

RJC and Chain-of-Custody: review of drivers, challenges and opportunities

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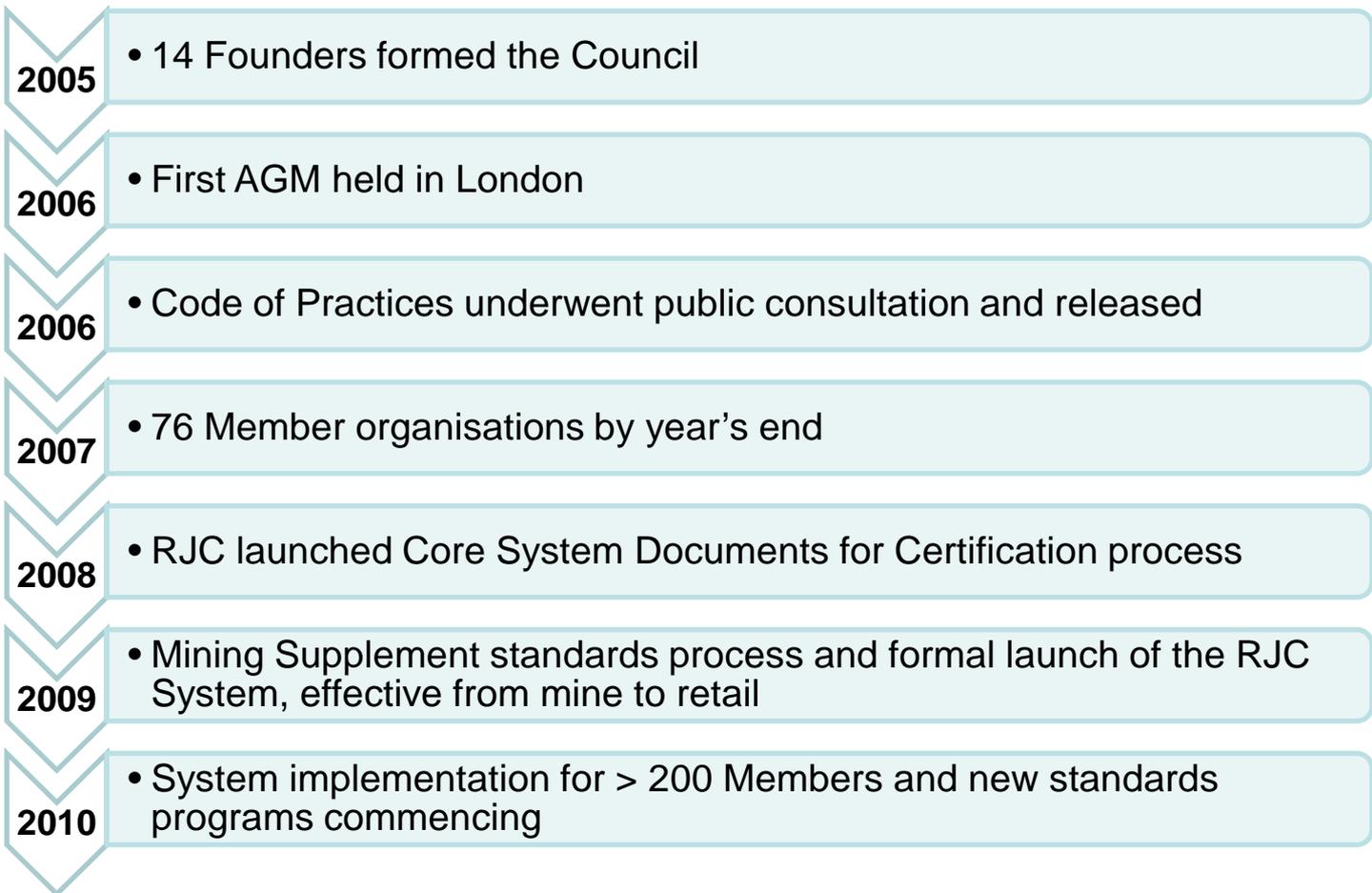
**RJC Workshop, London
18 May, 2010**

Outline

1. **About the RJC and RJC Certification**
2. Chain-of-Custody – concepts, drivers, challenges
3. Jewellery Supply Chain – examples
4. Chain-of-custody systems – examples
5. Issues for RJC to consider



Evolution of the RJC and its System – a snapshot



RJC Certification - current

What	Conformance with RJC Code of Practices for responsible business practices.
Who	Independent 3 rd party auditors verify RJC Member companies.
How	Members carry out a Self Assessment against the Code. Auditors conduct verification with desktop reviews and visits to facilities.
When	Within 2 years of joining the Council for new Members from 2010 (or 2011/2012 for existing).
Why	Certified Members can provide assurance to customers, suppliers, regulators and stakeholders of responsible business practices against a common industry standard.

RJC and Chain-of-Custody

Certifying Members' responsible business practices ✓

Certifying Members' chain-of-custody systems ?

In 2010, RJC is investigating the feasibility of developing system for independent, third party certification of chain-of-custody systems.

- Voluntary
- Complementary to RJC certification

Questions

- Is it feasible?
- Does it add value?

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Key terms

Range of terms used re transparency or standards for supply chains, including:

- Chain-of-custody
- Ethical / Responsible sourcing
- Traceability / Provenance / Product tracking
- Supply chain management
- Stewardship

All refer to efforts to manage the supply chain to encourage certain objectives, such as:

- fair trade and/or sustainable development
- agreed standards of production
- identification of point of origin
- management of product lifecycle
- customer-supplier due diligence



Chain-of-Custody: what is it?

Chain-of-custody – the custodial sequence that occurs as ownership or control of the material supply is transferred from one custodian to another along the supply chain.

- ...**system** is a set of technologies, procedures and documents that provide information relevant to the chain-of-custody, through each step of the supply chain.
- ... **standard** sets out minimum requirements for the design and operation of a chain-of-custody system.
- ... **certification** would give assurance that a chain-of-custody system meets a standard.

Why Chain-of-Custody?

Driver 1 – Civil Society and Consumers

Chain-of-custody systems are often put forward as a solution to a range of issues in the jewellery supply chain.

These systems are expected to provide:

- Increased traceability of material provenance
 - Means to avoid ‘conflict’ resources, illegal or criminal practices, human rights abuses
 - Driver to improve mining practices
 - Driver to increase proportion of recycled materials
- Consumer choice and awareness.

Why Chain-of-Custody?

Driver 2 – Business to business

Used in a B2B context to:

- protect reputation / brand
- promote responsible business practices
- carry out due diligence
- provide assurance to customers about the origin and/or processing of products they purchase

However, businesses may not make chain-of-custody claims when selling products. Potential reasons:

- inherent complexity of supply chains
- branding strategy

Why the RJC?

RJC has:

- established and agreed standards for responsible business practices
- applicable to the supply chain from mine to retail
- independent, third party assurance system.

RJC chain-of-custody certification *could*:

- provide a common, mutually recognised, industry-wide standard
- support on-product and business-to-business claims re responsible production of diamonds, gold and/or jewellery.

What would be the RJC's role?

If RJC goes down this path, would engage with Members and stakeholders to:

- Develop a **standard** for chain-of-custody certification, and
- Build on RJC **systems for independent third party verification** by accredited auditors.

Key points:

- Not prescribe technologies or procedures
- Flexibility for Members and stakeholders to apply specific or additional requirements above the standard
- Recognise that chain-of-custody systems are not a panacea.



Challenges: include ...

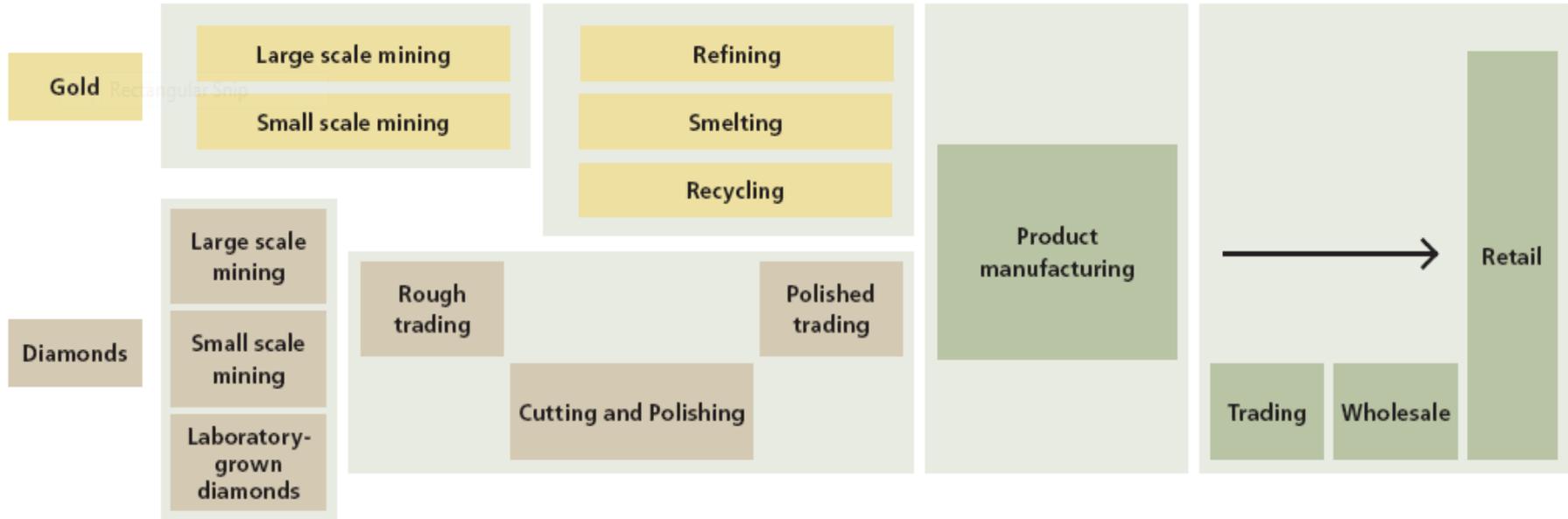
- **Technical constraints:** complexity of gold and diamond supply chains, particularly gold refining, recycling, trade in smaller diamonds.
- **Cost of application:** needs to be commercially realistic.
- **Scalability:** moving beyond 'niche' to support chain-of-custody on a larger scale with access to multiple parties.
- **Political:** relationships to initiatives by civil society, government, multi-lateral agencies.
- **Legal:** Anti-trust dimension means that the RJC cannot require chain-of-custody certification of its Members and any standard developed will be voluntary.
- **Implications for RJC 'brand':** Rules and relationships with existing RJC System.
- **Size of task:** big undertaking for the Council.

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Jewellery Supply Chain - overview



Geographies: Worldwide industry & business
Diversity: Micro/family entities to very large corporations

The story of a diamond ring: 18 K gold, 10 side stones, 1+ ct centre stone. £ 6,800 (approx. US\$10,200)

Diamonds			Metals		
Centre stone, 1+ ct	10 side stones, mixed sources		Gold	Silver, Copper, Platinum	
Mining					
Botswana	Russia	Angola	South Africa	Peru, USA, South Africa	
Rough Trading			Processing		
Sold to DTC client, who sells to manufacturer in Antwerp	Sold by Alrosa to a rough trader, then sold to a manufacturer	Sold by Ascorp to a manufacturer	Mine produces gold dore sent to refiner in Dubai to produce bullion	Mine concentrates sold to smelters and refineries in various locations	
Cutting and Polishing			Trading		
Israel, then consigned directly to retailer in USA	India, retained in-house	Armenia, sold to wholesaler in Antwerp	Bullion sold by bullion bank to gold dealer	Metals sold to metals dealers	
	Jewellery Manufacturing, Thailand				
	Side stones sourced by manufacturer in-house and from polished wholesaler		Manufacturer sources gold and metals from dealers, converts to 18K		
	Manufacturer casts ring, sets side stones and prongs in accordance with standing order, ships to retailer.				
Retailer mounts centre stone on ring for sale to final customer. Payment made for centre stone. Final price of gold content determined by spot price at time of sale. High proportion of the value is attributable to the rough diamond used for the centre stone.					

The story of a necklace: 10 K white gold, diamonds. US\$249

Diamonds			Metals		
57 diamonds, mixed sources, average .004 ct.			Gold	Silver	
Mining				Recycled from industrial scrap	
Australia	Namibia	South Africa	China, variety of mines	Canada	
Rough Trading			Processing		
Sold to Rio Tinto client / manufacturer	Sold to a DTC client, then sold to polished manufacturer	Sold to a DTC client / manufacturer	Refined in China	Lead mine, locally smelted and refined	Refined in Dubai
Cutting and Polishing			Trading		
India	India	China	Silver bullion sold to a metals dealer in Hong Kong Gold bullion traded through Shanghai Gold Exchange		
Jewellery Manufacturing, China					
Polished manufacturer sources diamonds in-house and from other manufacturers, and consigns to the jewellery manufacturer, a related company			Jewellery manufacturer sources gold and silver, converts to 10K gold, using credit advanced by the retailer.		
Jewellery manufacturer casts pendant, sets stones, manufactures chain and ships to retailer.					
Retailer stocks the chains as a separate inventory item for use in other finished products.					
Relatively high proportion of value is attributable to cutting and polishing and jewellery manufacturing.					

The story of a set of 22K bracelets, 23,000 Indian Rs. (approx. US\$500)

Gold				
Mining, production of dore bars			Scrap	
South Africa	Canada	Indonesia	Dubai	India
Refining				
South Africa	Switzerland	Dubai	Dubai	India
Production of Dubai Good Delivery Bars				
Trading				
Bars Traded at Dubai Commodities Exchange, exported to India				
Gold imported and purchased by Indian bank				
Manufacturing				
Local workshops / retailers in India source gold from bank using bank credit and/or gold loans, fabricate and sell finished jewellery to consumers				
Retail sales based on spot price of gold. Very high proportion of the value is in the gold content.				
Product and type of sale is representative of the largest part of the global retail gold jewellery market.				

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Chain-of-custody systems

Chain-of-custody systems can be categorised into four main models.

- **Track-and-trace:** traces physically segregated product from source (producer, region or country).
 - *Example: Marine Stewardship Council (MSC) fish.*
- **Bulk-commodity:** physically segregates certified from non-certified product to prevent mixing.
 - *Example: 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, with central body responsible for issuing and redeeming traded certificates.
 - *Example: renewable electricity.*

Diamonds - Examples



	Chain-of-custody model	Approach	Certifying / claiming that ...
Diamonds			
Kimberley Process / World Diamond Council System of Warranties	Bulk commodity	Packages of stones certified by exporting governments to be conflict-free. System of warranties continues conflict-free warranty through supply chain.	Diamonds are conflict-free.
Canada Mark	Track-and-trace	Individual inscription on stones and serial number used to identify stones from Canadian origin through supply chain to consumer.	Canadian origin.

Gold - example

	Chain-of-custody model	Approach	Certifying / claiming that ...
Gold			
Alliance for Responsible Mining – Fairmined / Fairtrade Gold from Artisanal and Small-Scale Mining (ASM)	Mass balance Minimum standard.	Documentary traceability must be ensured by any operator at any point of the supply chain. Purchasers pay price premium on the London Gold Price to the artisanal mining organisation.	Fairtrade / Fairmined production of ASM Gold as per Standard Zero.
	Bulk commodity Physical segregation promoted.		
	Track-and-trace “Ecological Gold”.		

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Criteria

In general terms, a chain-of-custody certification system should meet at least the following criteria:

- Able to address a wide variety of systems and technologies, and support different types of claims.
- Compliant with anti-trust laws – no restraint on competition.
- Reasonable cost of implementation.
- Auditable.
- Clear and transparent standards, verification system and clear rules for chain-of-custody claims.

Parameters to consider for framing scope

- **Certification of responsible practices** – what standards should apply?
- **Origin** – is this critical? To what detail?
- **Minimum coverage of the supply chain** – how much of the chain needs to meet responsible practices, as well as required chain-of-custody systems?
- **Chain-of-Custody Model/s** – eg bulk commodity, track-and-trace, all as long as verifiable?
- **Proportion of final product** – percentage of components and/or jewellery items?
- **Allowable claims** – defined by the RJC, or system verifies claims?

Next Steps

- This workshop is the first step in a dialogue on these issues, among the RJC and its stakeholders.
- Invite you to contribute to the discussion in this workshop. A similar session on RJC and Chain-of-Custody will be held at JCK Las Vegas, Saturday 5 June 2010.
- A Standards Consultative Panel is being established to work with the RJC Standards Committee on these issues.
- A discussion paper has been released for public comment and you are warmly invited to provide input and feedback.

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Reinforcing confidence in the diamond and gold supply chain

