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Initiatives to improve supply chains and transparency ranging from government 'top down' approaches, through to Fairtrade's grass-roots level projects are all designed to strengthen efforts for a responsible gold industry.

Whilst these make significant improvements at critical points in the supply chain, vulnerabilities and weaknesses still exist which can present risk factors.

The industry has created self-regulation measures at some of the highest corporate levels with a focus on due diligence; addressing conflict issues, money laundering and Chain of Custody practice.

At the other end of the spectrum, although comprised of fragmented and complex architecture, ASM has not only become recognised as a significant contributor to current gold supply chains, but may have accelerated the whole industry's understanding of how best practice could be shaped as a high value economic driver in the developing world.

Notwithstanding these improvements, gaps and risks still exist in the levels between the highly organised and formal trade routes (such as those demonstrated by LBMA members, for example) and the smaller gold traders who depend on cash-systems rather than fully audited electronic banking, or who accept and process gold from unknown or ambiguous sources.

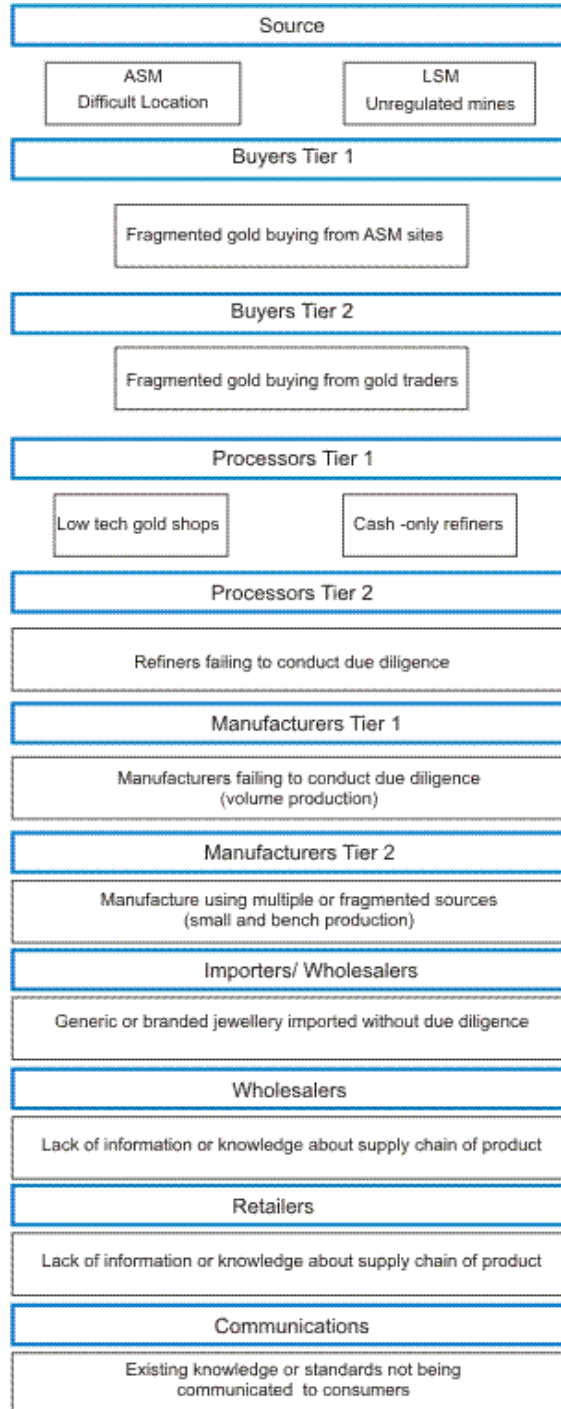
Information Bottlenecks can be characteristically found at the following points:

- Source ASM: locations may be inaccessible, remote and/or dangerous for foreign buyers and reliant on local knowledge and local land governance (for example; tribal).
- Source LSM: LSM's both owned by foreign nationals *and* operating in countries *neither* of which are EITI members (for example a Chinese owned mining company operating in Madagascar), or some non- members of WGC.
- Buyers Tier 1: Multiple gold buyers selling from ASM miners: may collect gold from numerous ASM sites, to process into doré bars at or close to site.
- Buyers Tier 2: Gold shops situated in a townships with mining sites around it buying from multiple buyers, from multiple ASM mines: May purchase gold from numerous buyers who each source from numerous different mines.
- Processors Tier 1: Processing of primary gold without formalised structures - low tech and low cost methods (such as amalgamation of gold using mercury, may be carried out by miners or by the 1<sup>st</sup> tier buyer who collects their gold) and/ or local gold shops who may process the gold into doré.
- Processors Tier 2: Refiners who do not conduct due diligence and/or make cash purchases of gold.
- Manufacturer Tier 1: Manufactures who do not conduct due diligence on their refiner or immediate gold supplier.
- Manufacturer Tier 2: Bench-working goldsmiths who purchase gold or alloyed products from a variety of sources, without conducting due diligence on their immediate suppliers
- Importers and distributors: supplying branded or generic jewellery items to wholesalers without knowledge of the country of manufacture of the goods, and/or do not conduct due diligence on their suppliers.
- Wholesalers: who supply goods to retailers without knowledge of the country of manufacture of the goods and/or who fail to carry out due diligence on their immediate suppliers.



- Retailers: who have no knowledge or access to 'due diligence' information about their products or the brands they stock, or those who operate cash-for-gold schemes.
- Communications: of Best Practice standards which refiners are already implementing not being effectively communicated from the refiner to the manufacturer and on to the retailer.

*Examples of Bottlenecks Illustration:*



## Risks in Supply

These gaps in transparency represent risks including the following:

Risks	Examples	Sources Affected
Security	Abuses by employed security forces (e.g. at site of extraction, affecting employees or community) including physical and sexual abuses. Armed groups (rebel forces, public or private security forces) acquiring funds derived through gold production.	Primary
Money Laundering	Failure to conduct thorough checks on provenance ('due diligence') and/or failure to verify information through chain of custody evidence. Activities can be used to finance criminal or terrorist activity, or fund bribery and corruption. <sup>5</sup>	Both primary and second hand
Criminal	Misrepresentation of the circumstances or origin (for example, by theft) of production (for example from an illegal source), or illegal transport routes, illicit gain.	Both primary and second hand
Tax/royalty avoidance and Corruption	Smuggling or failure to declare or pay adequate taxes, duties or royalties to governments for extraction, export, import and processing..	Both primary and second hand
Human Rights	Use of child labour, forced labour or bonded labour. Exploitative or unsafe working conditions, failure to protect or respect people who may be affected by activities, as per UN Guiding Principles on Human Rights <sup>6</sup>	Both primary and second-hand
Environment	Failure to assess, report on or mitigate environmental harm. Lack of accountability or irresponsible practices in mining or processing. Inadequate financial provision for environmental remediation post-mining.	Primary
Community	Displacement, irresponsible use of natural resources (e.g water), lack of provision for remediation or agricultural land rehabilitation, lack of exit strategy. Failure of CSR promises to communities. No 'Free and Informed' prior consent sought from communities before mine license issued.	Primary
Political	Lack of transparency of relationships between government and mining companies. Failure to disclose or publish payments from companies to governments. Non-transparent lobbying by mining companies of governments. Bribery and corruption of government officials by mining companies Lack of corporate transparency over use of sub contractors or lack of public accountability when things go wrong. Political instability or changing political situations affecting safety of a mining company's employees or the community in which they operate, availability of law enforcement, any resulting military action or decline of social conditions. Political tensions which affect relationships with the surrounding community.	Primary

<sup>5</sup> HM Revenue and Customs define money laundering as follows:

"Money laundering is the process by which criminally obtained money and other assets (criminal property) are exchanged for 'clean' money or other assets with no obvious link to their criminal origins.

Criminal property may take any form, including money or money's worth, securities, tangible property and intangible property. It also covers money, however come by, which is used to fund terrorism.

Money laundering activity includes:

- acquiring, using or possessing criminal property
- handling the proceeds of crimes such as theft, fraud and tax evasion
- being knowingly involved in any way with criminal or terrorist property
- entering into arrangements to facilitate laundering criminal or terrorist property
- investing the proceeds of crimes in other financial products
- investing the proceeds of crimes through the acquisition of property/assets
- transferring criminal property"

<sup>6</sup> <http://www.un.org/apps/news/story.asp?NewsID=38559&Cr=human+rights&Cr1=>

These risks are not isolated to any particular single source, mining operator or country. In some instances, poor on the ground management of an extraction site could result in any or even all of the above realities. Subsequently, these present not only a brand threat to companies involved with that source (who risk being publicly identified by NGO or media reports), but in fact creating a widespread mistrust which sweeps to the consumer-facing retail sector.<sup>7</sup>

Recent examples of media representation include BBC's 'Dispatches' documentary 'The Real Price of Gold' which saw businesswoman Deirdre Bounds challenge jewellery retailers to explain where the gold in their supply chains comes from. The programme went on to film examples of child labour ASM in Senegal and made secret undercover filming of UK gold refiners.

Aside from criticisms of sensationalism and questions over the accuracy or integrity of the programme, there is no doubt it caused concern about the public's perception of the fine jewellery industry at a time when sales of gold jewellery are already in decline and retail is particularly challenging. It demonstrates that the gold industry must not be complacent in the pursuit for clarity of source or in the commitment to achieving best practice throughout the supply chain.

However, a further risk exists in rapid implementation of rigorous standards which, whilst seeking to protect brands from negative NGO (and ultimately media) attention, create unintended (but nonetheless negative) consequences for the most vulnerable economies of gold-producer countries. There is a fine line between ethical decision making and political decision making and evidence of the points of separation in these thought processes is beginning to become apparent in other sectors of the jewellery industry.<sup>8</sup>

## **Case Studies - Supply**

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### **Case Study 1 Hoover and Strong**

US based bullion dealer Hoover and Strong created branded 'Harmony' metals 100% recycled gold with an annual audit certification scheme provided by Scientific Certification Systems (SCS).

SCS has also certified Hoover & Strong as a Responsible Refinery.

Hoover and Strong offer bullion, mill finished and cast products, as well as point of sale and promotional material for retailers, product certificates and education tools. Finished bridal jewellery items are available set with conflict free diamonds and fair trade gems.

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<sup>7</sup> 'Gold's Costly Dividend' Human Right Watch

<http://www.hrw.org/sites/default/files/reports/png0211webwcover.pdf>

'Troubled Waters' Earthworks [http://www.miningwatch.ca/sites/www.miningwatch.ca/files/Troubled-Waters\\_Full.pdf](http://www.miningwatch.ca/sites/www.miningwatch.ca/files/Troubled-Waters_Full.pdf)

Memorandum submitted by Latin American Mining Monitoring Programme (L.A.M.M.P) to UK Parliament <http://www.publications.parliament.uk/pa/jt200910/jtselect/jtrights/5/5we54.htm>

<sup>8</sup> Diamonds. net: <http://www.diamonds.net/news/NewsItem.aspx?ArticleID=41352>

## **Case Study 2 EcoAndina**

EcoAndina is an NGO promoting sustainable development opportunities for populations who live in fragile Andean environments.

Their objectives include environmental awareness, development and adaptation of appropriate technologies and energy solutions and the effective use of renewable energies.

In 1988, EcoAndina began activities in the Highlands of Northern Argentina, working in remotely situated communities.

The NGO places emphasis on promoting local development which minimizes the impact on natural resources, preserves biodiversity by fighting desertification, securing water sources and local cultural values.

The primary focus of EcoAndina is sustainable development for the Andean people and their environment. Among their projects on solar energy and renewables, small scale gold mining without the use of chemicals and adhering to fair trade principles was established. The gold is refined in Germany in closed loop small batches.

EcoAndina activities rely on support and collaboration of individuals, institutions, organizations and companies who share their concerns and values.

## **Case Study 3 Eurocantera**

Eurocantera is the Honduran subsidiary of Goldlake group, a London headquartered mining company with gold exploration licenses in South America.

Eurocantera is a small alluvial mining project, using no chemicals in the extraction or processing of gold.

Two thirds of the total production is from semi industrial mining carried out under the company's management. The remaining balance of production comes from artisanal miners (ASM) working on Goldlake's concessions. The ASM miners are organized into legal co-operatives, which Goldlake helped them establish, and have a formal business relationship with the company. Members and families of the ASM co-operatives are also integrated with the company's employee scheme for Health and Safety training and have full access to the medical clinic. The company has made a significant commitment to capacity building, providing the co-operatives with mechanized digging and processing equipment and training them in more efficient and safer production techniques.

Goldlake's Code of Practice promotes positive interaction within the local community, noting cultural sensitivity and respect for human rights and environmental protection as their key objectives.

Primary school education is provided for all children of employees, as well as for local children in the community. Education material and equipment is provided for all pupils, as well as food and accommodation for teaching staff. Education also extends to community health initiatives and a medical clinic is available at the mine site. Eurocantera has also improved local infrastructure with the creation of potable water facilities and construction of roads to connect isolated communities to arterial routes.

Gold is refined in Italy using closed loop systems to create a mine to market product that is sold to the luxury jewelry market in Europe. Cartier sources gold from Eurocantera.

Eurocantera is an RJC member and is in the process of being certified to the RJC Code of Practices standard.

#### **Case Study 4 Scotgold**

Scotland's first commercial gold mine has been granted permission to begin extraction in a rural mountain location of Scotland. This landmark decision to allow extraction caused a great deal of controversy due to the mines location on the border of national park land.

Successful approval was ultimately gained by demonstrating a commitment to use of the some of the most advanced technology and methods available, as well as in-depth consultations with the park's authorities

Scotgold succeeded in achieving a balance of commercial activity with environmental responsibility and community beneficiation as core values.

Indicators show that there could be up to 169,200 ounces of gold and 631,000 ounces of silver present. It is due to become functional in 2013/2014.

Extraction will take place using gravity and floatation methods. Most of the ore is currently earmarked for processing out with the UK (for example, Belgium), due to the disproportionate capital required to establish such a processing plant locally. However a percentage of the gold can be successfully processed at the mine site into doré bars which can then batch refined. This could be made available to jewellers as a premium branded Scottish gold product.

#### **Case Study 5 Oro Verde**

Oro Verde is the brand name for a mining collective created for and by around 112 gold mining families (some 1300 miners) in 2000. A predominately Afro-Colombian community, located in the Choco region of Colombia, Oro Verde has worked closely with local community councils together with NGO alliance.

The region extends an area of 187,400km and is described as a 'world reservoir of biodiversity' and considered 'the most bio-diverse region on the planet.'<sup>9</sup>

Gold and platinum are extracted using alluvial panning techniques, without the use of cyanide or mercury. The gold is produced under strict environmental standards and land rehabilitation forms a critical requirement of the programme. Restoration of top soil and vegetation means the landscape can recover and return to its original rich bio diverse state.

Oro Verde was the inspiration for the creation of the Alliance for Responsible Mining (ARM) in 2004.<sup>10</sup>

The programme was certified as a Fairtrade and Fairmined producer in 2011 and remains the only project selling ecologically certified metal produced without the use of harmful chemicals.

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<sup>9</sup> [http://www.greengold-oroverde.org/loved\\_gold/](http://www.greengold-oroverde.org/loved_gold/).

<sup>10</sup> <http://www.communitymining.org/index.php/en/colombia/oro-verde-green-gold>

## Comparison of domestic UK programmes vs. international programmes

International initiatives	UK initiative/ delivery platform
Hoover and Strong 'Harmony ' 100% recycled	Cookson Gold's 'Eco Gold' 100% recycled
Eco Andina ethical gold, no chemicals	
Fairtrade and Fairmined gold	Number of UK distributors for license holders
Eurocantera small scale mine- environment and community improvements	Scotgold Scottish gold mine, environmental responsibility and known provenance

### **Risks in Retail**

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In order to achieve profit and retain business, fine jewellery retailers are reliant on consumer confidence in the gold sector. In luxury goods, the worth of the product lies well beyond the price per gram of gold at any given time. Factors such as design, craftsmanship, gem specification, branding and trends all add value to the item. However, at no point does it become an essential purchase for consumers. The most critical factor of all is that jewellery is purchased with emotive, sentimental or status values which extend far beyond any material value. Particularly in the case of engagement rings, the purchase often signifies an offer of love as well as representing a promise of financial security and the couples perceived social status.

It's impossible to detach these 'values' from gold jewellery and treat it as the commodity it may represent for investors; therefore despite the laudable and far reaching achievements of each of these standards, audit systems or guidance objectives, a significant gap remains in the communication to the wider retailer sector. When faced with probing questions or even the faintest allusion to negative impacts to communities of making a gold purchase, retailers can only deliver an accurately reassuring response if they have confidence in the entire supply chain.

The Fairtrade Foundation, the Responsible Jewellery Council and the World Gold Council have all produced literature and point-of-sale for retailers to assist with communication.

RJC membership is currently represented by a majority of large corporations and retail chains. Although increasing, independent retailer membership remains in the minority, therefore industry-wide initiatives may still fail to be prominently or effectively communicated to small business owners.

Particularly noticeable is that whilst the membership of independents and small to medium sized retailers is increasing within RJC; precious metal refiner members remain heavily dominated by international corporate members.

This leaves a large loop-hole for non-compliance with any of the standards by the smaller gold refining operations, 'gold shops' and small trade counters which operate largely unregulated and a further shortfall in how their retail clients can demonstrate responsible sourcing to their ultimate customers.

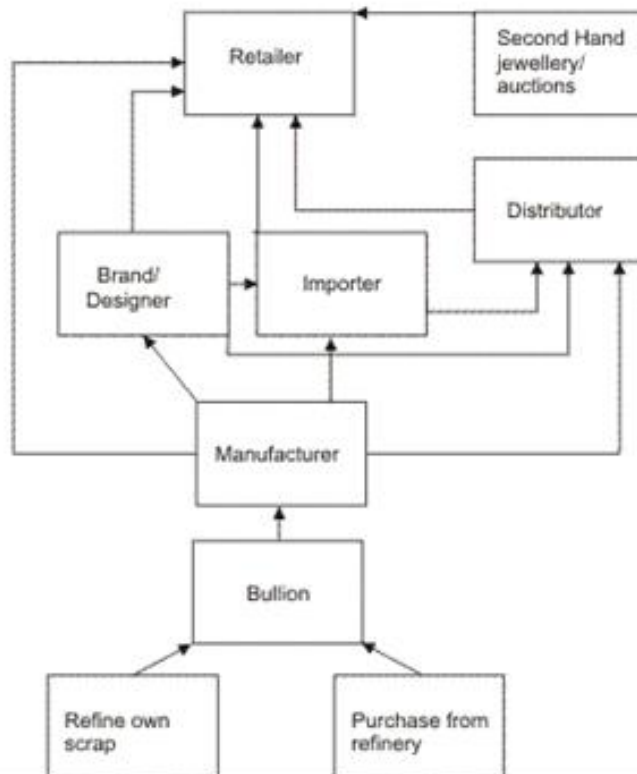
For small retailers it is an arduous and time intensive task to try and make an informed assessment of each finished jewellery product, particularly as some may be of British manufacture, but many will of which be imported.

In order to avoid creating further audit fatigue for participating companies, it would be attractive to explore the potential for 'joined up thinking' with existing standards, and carefully consider the necessity to create more.

Businesses trading in Fairtrade and Fairmined gold must register with the independent audit body, FLO-Cert, who is responsible for auditing companies against the Standards. Volumes of gold bought and sold are monitored to ensure that the Fairtrade minimum price and premium is paid and that the equivalent number of finished products are marked with the Fairtrade and Fairmined dual stamp.

In Britain, jewellery manufacture is a small industry taking place in a few casting houses and in multiple studios and workshops around the country. The benefit of this is the unique opportunity for those producing jewellery within the UK to directly influence their British suppliers and counterparts and implement steps to transparent and responsible sourcing. Britain also benefits from international recognition of our assay offices as the final 'label' for consumer confidence and product integrity of gold purity.

## Example Reversed Supply chain (Retail)



## **Beyond Auditing**

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Values of transparency and shared commitment to addressing poor working conditions, human rights abuses or environmental impact stewardship can be effective ways of improving supplier/ buyer relationships and can make significant progress in achieving sustainable and responsible business practice. Creating a formalised platform of greater transparency, traceability and accountability means creating a business model which engages suppliers and seeks their cooperation, rather than simply places demands on them to allow 'policing' of their business. The more transparency is achieved, the less digging for evidence and subsequent audit systems are required.

Caution should be exercised against the practice of 'green washing', where false or exaggerated claims of CSR achievements are prime targets for NGO or media investigations.

Conversely, 'green hushing' should also be avoided, where brands that have made real progress and successfully implemented positive change still attract negative press due to their failure to communicate these effectively.

The decision to take steps towards becoming part of a responsible supply chain, to acknowledge the imperfections which are a part of our industry (whilst refusing to accept them) and to commit to transparent integrity is one which requires businesses to become informed. It also takes commitment to considered action once the information is accessed. The consistent delivery of 'continual improvement' is a simple yet effective strategy.

## **Conclusion and Recommendations**

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### **Sources**

#### **i) Primary Gold**

Observing existing standards for best practice in LSM, along with the Fairtrade and Fairmined label gold for ASM, effects a robust and credible system for primary gold entering the market.

RJC have recognised Part A of the Fairtrade and Fairmined Gold Standard relating to producer requirements, engaging with ARM to scope out how a responsible supply chain, merging both their approved LSM sources and certified ASM could look for RJC members.

However, only gold traded by businesses fulfilling the requirements of both Part A and Part B of the Standards can be certified as Fairtrade and Fairmined and marked with the dual stamp.

Small 'closed-loop' batch refining systems already exist for Fairtrade Fairmined gold in the UK. This process is important to any primary gold source seeking to retain credible claims of provenance.

Branded gold or gold which is sourced from a notable provenance presents a possible opportunity for jewellery retailers to tell a story around their supply chain and could offer valuable tools to connect with consumers. In the same way that consumers value the heritage of a luxury brand and the artisans who are responsible for the creation of the jewellery item itself, understanding the care and respect which has gone into both the



sourcing and the 'alchemy' of producing the gold works to reinforce the high standards which can add value to the whole brand and product range.

As an example, Canadian diamonds have become successfully positioned as 'clean' choice for diamond mining and are accepted as one option for those seeking a 'do no harm' origin for their goods.

Additionally, Canada as a country may be positively perceived as a clean, healthy country where manners and 'old fashioned values' remain important. There is a mixed cultural and ethnic dimension; the image of native peoples as well as French and Scottish influence. Canada is known as having a vast and dramatic landscape; and an 'undiscovered territory' element. This is an 'unknown' landscape which is home to wild bears and diverse wildlife, yet it has familiar connections with many Brits via a history of emigration. It's 'Safe'; politically stable, affluent and accessible.

Similarly, US founded Namibian diamond brand 'Kalahari' promotes the romance of the Kalahari desert with the bio-diversity and ethnic diversity of Namibia, against the positive impacts of their activities for local crafts-people (by having all their diamonds polished in the country of origin).

### **Recommendation #1**

*In creating a distinctive brand value around source, jewellery companies have an opportunity to bridge the information gap between source and consumer, whilst adding a new value dimension for their shareholders.*

Jewellery retailers who occupy more commercial or 'bread and butter' positions businesses may not have the dedicated resources for either mine to market strategies, nor marketing. However, these retailers carry products which are purchased with the same sentiment and emotional connections as the large luxury brands. Their customers may not seek them out for their ethical reputation or heritage credentials but rather for convenience, locality or price.

As ethical language becomes more familiar in a high street context (for example in fashion or apparel), consumers are developing a more sophisticated awareness of 'sweat shop' conditions or 'blood diamond' issues. It's equally important to factor in assurances for these businesses, many of whom are stockists for branded goods and who may play no part in the manufacture process themselves.

High street brands such as Pandora have taken up a pro-active position in their supply chain management, with a Code of Conduct which they issue to their suppliers and sub-contractors. Brands who take up this responsibility and subsequently communicate it to their stockists ensure that retailers have access to clear objectives and claims.

### **Recommendation # 2**

*Ask suppliers if they have a Code of Conduct or if they publish a CSR (corporate social responsibility) report.*

## **Non-branded manufactured goods**

Generic jewellery items are harder to trace, as they may travel through a variety of distribution routes prior to reaching the retailer. However, it's unlikely that no traceability exists and it should be possible in the main to identify British made goods from imported goods. Going far enough back through the supply chain, it should be further possible for

a supplier to distinguish the last country of export of products, through shipping documents.

UK VAT registration numbers or Companies House Numbers can be requested from suppliers and checked to ensure legitimacy. Even if the UK business is an importer only, it will be subject to fiscal processes.

**Recommendation #3**

*Create new protocols including Know your Counterparty and Due Diligence. Request VAT and/or Companies House registration documents before opening an account with a new jewellery supplier and check these are legitimate. Use the Gold Standard guidelines for buying gold from both consumers and small refiners.*

**Recommendation #4**

*Ask suppliers about country of origin, production, or last country of export for finished product.*

**British Manufactured Goods**

In the case of British manufactured goods, suppliers may be able to provide full details of the purchase policy of their manufacturing or casting house or their own purchase - point of the gold. A system of warranties can be used to create a chain of custody which does not threaten commercially sensitive information.

In the diamond sector, the KP (Kimberley Process) requires a statement to be included on every invoice from the rough diamond origin through to the setter and retailer.

The system of warranties statement is as follows:

*"The diamonds herein invoiced have been purchased from legitimate sources not involved in funding conflict and in compliance with United Nations resolutions. The seller hereby guarantees that these diamonds are conflict free, based on personal knowledge and/or written guarantees provided by the supplier of these diamonds."*

Using a similar system of statements on invoices for gold products to the KP, jewellers could create a 'good will' process with their suppliers and request this is passed back down through the supply chain. However, without the ability to demand evidence of these claims they are hard to substantiate without audits.

Cookson Precious Metal's 100% recycled branded 'Eco Gold' is one system which exists in the UK, using exclusively second hand gold. All invoices for Eco Gold state:

*"Ecogold is produced using a fully audited process to guarantee that the product you have purchased is made from 100% recycled gold."*

Major volume customers are required to sign a Declaration of Custody, which will make them responsible for controlling the traceability and segregation of their Ecogold. They may also be audited (the costs to be met by the customer).

All other customers must accept the Terms & Conditions before they can order Ecogold.

Cookson have a consumer 'recycled' mark which can be applied to finished gold jewellery items at assay.

Through exercising the benefits of the mutually recognised audits LBMA, RJC, EICC, GeSi, CFS due diligence in the processing of gold in the UK (and in some European locations) can also be assured in the refining process.

With a clear definition of scale (by annual turnover or scale or by volumes) smaller gold traders and retailers who handle second hand gold but are not within membership of LBMA or RJC could be included in a mine-to-market responsibly accredited gold chain by implementing the N.A.G/BJA/NPA Gold Standard in their transactions.

ISO2600, ISO14001, ISO 19011 and SA 8000 can provide a framework for social, environmental and conflict management accountability for refiners and those who fabricate gold from both primary and second-hand sources.

Importantly, there is potential to promote British designed and British made jewellery which are end users of an accredited refinery programme or which use Fairtrade and Fairmined gold.

**Recommendation #5**

*Create a system of warranties for UK manufactured goods in the British Jewellery sector and require trade customers to sign a custody declaration. Communicate 'Best Practice' standards which are being achieved to retailers.*

**Recommendation #6**

*Create Industry agreement on guiding principles and a framework of critical auditable standards for refiners. Develop a consumer mark for use in the UK which can be applied to gold using gold from refiners who are compliant with these principles.*

*Consider using innovations such as apps and social media to promote these to a wider audience.*

**Recommendation #7**

*Sign up to a programme such as RJC or Fairtrade and Fairmined for all international sourcing, or look for RJC members or compliance with Fairtrade and Fairmined auditing standards when sourcing new products.*

The issue of audit fatigue and compliance bureaucracy is one which affects many industries. Gold and jewellery is a sector which has only relatively recently been affected by CSR awareness and subsequent changes in consumer behaviour. As well as seeking external accreditation, strong and pro-active supply chain management can mean incorporating positive expectations of suppliers, fostering good behaviour and integrating developmental objectives into day to day operations.

Those involved in the trade and refinement of gold have a crucial part to play in achieving consumer confidence throughout the supply chain.

**Recommendation #8**

*Refiners communicate the standards they are already working to more effectively with their customers and provide education material and workshops for the trade to explain how they are achieving 'Best Practice'.*

**Recommendation #9**

*Refiners take an active role in the development and creation of new standards, EU directives and a lead role in achieving greater transparency, referencing OECD guidelines as a founding formula.*

**Recommendation #10**

*Fairtrade Foundation focus on promoting how to improve access to FTFM gold for jewellers and, in particular, dedicate resources to raising consumer awareness.*

**Communication: Table of Available Standards**

Using information readily available from a selection of refiners with sales and distribution facilities in the UK, the following table shows the information which each communicates on their UK website. This is not exhaustive and the refiners may meet with additional standards or hold memberships with further organisations. However, this demonstrates the information which is readily communicated and immediately accessible.

	BAIRD & Co	COOKSON	METALOR	JOHNSON MATTHEY	BETTS	UMICORE	CAPELLA	THE GOLD BULLION COMPANY (TGBC)
UK SALES/ DISTRIBUTION LOCATIONS	LONDON, GLASGOW & ONLINE	BIRMINGHAM & LONDON	BIRMINGHAM	HERTFORDSHIRE	BIRMINGHAM & ONLINE	DISTRIBUTED BY TGBC	DERBYSHIRE	ONLINE
GOLD BARS 24CT	*	*	*		*	*	*	*
FABRICATED GOLD/ ALLOYED	*	*	*		*		*	
RJC MEMBER		*	*					
WGC MEMBER								
LBMA	*	*	*					
NAG MEMBER								
BJA MEMBER		*	*		*			*
FTFM LICENSEE		*					*	
BRANDED GOLD		*					*	*
ISO 2600								
ISO 14001		*	*					
ISO 19011								
ISO 9001		*	*					
OHSAS 18001		*	*					
RECYCLING						*		
SUSTAINABILITY			*	*		*		
ENVIRONMENT		*			*	*		
HEALTH AND SAFETY		*	*	*		*		
COMMUNITY				*				
GLOBAL 100						*		
DUE DILIGENCE POLICY			*					
CALIFORNIA TRANSPARENCY IN SUPPLY CHAIN ACT			*	*				
BUSINESS ETHICS POLICY			*	*				
REACH			*	*				
CUSTOMER ID REQUIRED	TRANSACTIONS OVER £5K		*					
STATEMENT ON INVOICES		*						
DECLARATION OF CUSTODY		*						
RETAIL SUPPORT MATERIAL/POINT OF SALE ETC		*						

## **Concluding Remarks, by Simon Rainer, CEO of the British Jewellers' Association**

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Meeting with leading members of Civil Society, including PACT, Earthworks, WWF, Global Witness and Human Rights Watch, provided us with the direction to focus on supply chain transparency with the additional requirement to encourage industry self-regulation.

Through bodies such as the World Gold Council, ISO, RJC, ICMM (International Council on Mining and Metals), OECD, Fairtrade Fairmined, LBMA and IRMA self-governance and industry initiated improvement is already well underway

Let us not forget that there are 15 million artisanal gold miners worldwide, sustaining a further 85 million people.

The dichotomy we face is whether to only play safety first and avoid all areas of conflict, or to work with civil society, industry and government so that our industry can effect positive change where it's most needed.

The OECD, or Organization for Economic Co-operation and Development, is a collection of 34 member countries (including 18 European states, USA, Canada, Japan and Australasia) working together to stimulate economic progress. The OECD also works with Russia, China and Brazil.

To quote from the OECD guidelines: "the guidance provides step by step management recommendations endorsed by governments for global responsible supply chains of minerals in order for companies to respect human rights and avoid contributing to conflict".

Even the USA's SEC makes reference to the OECD in the Dodd Frank Wall Street Reform and Consumer Protection Act – importantly a government controlled scheme as opposed to an industry self regulating scheme, that will now restrict and regulate the sourcing of tin, tantalum, tungsten and gold from the DRC.

A particularly important area in the UK jewellery sector has been the work of the Fairtrade Fairmined concept – that although not sourcing from areas of conflict, does work with the local population to reinvest in community infrastructure and welfare programmes.

Globally however, there is not enough primary source gold coming out of the ground to satisfy demand. Net gold supply has been static for the past decade and large scale high grade deposits are rarer than ever. In a recent Wall Street Journal article, it was estimated that at current production rates all known gold reserves would be depleted within ten years. The New Scientist reports a more conservative 45 years.

70% of 2011 gold demand was met by the supply of primary sourced gold  
The balance of 30% was met by the supply of recycled gold.

As an industry we have witnessed spectacular price hikes in the gold price over the last few years. Whilst there are complex reasons for the price surge which are not specifically relevant to this paper, it is important to take on board the economic necessity for recycled gold to be in the supply chain. Without this source of supply, gold prices would be much higher.

However and most importantly, recycled gold ticks a lot of boxes regarding transparency and traceability of its supply chain- the ethics committee has met with some of the UK's leading refiners and were surprised by the very stringent self imposed regulations that

they work to, many of which have been endorsed by independent assessment and certification bodies.

Many of these companies also work to rigorous track and trace, best practice and continuous improvement practices programmes.

From the work we have undertaken we can confidently conclude that up to 90% of UK manufactured jewellery uses recycled gold.

If we are to supplement this figure by the increasing supply of Fairtrade Fairmined gold, the UK jewellery industry has a lot to be proud of in the responsible sourcing of gold.

The sooner we get this message across to the retailer and consumer the better.

## Glossary

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- **Amalgamation:** Specifically gold amalgamation meaning to draw the gold content from ore using mercury to produce an alloy of gold within mercury (an 'amalgam')
- **Aqua Regia:** A corrosive mixture of nitric acid with hydrochloric acid which dissolves gold.
- **ASM:** Artisanal and Small Scale Mining
- **BBC:** British Broadcasting Corporation
- **Bench working goldsmiths:** Practitioner goldsmiths who produce jewellery at the bench, using fabrication techniques, as opposed to casting operations.
- **Best Practice:** a method or set of practises which has demonstrated the most successful or desirable results within an industry or in a technical application
- **BJA:** British Jewellers' Association
- **Business Ethics Policy:** a commitment made by a business to a series of procedures and values which may be based on national or international law as well as providing a frame work for how the business (and in some instances its suppliers) should behave
- **California Transparency in Supply Chain Act:** An act which came into effect in 2012 requiring businesses who pay taxes and who are doing business in California to comply with a five point accountability report on responsible sourcing, training, auditing and certification
- **Canadian Diamonds:** Diamonds mined in Canada, some are provided with a government issued certification of origin and some are sold as brand names
- **CFS:** Conflict Free Smelter programme
- **Chain of custody:** Chronological documentation and evidence which shows the movements, transfer and custody of materials
- **CIBJO:** Confédération Internationale de la Bijouterie, Joaillerie et Orfèvrerie, most commonly known as the World Jewellery Federation
- **Civil Society:** A collective of individuals with shared beliefs who exist out with government or state, households and markets with the expectation to freely discuss and debate topics and where possible influence change on public thinking or policies which affect any of the aforementioned subjects. Examples are NGO's, community pressure groups, religious groups or neighbourhood schemes
- **Code of conduct:** A set of binding guiding principles in which a business may communicate expectations and behaviours expected of employees, suppliers, contractors etc
- **CSR:** Corporate Social Responsibility
- **Declaration of Custody:** A formal documentation of receipt of goods or materials

- **Due Diligence Policy:** A policy detailing how to prudently investigate and make informed assessment of the obligations and ability to fulfil these of a 3<sup>rd</sup> party. This may include investigating, for example, the authenticity of a business, any risks it directors may pose or the legal status of the business in question
- **EICC:** Electronics Industry Citizenship Coalition
- **EITI:** Extractive Industries Transparency Initiative
- **FJA:** Fair Jewellery Action
- **FTFM:** Fairtrade and Fairmined (gold)
- **GEM-A:** Gemmological Association of Great Britain
- **GeSi:** Global E-Sustainability Initiative
- **GLOBAL 100:** Annual project initiated by Corporate Knights Inc. (a Canadian media, research and finance company for 'clean capitalism') who publish through their magazine and website a list of data-driven corporate sustainability assessments for a select group of the top 100 large-cap companies in the world
- **Global Reporting Initiative:** An NGO which creates and communicates voluntary reporting guidelines for sustainability for global us
- **Gold Standard:** Initiative created by N.A.G, NPA, BJA and Surrey Police force to protect consumers and businesses against the trade of stolen jewellery
- **Good Delivery:** LBMA specifications which define the rules on the physical properties and appearance of acceptable gold bars for its approved refineries.
- **ISO 19011:** Guidance on auditing management systems
- **ISO14001:** Environmental responsibility guidance
- **ISO26000:** Social responsibility guidance
- **ISO9001:** Quality management guidance
- **Kalahari Diamonds;** A signature diamond brand of Finesse Diamonds Corp. for diamonds mined and polished in Namibia. Finesse is a diamond and jewellery manufacturer in the USA and a sight-holder for the Namibian Diamond Trading Company (a joint venture between De Beers and the Namibian Government)
- **Kimberley Process:** A process created by joint governments, industry and civil societies designed to prevent the sale of rough diamonds to fund conflict. An import/export documentation scheme between participating governments to authenticate the origin of rough diamonds and control the movement of diamonds which are from 'conflict' sources
- **LBMA:** London Bullion Market Association
- **LSM:** Large Scale Mining
- **N.A.G:** National Goldsmiths Association
- **NGO:** Non-government organisation
- **NPA:** National Pawnbrokers Association
- **OHSAS 18001:** Occupational Health and Safety standard
- **Pandora:** A jewellery brand with headquarters in Denmark and manufacturing in Thailand, selling in over 65 countries. Specialises in charms and jewellery in silver and 14ct gold
- **REACH:** A European Union Regulation: Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)
- **RJC:** Responsible Jewellery Council
- **SCS:** Scientific Certification Schemes
- [http://www.scscertified.com/docs/Certified\\_Responsible\\_Source\\_Sales\\_Sheet\\_0309\\_12.pdf](http://www.scscertified.com/docs/Certified_Responsible_Source_Sales_Sheet_0309_12.pdf).
- [http://www.scscertified.com/docs/DRAFT\\_SCS\\_STN\\_ResponsibleSource\\_V1-0.pdf](http://www.scscertified.com/docs/DRAFT_SCS_STN_ResponsibleSource_V1-0.pdf)
- **WGC:** World Gold Council

## Participants

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Thank you to the following participants:

- Gemma Cartwright and Victoria Waugh, Fairtrade Foundation
- Patrick Laine, WWF
- Stuart Wibberley, Umicore
- Patrick Fuller, Creative Jewellery Group/ Domino
- Paul Canning, Metalor
- Ruth Crowell, LBMA

The remainder of participants either elected anonymity, or were unavailable to complete a review of the paper therefore their names have been omitted.

The following parties were also consulted:

- Goldlake Group
- Thomas Sieplelmeyer, Eco Andina
- Scotgold Resources

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## Key Observations

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The following points were isolated as key observations during the consultation sessions.

- WGC conducts due diligence from mine to (registered) refiner.
- LBMA oversees and requires auditing of accredited refiners' due diligence conducted on all feed stocks (mined production, scrap, etc.)
- 90% of people employed in ASM mining have access to 10% of the value/revenue. Conversely, LSM actors retain 90% of the value whilst accounting for only 10% of the employment. This equates to approx 60 tonnes of ASM gold per annum (worldwide). \* **Fairtrade Foundation**
- Jewellery consumption in the UK manufacturing industry is considered too low to make significant impact on current gold supply chains.
- 2.7 tonnes of recycled gold is used in jewellery manufacture in the UK.
- There is a significant surplus of 999.9 gold within Europe.
- Around 90% of gold in the UK is refined (not primary source) gold.
- There are 2 grades of scrap gold; high value scrap and low value electronic scrap. 2000 tonnes scrap equating to total of 60 tonnes of fine gold.
- 12 tonnes of fine gold is sold.
- The cost of moving gold around is significant and often prohibitively expensive
- There are significant costs involved in holding gold because its value is fixed in money not in weight.
- Gold which is imported as 'useable' gold attracts VAT.
- Gold which is traded as 'investment gold' does not attract VAT.
- Small gold refiners may inadvertently open loopholes for criminal activity in the UK by accepting gold from unknown (and therefore potentially dubious) provenance and by making untraceable cash payments. However small refiners are dependent on cash-flow and therefore cannot commit to the delays imposed on banks from only non-cash transactions.



- Gold for investment is available in the form of 'small delivery bars' 1kg. These are not required to comply with LBMA 'Good Delivery', which concentrates on larger Investment gold bars only. This is also a black hole for possible criminal activity.
- Unintended consequences: Stringent regulation or government intervention at risk of pushing criminal activity underground and causing further damage to supply chain.
- China may be reluctant to engage with Western firms and prefer, culturally, to deal with known Chinese businesses.
- China also makes up the largest majority producer in electronics industry and has expressed concern in ensuring supply chains are conflict free.
- Metalor and Umicore both are ISO 9001 audited.
- OECD and RJC will work together in the near future.
- Umicore welcome a group of retailers to tour their operation and discuss their accreditations.

### **Other points noted -**

There is little communication to the retailers and consumers about the standards which are recognised or assurance schemes which already exist in the gold industry.

At the time of consultation sessions refiners noted that the audit processes required for the various governance bodies for gold are often duplicated and onerous. This created additional expense and 'red tape' for refiners and gold traders. LBMA and RJC were in the process of discussion on how to alleviate this pressure.

In the period since the consultation sessions the following organisations have agreed to a cross-recognition of audit standards for refined gold:

- LBMA
- RJC
- EICC-GeSi (CFS)

"East Asia, the Indian sub-continent and the Middle East accounted for approximately 65% of consumer demand in 2011. India, Greater China (China, Hong Kong and Taiwan), US and Turkey represented well over half of consumer demand.

India is the largest consumer in volume terms, accounting for 29% of demand in 2011".

*[world gold council*

*[http://www.gold.org/investment/why\\_how\\_and\\_where/why\\_invest/demand\\_and\\_supply/](http://www.gold.org/investment/why_how_and_where/why_invest/demand_and_supply/)].*

In 2011, World Gold Council figures show that world gold demand was approximately 4500 tonnes.

This was distributed as follows:

- 43% was used for jewellery
- 10% for technology
- 37% for Investment
- 10% for Official Sector Purchases
- 70% of 2011 demand was met by the supply of primary sourced gold
- The balance of 30% was met by the supply of recycled gold \*

\* [http://www.gold.org/investment/research/regular\\_reports/gold\\_demand\\_trends/](http://www.gold.org/investment/research/regular_reports/gold_demand_trends/)