



Responsible Jewellery Council (RJC)

Roundtables on Chain-of-Custody Certification initiative

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January-February 2011

Attendees are kindly reminded that the RJC is committed to complying with all relevant antitrust and competition laws and regulations and, to that end, has adopted an Anti-trust Policy Statement, compliance with which is a condition of continued RJC membership.

Failure to abide by these laws can potentially have extremely serious consequences for the RJC and its members, including heavy fines and, in some jurisdictions, imprisonment for individuals.

You are therefore asked to have due regard to this Policy today and indeed in respect of all other RJC activity.

RJC Roundtables on Chain-of-Custody (CoC)

Welcome ...

- Sessions in Vicenza, Geneva, Paris, Antwerp, London, Birmingham, Washington DC, New York
- More sessions planned in India and Asia in March 2011.

Objectives:

- Discuss the draft RJC Chain-of-Custody Standard
- Talk about implementation – what are the challenges, how can we optimise the impact of CoC Certification
- Explore opportunities to harmonise with other initiatives.

Outline

1. **RJC and Member Certification**
2. Chain-of-Custody - drivers
3. Draft RJC Chain-of-Custody standard
4. Optimisation Issues for discussion



Responsible Jewellery Council (RJC)



Membership: Uniquely covers **all** parts of the jewellery supply chain: producers, refiners, traders, cutters and polishers, manufacturers, wholesalers, retailers.

- 261 Members: grown 4.8% per month since July 2005.
- £28.5 billion in annual relevant sales

Auditor Accreditation:

- 90+ RJC Accredited Auditors across 6 firms

Certification:

- 3 Certified Members
- Approx 130 Members to be certified by 31 December 2011



RJC Member Certification – snapshot

What	Standard is the RJC Code of Practices – covers 31 areas of responsible business practices.
Who	Member companies – join and make commitment. Accredited 3 rd party auditors – carry out audit. RJC is standards-setter and grants certification.
How	Members carry out a Self Assessment, followed by a Verification Assessment by auditors.
When	Within 2 years of joining the Council



RJC Standards



Code of Practices

- Responsible business practices
- Claim about the Member **company** – how it runs itself
- *RJC Member Certification* (launched 2009)



Chain-of-Custody Standard

- Responsible supply chain
- Claim about the **product** – where does it come from, how was it made
- *RJC Chain-of-Custody Certification* (proposed)

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Why does Chain-of-Custody matter?

- ‘Blood diamonds’ and human rights issues
 - Criticisms of the Kimberley Process
 - Marange situation
- ‘Conflict gold’
 - Armed groups in eastern DRC
 - Dodd-Frank Act
- Large-scale mining practices
 - ‘no dirty gold’ campaign
- Worker conditions in jewellery pipeline
 - Artisanal mining
 - Manufacturing



Source: USAID

What is a Chain-of-Custody?

A documented sequence of material flows from eligible starting points.



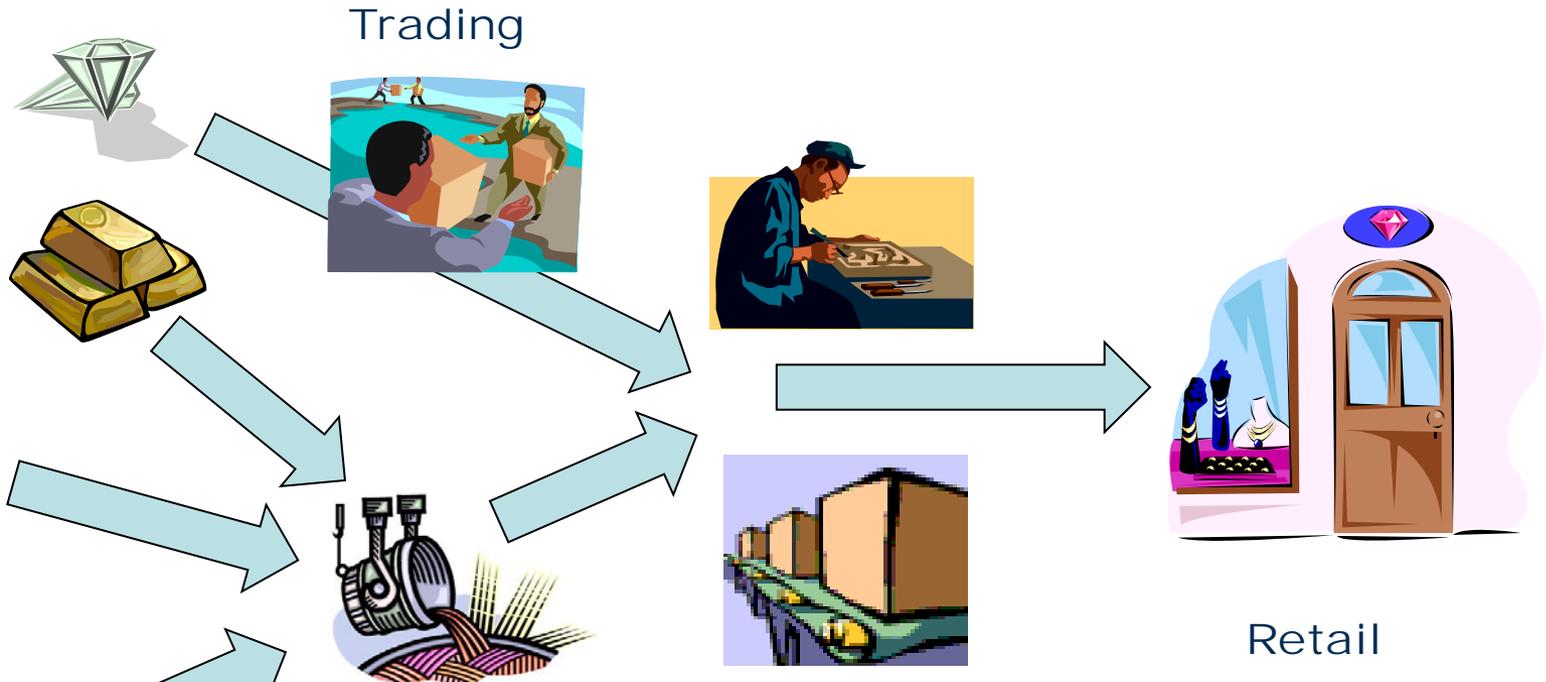
Mine



Bullion



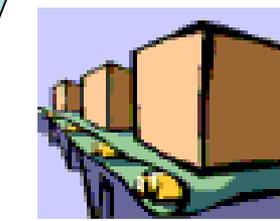
Recycled



Trading



Refining



Manufacturing
(many supply
chains converging)

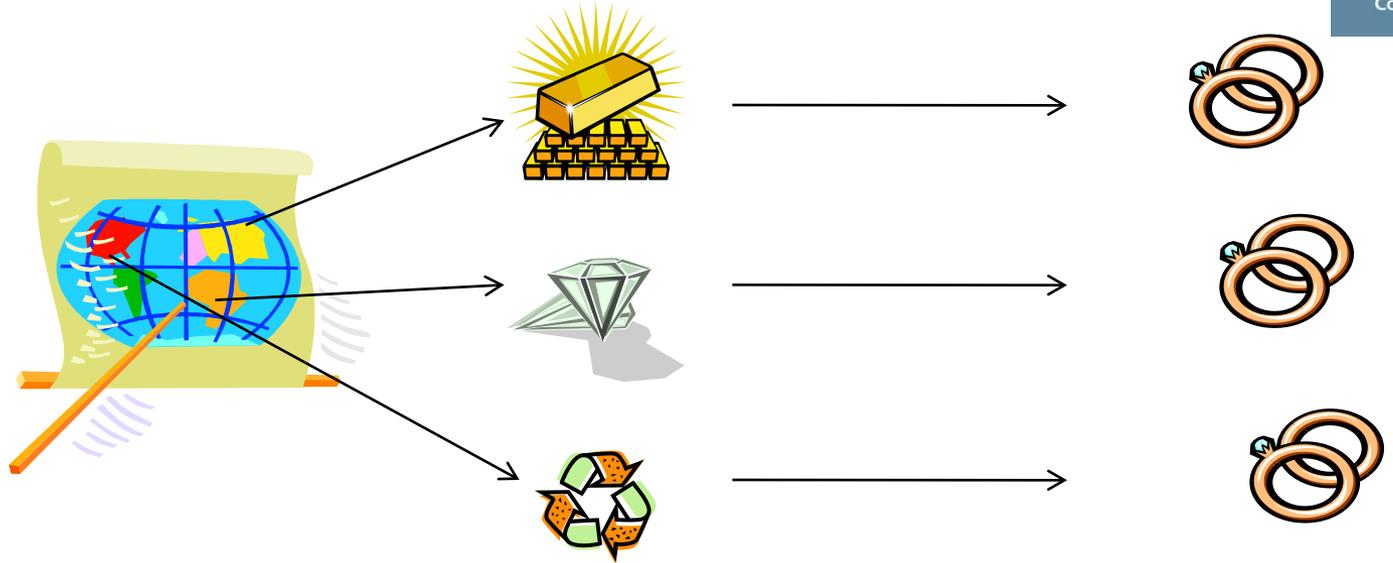
Retail

Chain-of-custody systems – four models

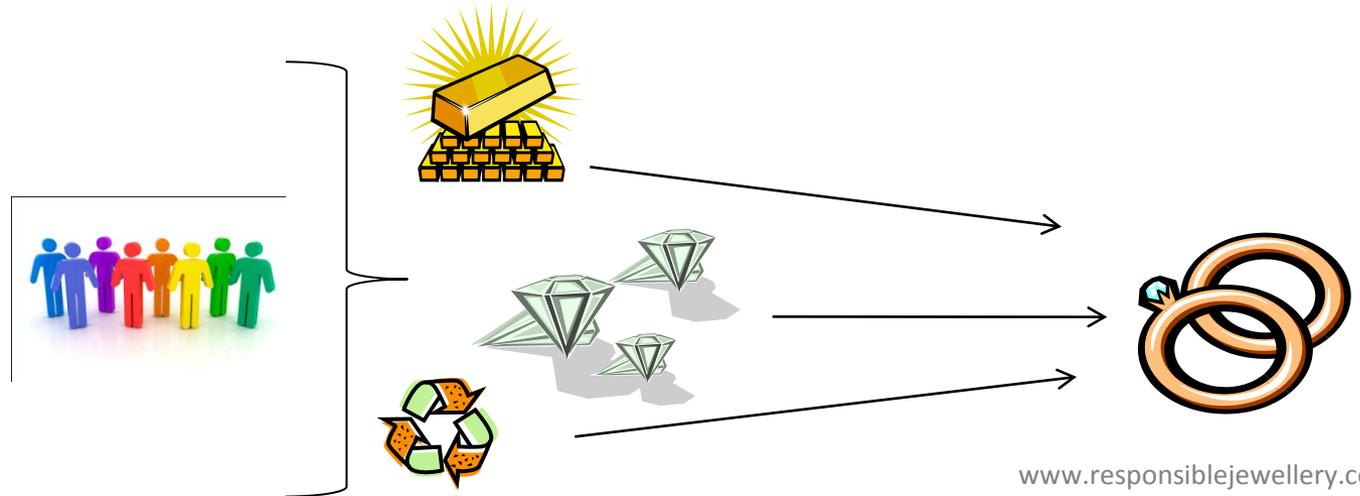
- **Track-and-trace:** traces physically segregated product from source (producer, region or country).
 - *Example: Canada Mark diamonds; MSC fish.*
- **Bulk-commodity:** physically segregates certified from non-certified product to prevent mixing.
 - *Example: Kimberley Process; GMO and non-GMO soybean*
- **Mass-balance:** each company keeps track of the amount of certified product it buys and sells.
 - *Example: Forest Stewardship Council (FSC) credit system for mixed sources of paper.*
- **Book-and-claim:** trade in physical products is decoupled from trade in certificates.
 - *Example: renewable electricity.*

“Track-and-Trace” and “Bulk Commodity” models

Track and
trace



Bulk
commodity



RJC and Chain-of-Custody Certification

Proposed standard for independent, third party certification of Members' chain-of-custody systems.

- Voluntary for RJC Members
- Complementary to RJC Member Certification of responsible business practices

RJC is not creating a chain-of-custody tracking *system* for the industry.

- Businesses establish/adapt/use their own internal CoC systems
- These need to meet the RJC CoC Standard to achieve CoC certification

Why the RJC?



RJC has:

- Established, comprehensive and agreed standards for responsible business practices
- Access to 260+ Member companies in the jewellery supply chain from mine to retail
- Independent, third party assurance system with accredited auditors available
- Multi-stakeholder participation in standards development.

What will it achieve?

RJC Chain-of-Custody Certification aims to:

- Provide a globally-recognised, comprehensive **industry-wide standard** for chain-of-custody systems.
- Enable rigorous **assurance** for responsible supply chains.
- Support credible corporate and/or **on-product** claims to consumers and other stakeholders.



Outline

1. RJC and Member Certification
2. Chain-of-Custody - drivers
3. **Draft RJC Chain-of-Custody standard**
4. Optimisation Issues for discussion



Contents of Draft Chain-of-Custody (CoC) Standard

Common requirements:

1. Management System and Responsibilities
2. Record-keeping
3. Material Control Systems
4. Material Transfer Documentation
5. First Statements of Provenance for Eligible Material
6. Subsequent Statements of Provenance for Tracked Material
7. On-Product Labelling

Supplementary Requirements for:

8. Producers
9. Refiners and Alloyers
10. Diamond Traders Cutters and Polishers
11. Manufacturing
12. Outsourcing
13. Minor Components

Statements of Provenance

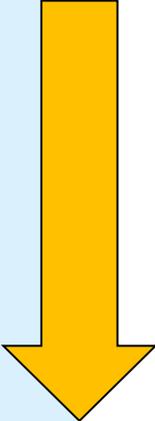
Chain starts with mine or lab production (Au/Pt/diamonds), recycled bullion, or marked and dated “historical” bullion (Eligible Material).

Statements of Provenance apply whenever Tracked Material is transferred to another Entity.

Tracked material may be mixed with other tracked material, but Statements of Provenance must be updated.

Final jewellery products may bear RJC Certified Products label.

Statement of Provenance examples



Diamonds / Gold / Platinum Metals

- A mine, or a producer
- A country
- A group of countries eg South Africa, Canada and Australia
- A type of production eg RJC Members

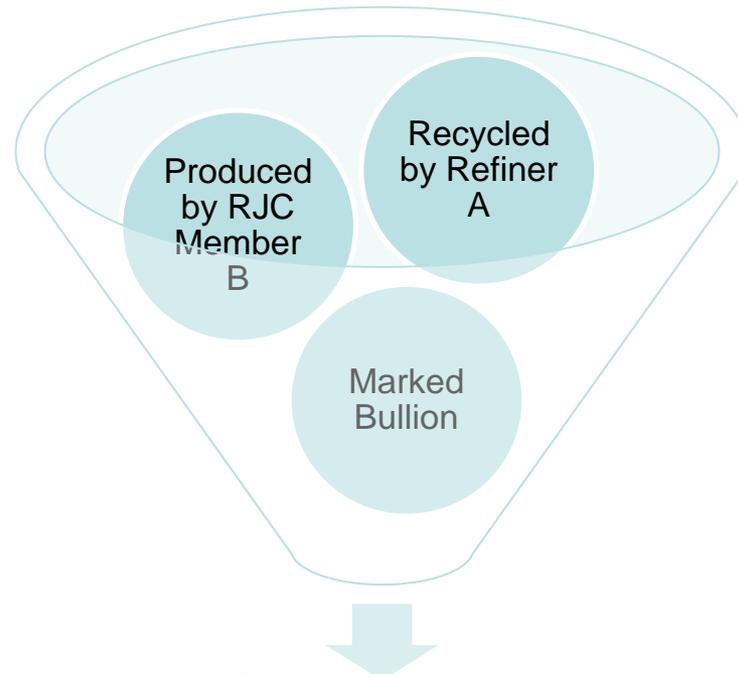
More general

Gold / Platinum Metals

- Recycled Gold / Platinum Metals
- Marked Bullion produced before agreed date
- Mixed sources of Mined, Recycled and/or Bullion

Statements of Provenance – Bulk Commodity

↓
Non-Eligible
Material



Example Statement of Provenance: Gold
40% RJC Members; 30% Recycled; 30%
Marked Bullion minted before 1998.

Outline

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3. Draft RJC Chain-of-Custody standard
4. **Optimisation Issues for discussion**
 - **List of issues**
 - **Questions and feedback**



Optimisation Issues for Discussion (all)

Managing Chain-of-Custody Systems

- Statements of Provenance
- Minor Components of Jewellery Products
- Minor Portions of Tracked Materials
- Outsourcing

Labelling

- RJC Certified Product Label
- Retailers Carrying Pre-labelled Product

Gold and Platinum Metals

- Recycled gold – supply risks
- ‘Historical’ Gold bullion – use of existing stocks
- Bullion banks and Chain-of-Custody

Diamonds

- Diamond Melee
- Available Diamond Pool

Opportunities for Standards Harmonisation

Statements of Provenance

- Draft CoC standard is based on segregating eligible material from non-eligible material through the supply chain.
- Businesses can combine material inputs and update Statements of Provenance to capture all relevant suppliers.
- This flexibility will help ensure supply chains for Eligible Materials remain liquid.
- Markets will find a balance between the operational advantages of broad, aggregated statements, and potential customer demands for more specific statements.

Statements of Provenance

Can accurate Statements of Provenance be maintained for large, complex and constantly changing inventories of jewellery materials?

Unique and variable Statements could make it difficult to trade Tracked Material between different companies. Could / should Statements of Provenance be standardised?

What might be some of the issues and strategies for ensuring segregation between Tracked and Untracked Materials through the supply chain?

Exemption for Minor Components

- Draft CoC Standard proposes exemption for Minor Components (e.g. 5% of the product's value).
- Recognises:
 - Many supply chains are highly complex
 - There may be resistance from some suppliers
 - Likely difficulty of sourcing low value items e.g. findings made of tracked material.
 - Longstanding commercial relationships may be difficult to replace
- However even small percentage of untracked material could unacceptable if sourced from a conflict region, or involved child labour.

Exemption for Minor Components

Minor Components - individual components containing diamond, gold or platinum that is not Tracked Material.

Should the Chain-of-Custody Standard allow for the exemption of Minor Components? Or should Chain-of-Custody Certified Jewellery Products always contain 100% Tracked Material?

Minor Components – what could qualify

How should a Minor Component be defined?

For example ...

Components containing Diamonds, Gold and/or Platinum Metals which cannot be positively identified as Tracked Material and constituting less than 5% of the value of a Jewellery Product. (*Value at what stage?*)

Or, discrete, semi-finished or finished components from an arms-length supplier containing gold or platinum metals and used in the assembly of a Jewellery Product. (*Not exceeding X%? Should diamonds be considered a component too?*)

Minor Components – additional conditions

Should the following conditions be added to the Standard?

Businesses wishing to exempt Minor Components in CoC products would need to carry out due diligence of suppliers to show that:

- it would not be reasonable or practical to obtain Statements of Provenance for the component(s);
- there are no commercially feasible alternative sources;
- reasonable inquiry has been made to ensure that the material would not have originated from an illegitimate source.

Exemption for minor portions of Tracked Material

- A requirement for mixed Tracked Material to have Statements of Provenance for all possible sources could raise concerns about practicability in complex supply chains.
- Such concerns could apply to recycled gold, gold bullion of mixed origin, diamond melee, or jewellery products containing multiple components from different suppliers.
- Another potential application could relate to alloys of gold and/or platinum metals, for example gold alloys below 50%, such as 9ct in UK, 10ct in USA.
- The draft RJC CoC standard does not currently provide exemption for the above situations.

Exemption for minor portions of Tracked Material - Questions

Should the Chain-of-Custody Standard allow for the exemption of minor portions of mixed Tracked Materials that do not have Statements of Provenance?

If minor portions are to be exempted, what could be an appropriate proportion, and how should this be defined – for example, 5% of the weight of the item of Tracked Material?

Exemption for outsourcing

- Outsourcing is used to manage fluctuations, add capacity to meet orders, and access specialised services.
- Draft CoC Standard allows for outsourcing to non-CoC certified Entities, providing:
 - Legal ownership of Tracked Material does not change
 - Procedures are in place to prevent mixing or contamination
 - Contractors maintain complete records
 - Contractor does not outsource any processing to any other contractor.
- Aims to reduce barriers to entry, help critical mass.
- Risk of loss or mixing considered acceptable if CoC Certified Entity accepts the responsibility of outsourcing its material.

Exemption for outsourcing

Should CoC Certified Entities be permitted to outsource work to contractors who are not CoC Certified?

Alternatives ...

- CoC Standard could require outsourcing contractors to be audited and/or CoC certified. However could raise costs and practical issues, due to flexible nature of outsourcing.
- CoC Standard could allow for outsourcing on an interim basis, with a view to removing exemptions after a period of time. Outsourcing contractors would then need to become CoC Certified.

Recycled Gold – supply risks

- Significant source of global gold supply is recycled.
- RJC draft CoC standard proposes that recycled gold is Eligible Material.
- Draft CoC standard starts the Chain-of-Custody for recycled gold and platinum metals with CoC certified refiner.
- Refiner must apply KYC principles to accept scrap and post-consumer gold for recycling.

Are “Know Your Customer” (KYC) principles relating to sources of “scrap” metals sufficient to manage risks?

Or should there be other/additional requirements for refiners to screen their suppliers of recyclable metals?

Recycled Gold – melted scrap

- Metals collectors often melt and assay scrap before delivery to a refiner, for commercial and security reasons.
- This does present a potential opportunity for gold sourced from illicit or conflict sources to enter the supply chain.
- However likely path for gold production from illicit or illegal mining would be through less regulated refineries operating in North Africa, Middle East and other regions.

Should melted supplies of scrap be acceptable, providing it is through KYC principles, or should CoC certified refiners only be able to accept scrap gold in its manufactured form?

Should suppliers/collectors of any melted scrap to CoC certified refiners be required to be CoC certified Entities?

Should KYC principles be applied and validated back to the primary source of the scrap (in manufactured form) which might be an individual?

‘Historical’ Gold Bullion – use of existing stocks

- Draft CoC Standard proposes Marked Bullion, minted before a set date (*to be determined*) to be Eligible Material.
- CoC information would be accessible from bullion Marks, providing serial number, date of manufacture, and ID the refining company. Pre-refining provenance would be unknown, except where refinery records could support provenance claims.
- Including existing Marked Bullion as Eligible Material will help achieve critical mass for CoC. Excluding it would not necessarily advance responsible business practices – the material already exists.
- Majority of bullion bank inventory is ‘historical’, reducing the barriers for businesses wishing to initiate chain-of-custody systems in their supply chains.

'Historical' Gold Bullion – Questions

Should Marked Bullion that was minted before a set date be considered Eligible Material, as some of it will have been recycled and some may not have been produced 'responsibly'?

Is there any reason why historical' Bullion should not be include?

The current draft standard proposes an arbitrary cut-off date of 1, 2011? Are there other suggestions for cut-off dates?

Bullion banks and Chain-of-Custody

- Vast majority of Eligible Gold or Platinum Bullion stored in bullion banks.
- Draft CoC standard does not require banks to issue any Statements of Provenance, as the critical information (refiner, date/serial number) should be captured by the Marks on Bullion.
- Trading practices of bullion banks (swaps, loans, unallocated accounts etc.) may make it difficult for separate Statements of Provenance to be carried from refineries via bullion banks to the next user in the supply chain (e.g. manufacturer, retailer).
- However most “downstream” supply chain participants may not be able to identify the refinery source of gold and platinum, but many could identify the issuing bullion bank.

Bullion banks – Questions

Will bullion banks be able to supply Eligible Material to bank customers on request? What else might bullion banks need to do to support CoC in the supply chain?

Should bullion banks be asked segregate Eligible from non-Eligible Material in their inventories? How can provenance information be supported?

Should bullion banks, which would handle, store and deliver Eligible and Tracked Material under the proposed CoC Standard, be required to be certified under the CoC Standard?

If not, should bullion banks nevertheless have a formal involvement in the CoC Standard and/or the RJC as an institution, given their critical role in the supply chain?

Diamond melee

- To meet retailers' specifications for qualities, sizes and volumes, parcels of small diamonds must be mixed, re-mixed and traded many times.
- Small diamonds raise challenges for Chain-of-Custody:
 - Segregation of Tracked and non-Tracked material
 - Maintaining accurate Statements of Provenance for a wide variety of potential sources
 - Developing sufficient volume of Tracked diamonds necessary to create commercial parcels.

Diamond melee

- Segregation of Tracked and non-Tracked material
 - Can address through established systems and practices for inventory management.
 - However there is risk of fraud e.g. Deliberate mixing / switching to meet customer specifications.
- Maintaining accurate Statements of Provenance for a wide variety of potential sources
 - Can address by developing broadly-defined Statements which align with a wide range of potential starting points.
 - Work out what different traders, manufacturers and retailers would consider acceptable.
- Developing sufficient volume of Tracked diamonds necessary to create commercial parcels.
 - Necessary to have critical mass of CoC Certified Entities handling sufficient volume.
 - Demand-driven – hopefully short term issue.

Diamond melee - Questions

Is the proposed CoC Standard practically feasible and commercially realistic in the case of small diamonds (melee)? What will be some of the issues and barriers? Can they be addressed?

Should there be an allowance for mixed parcels made up of a minimum percentage of Tracked diamonds?

Would 'Produced by RJC Members' be an acceptable broadly defined Statement of Provenance for diamonds, particularly melee?

Available diamond pool

- Majority of world supply of rough diamonds produced by RJC Members – large potential pool of Eligible diamonds for CoC.
- However requirements for segregation would have impact on ability of traders and manufacturers to source CoC polished for customers.
- Over time, commercial arrangements should result in a settling point that balances supply and demand.

Will the constraints imposed by the CoC Standard make it difficult to source diamonds for large-volume programs?

Available diamond pool

- What about diamond producers who are not RJC certified?
- An exemption could increase supply of Eligible diamonds.
- But could undermine assurance about responsible practices.
- Could address through different type of Statement of Provenance, but potential for confusion / misuse could outweigh benefits.

Could exemptions be provided for rough diamonds sold by producers that are not CoC certified, but are KP compliant?

If such exemptions were provided, could they be tied to a distinct classification of Statements of Provenance?

RJC Certified Product Label

- A product certification label would be optional, but could be important to manufacturers, brands, retailers, consumers.
- Need simple, credible, consumer-facing labelling approach.
- Include information relevant to the market, avoid potential for confusion or over-complication.
- Could be used on, or as part of, product tags, hallmarks, engravings, inscriptions, packaging and/or sales documentation.

*What information will consumers/stakeholders be looking for?
What would businesses be comfortable disclosing?*

Could the Label be used without requiring it to be affixed to the jewellery item? What are the risks of the Label being misused?

RJC Certified Product Label

- Label would be required for any on-product representations to the consumer.
- Label would include:
 - Entity's CoC Certification number.
 - Product identification number (or other means) to link jewellery product to the last Statement/s of Provenance. Inventory systems should be able to handle linking.
 - Statement of Assurance:

This label is your assurance that the (diamonds, gold, platinum metals) contained herein came only from certified sources that have been independently verified for compliance with the Responsible Jewellery Council's rigorous standards for responsible social, ethical and environmental practices. For more information about RJC Certified Products see: www.responsiblejewellery.com

Retailers carrying pre-labelled product

- Draft CoC Standard allows CoC Certified company to apply label to finished jewellery product, and sell/transfer to a non-certified retailer for final sale to consumer.
- Label must be integral to product or protected from tampering. Additional requirements could be added to Standard.
- Intent is to assist volume demand and critical mass by enabling access to retailers who may choose not to join RJC.
- Risks primarily involve potential for fraudulent use of the label by the retailer, or more likely, the retailer's suppliers.

Retailers carrying pre-labelled product - Question

Would the allowance for retailers who are not CoC certified to sell RJC Certified Jewellery Products present risks to the integrity of CoC Certification?

Should any additional requirements for affixing or promoting the label apply in these circumstances?

Opportunities for standards harmonisation

- Currently a number of multi-stakeholder initiatives working towards chain-of-custody of diamonds and gold.
- Product-related claims rely on:
 - A claim about responsible practices in the supply chain (e.g. RJC COP, Fairtrade, conflict-free, etc); AND
 - Tracking of material through the supply chain.
- Opportunities for collaboration, cross-recognition and/or harmonisation.
- RJC's review process would look for:
 - Independent-third party auditing of standards
 - Sanctions mechanisms for non-conformance
 - Equivalent or relevant claims re responsible practices

Opportunities for standards harmonisation - Questions

Should material certified against a more limited scope of standards for responsible business practices (e.g. conflict-free or community-development) be Eligible Material for provenance claims under RJC CoC Certification?

Are there particular CoC initiatives which have potential synergies with RJC's CoC Certification?

Are there concerns for how equivalence or harmonisation between RJC and other CoC initiatives should be determined?

Other issues or comments?

- Please raise them for discussion here ...
- Send an email with comments ...
- Arrange a time to speak separately ...

More information



Website:

Discussion papers, presentations, comments and submissions:

www.responsiblejewellery.com/chain-of-custody.html

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