

Creating a Responsible Supply Chain for Mineral Sourcing

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Speakers

- Jose Fernandez, Assistant Secretary, Bureau of Economic and Business Affairs, U.S. Department of State
- David J. Bonaparte, President & CEO, Jewelers of America
- Fiona Solomon, Director – Standards Development, Responsible Jewellery Council
- David Bouffard, Vice President, Corporate Affairs, Signet Jewelers Ltd

Department of State Role in Responsible Mineral Sourcing

Jose Fernandez

Assistant Secretary

Bureau of Economic and Business Affairs, U.S. Department
of State

Diamond Source Warranty Protocol

David J. Bonaparte
President & CEO
Jewelers of America

Diamond Source Warranty Protocol

- The three main developing organizations:
 - Jewelers of America: www.jewelers.org
 - Jewelers Vigilance Committee: www.jvclegal.org
 - Diamond Manufacturers & Importers Association of America: www.dmia.net
- Developed for retailers seeking to provide additional source assurance, beyond generalized KP assurance
- Launched for industry use October 2012

Diamond Source Warranty

- Important Points
 - Contract between buyers and sellers of diamonds
 - Not a 'system' – no one is administering it
 - 'Negative' source warranty (diamonds did not come from a particular source)
 - May be downloaded from the developers' websites and used without charge

Diamond Source Warranty Protocol- First Page

- **DIAMOND SOURCE WARRANTY PROTOCOL**
 - **Release Number 1.0, Published • 2012**
- **Introduction: this Diamond Source Warranty Protocol may be used by Industry**
 - Participants in their commercial arrangements for the purchase of diamonds or items containing diamonds from other Industry Participants and for the sale of diamonds or items containing diamonds to other Industry Participants. Use of this Protocol allows a Seller to give a Buyer a warranty that an Industry Product was not obtained from a Subject Source.
- **Subject Sources: the determination of which countries or Persons are “Subject Sources”**
 - (as that term is used in this Protocol) will be made, from time to time, on a voluntary basis by Industry Participants through their commercial negotiations with one another.
- **Defined Terms: words and phrases that have defined meanings when used in this**
 - Protocol are indicated with initial capitalization and shall have the meaning set forth in Article VI below.

Diamond Source Warranty Protocol- Second Page

- **Article I – Incorporation of Protocol by Reference**
 - 1.1 Buyers and Sellers may incorporate this Protocol into a Commercial Contract or a Commercial Document by reference.
 - 1.2 In order to incorporate this Protocol and provide a Protocol Warranty in a Commercial Document relating to the sale of loose diamonds, a statement substantially as follows must be included in the Commercial Document: *“To Seller’s Best Knowledge, diamonds supplied under this [insert name of Commercial Document] were not [Obtained from] [Processed by] [insert description of Subject Source] or an SDNBP. This Warranty is given under Diamond Source Warranty Protocol, Release Number 1.0.”*
 - 1.3 In order to incorporate this Protocol and provide a Protocol Warranty in a Commercial Document relating to the sale of items set with diamonds, a statement substantially as follows must be included in the Commercial Document: *“To Seller’s Best Knowledge, Industry Products supplied under this [insert name of Commercial Document] do not contain diamonds that were [Obtained from] [Processed by] [insert description of Subject Source] or an SDNBP. This Warranty is given under Diamond Source Warranty Protocol, Release Number 1.0.”*

Diamond Source Warranty Protocol

FAQ's-First Page

- **DIAMOND SOURCE WARRANTY PROTOCOL: Questions & Answers**
 - **Release Number 1.0, Published • 2012**
- **Introduction:**
 - The public is increasingly concerned about where their products come from. As these concerns grow, industry participants and consumers will need reassurances that go beyond the scope of the Kimberley Process, which has demonstrated its effectiveness in dealing with issues around conflict diamonds. However, as the public, human rights groups and governments demand more accountability, the KP cannot be a panacea for all issues and challenges throughout the diamond supply chain. Examples include national or international sanctions that prohibit companies from dealing with individuals and entities with connections to the diamond trade, government regulations and human rights violations. The Diamond Source Warranty Protocol was designed to address these types of issues. Retailers and suppliers who choose to use it on a voluntary basis, will have an inventory management tool that enables them to take steps toward better control of their supply chain.

Diamond Source Warranty Protocol

FAQ's-First Question

About the Protocol

- **Q. What is the Diamond Source Warranty Protocol?**
- **A.** The Protocol Warranty is an inventory management tool. It enables a retailer or supplier to obtain or provide a higher level of assurance that an industry product, such as rough or polished diamonds, was NOT obtained from a Subject Source. A Subject Source is a country or person that industry participants have agreed not to buy or sell diamonds from/to as part of their commercial negotiations.

Responsible Jewellery Council programs – support for responsible sourcing

Fiona Solomon

Director – Standards Development

Responsible Jewellery Council

Responsible Jewellery Council

- Standards and certification organisation for the jewellery supply chain – diamonds, gold and platinum group metals
- 450+ Members from mine to retail, large and small business
- 270+ have achieved Certification against the RJC Code of Practices ... major program
- RJC is Full Member of the ISEAL Alliance

Key messages

- RJC very active on responsible sourcing, through own standards and multi-stakeholder initiatives eg OECD
- Committed to progress on responsible sourcing for diamonds
 - Continue to work with Members and stakeholders
 - Dialogue, awareness raising, standards development and implementation

Responsible sourcing

- RJC's mission: advancing responsible business practices through supply chain
- RJC Code of Practices covers wide range of issues and risks.
- Define responsible sourcing as more than conflict: RJC provides an approach that addresses a comprehensive set of issues and risks

Work in progress - COP

- Currently reviewing RJC Code of Practices
- Restructure of COP groups together requirements that support responsible supply chains
- New provisions on:
 - Sourcing from Conflict-Affected Areas
 - Sourcing from ASM
 - Provenance Claims

Work in progress - CoC

- Chain-of-Custody (CoC) Standard for precious metals – 2012
- Additional time to consult re CoC for diamonds – revisit after COP review
- CoC for gold – interest driven by OECD Guidance, Dodd Frank compliance
- Starting points are refiners and alloyers – working to expand upstream (miners) and downstream – takes time to build

Next steps

- RJC playing ongoing role in dialogue – policy and technical
- Changes to the COP are critical step – encourage stakeholders to engage in review process
- Work on CoC for diamonds will consider progress in PS-MSWG and Member and stakeholder expectations

Conclusion

- RJC offers a whole of supply chain initiative and a comprehensive approach to business risks.
- RJC Members commit to responsible practices and demonstrate conformance through certification.
- RJC welcomes new Members and works to support businesses in their responsible sourcing efforts.

Signet's Initiatives to Ensure Responsible Sourcing

David Bouffard

Vice President, Signet Corporate Affairs

Signet Jewelers Ltd.

Largest Specialty Jewelry Retailer in US and UK

Total Sales \$3.983 Billion

82% US / 18% UK



Kay Jewellers - #1 mid-market brand
Sales: \$1.953B Stores: 949 in 50 states



H.Samuel - #1 in UK
Sales: \$387.0M Stores: 318



Jared - #1 Off-Mall "Destination Store"
Sales: \$1.003B Stores: 190 in 36 states



Ernest Jones - #1 UK upper middle market
Sales: \$322.5M Stores: 193

The US Jewelry Market

- World's largest jewelry market by retail value
- US Consumer Expenditures on Jewelry and Watches: \$71.3 Billion (4.4% Market Share)
- US Specialty Jewelry Store Sales: \$30.8 Billion (10.4% Market Share)
- #1 market for diamonds
- #3 market for gold
- Global trend-setter: product design is important
- Increasingly a branded jewelry market
- Main occasions:
 - Bridal (engagement and wedding)
 - Valentine's Day, Holiday, Christmas, Mother's Day
- Consumer trust is essential
- "Conflict-free" 3TG supply chain now a legal requirement for US-listed companies

Signet's Approach

- Signet believes that a responsible supply chain is fundamental to the reputation of the jewelry industry and its future. We are selling an aspirational product. Consumers assume that our systems guarantee certain standards. Now is the time to ensure that we don't disappoint them.
- The industry has not been idle and there has been much progress in the development of responsible supply chain standards.
 - The Kimberley Process provides one of the cornerstones of consumer reassurance.
 - The Responsible Jewelry Council is another cornerstone, with its system of standards and certification covering the entire supply chain from mine to retail.
 - The Diamond Development Initiative provides further strength, with its artisanal standards.
- These standards demonstrate a continuous improvement approach – building upon the existing foundations.

Shared Responsibility

- We must also recognize that the reputation of the jewelry industry is a shared responsibility. The industry must work together, to maintain and improve the integrity of the diamond supply chain in the eyes of all stakeholders.
- Equally, we share a responsibility to regulate ourselves. Industry needs to demonstrate real progress in responsible sourcing through the whole supply chain. We must do so because it is the right thing to do; it will assist us to avoid the imposition of legislation; and, it will help improve transparency throughout the industry.

Next Steps

- We believe there's a need for ongoing and continuous improvement in responsible sourcing practices due to evolving risks that the trade in precious stones may be associated with violence and human rights abuses.
- Signet is committed to taking a leadership position in facilitating the OECD exploration in the jewelry industry. We are committed to developing additional non-commercial, non-exclusive, industry-wide solutions to ensure a responsible supply chain for precious stones including diamonds, both polished and rough. I emphasize “non-commercial” because this issue is not about competitive advantage.

PS-MSWG OECD Initiative

- The Precious Stones Multi-Stakeholder Working Group (PS-MSWG) is an open, non-exclusive coalition of companies, associations, NGOs and governments interested in exploring how to advance and at the same time harmonize responsible sourcing and supply chains for precious stones.
- Key principles underlying the PS-MSWG include:
 - The United Nations Guiding Principles (UNGPs) on Business and Human Rights outlines how business has a responsibility to respect human rights. A key human rights consideration for the precious stones industry is preventing conflict financing and associated human rights abuses. The PS-MSWG believes that the jewelry industry must address this issue comprehensively and credibly.
 - Enhanced efforts to advance responsible sourcing for precious stones should complement and not undermine or replace existing initiatives, such as the Kimberley Process Certification Scheme and the recent UN initiative for colored gemstones.
 - The UNGPs are based upon voluntary due diligence as a key approach for business to identify and mitigate the risks associated with adverse human rights impacts. Reflecting this, due diligence with respect to conflict financing and human rights abuse is fast being established as the dominant standard with respect to responsible supply chain management.

PS-MSWG Background Principles

- Guidance for conducting due diligence ranges from the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas to the UNGPs. A number of industry initiatives also provide tools to help companies implement these standards for gold and other minerals including the Responsible Jewelry Council's Code of Practices and Chain of Custody Standard.
- The PS-MSWG recognizes there are unique complexities in the supply chains of diamonds and other precious stones. These must be addressed. However, similar complexities have been successfully addressed and guidance provided to other sectors such as gold.

Proposed Study

- The PS-MSWG proposed to undertake a study to determine whether additional due diligence measures appear to be feasible or necessary within the precious stones supply chain and, if so, identify how such due diligence measures might be applied to precious stones supply chains.
- The PS-MSWG is in the process of discussion a Terms of Reference for the study, and is holding conference calls every two weeks to progress this work.

Signet SRSP Diamonds

- Signet has a record of success in developing such industry solutions: The Signet Responsible Sourcing Protocol (“SRSP”) for gold and the 3Ts went live on January 1, 2013.
- The SRSP is the result of active involvement in the development of industry guidance and standards, and was produced in collaboration with many companies and international associations. It is a public document, available to any company, and so will help “raise the bar” for the industry.
- We believe that if it can be done for gold, and, for that matter, coffee, timber, cotton and other products - it can be achieved for precious stones and diamonds too, both rough and polished, over time. So we are also researching the potential for an SRSP for Diamonds.

Conclusion

- Consumers have certain expectations of the retail store brand when they walk in, whether it's in the US, UK, or around the world, and we think they ought to have the assurance to meet that expectation wherever they buy diamond jewelry when it comes to product integrity.