

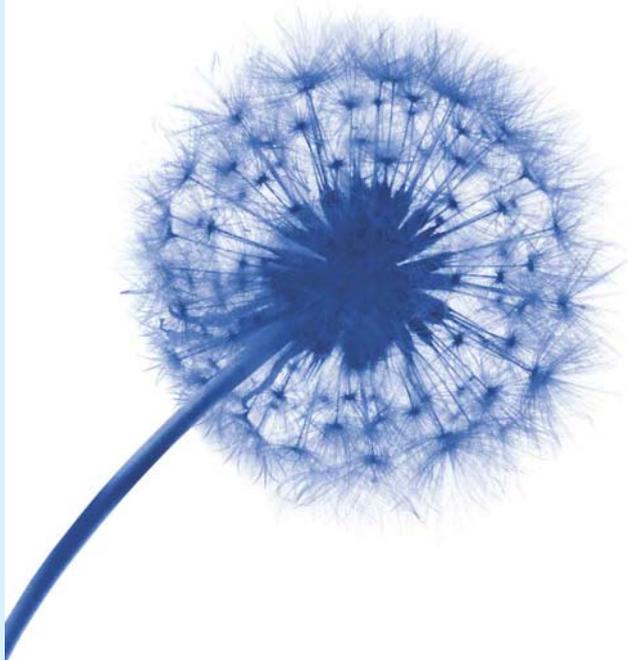
RJC Chain-of-Custody (CoC) Certification Draft CoC Standard – Overview

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June 2011

Outline

1. **Why Chain-of-Custody**
2. RJC Chain-of-Custody initiative
3. How the jewellery supply chain could use RJC CoC



Conflict in gold and diamond supply chains

- **Eastern Democratic Republic of Congo:** direct or indirect finance of armed groups via gold extraction, transport or trade. Dodd-Frank Act enacted in USA to increase transparency of supply chains.
- **Zimbabwe:** government-backed military controlling the Marange diamond fields. Kimberley Process' consensus model under stress.



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Common issues with serious human rights abuses, lack of rule of law, involvement of armed groups, illegal artisanal mining, smuggling and money laundering.

RJC and Chain-of-Custody

RJC established to advance responsible business practices throughout the jewellery supply chain. Promotes respect for human rights and upholds the rule of law.

RJC Member Certification: support consumer confidence in jewellery and industry's commitment to responsible business.



RJC Code of Practices addresses many ethical, social and environmental issues at a business level. However it does not address the flow of material through supply chains.

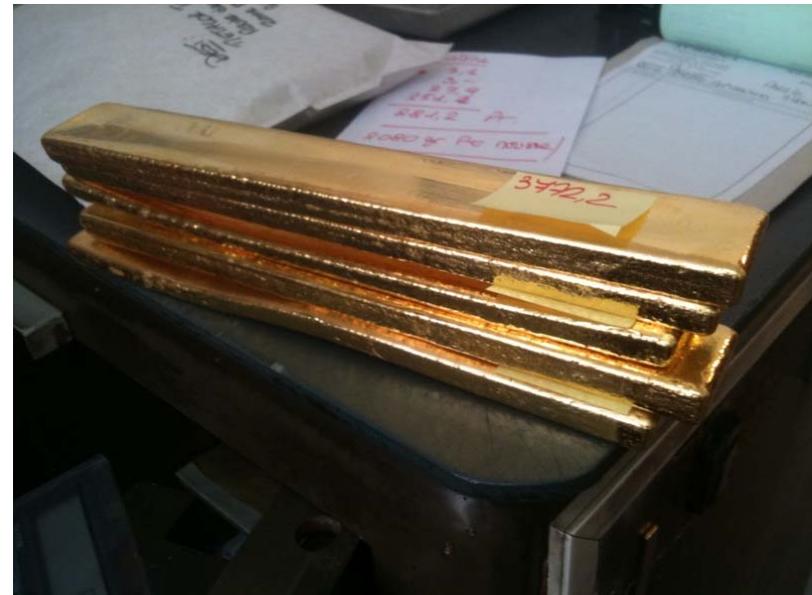
RJC Chain-of-Custody Certification

In 2010, RJC commenced discussions to develop Chain-of-Custody (CoC) Certification.

Aim to provide a common, mutually recognised, supply chain-wide, voluntary standard.

Design 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 and verification system.





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RJC Chain-of-Custody Certification

June 2011 Draft Proposal at a Glance

- Applicable to diamonds, gold and platinum group metals
- Requires independent, third party auditing to achieve Certification, but also available as guide to good practice
- Certification voluntary and flexible as to which parts of business and which materials
- Controls for conflict-free, responsible sourcing
- Requires RJC Membership to support responsible business practices in the supply chain through Code of Practices
- Supports implementation of Dodd-Frank Conflict Minerals legislation



Process and Timeframes

Now in 3rd and final round of a series of public comment opportunities. RJC Standards Committee and Consultative Panel providing input from industry, NGOs, academics, other standards bodies and experts.

Date	RJC Process
April 2010	Discussion Paper 1 – 3 month public comment period
May 2010	Stakeholder Workshop - London
July 2010	Comments report – Stage 1
September 2010	Discussion Paper 2 – 4 month public comment period
January 2011	Stakeholder Roundtables – Europe and USA, 185 participants
February 2011	Comments report – Stage 2
June - August 2011	Discussion Paper 3 - 2 month public comment period
December 2011	Finalise <u>CoC</u> Standard and associated documents; internal and Board approvals.
February 2012	Documentation layout and publication.

CoC Roundtables – January to February 2011

185 participants in 12 roundtables; 25 written submissions.

Key messages from stakeholders:

- Continue engaging with related initiatives and support Dodd-Frank reporting.
- Link CoC with RJC Member Certification to promote responsible practices.
- Tighten standards in:
 - Transfer of information – standardise
 - Outsourcing to non-certified contractors
 - Know Your Customer for recycled metals



Table 1 – CoC Standard Provisions, by key element

	CoC Standard Provisions	Material Segregation	Material Transfers	Document Controls	Responsible, Conflict Free Sourcing
Chain-of-Custody Management	1. Management Systems			★	★
	2. Internal Material Controls	★	★	★	
	3. Outsourcing Contractors	★	★	★	
Systems to Confirm Eligibility of Material	4. Eligible Mined Materials	★		★	★
	5. Eligible Recycled Materials	★		★	★
	6. Eligible Grandfathered Materials	★		★	★
Issuing Chain-of-Custody Documentation	7. Eligible Materials Declarations		★	★	
	8. CoC Transfer Documents		★	★	
	9. Consumer Claims and IP		★		★
Conflict Affected Areas	10.1, 10.2 Supply chain policy				★
	10.3 Complaints Mechanism				★
	10.3,10.4 Conflict Free Refiner				★

How would RJC CoC Materials be responsibly mined?

Mining companies initiating a chain-of-custody with mined gold, diamonds and platinum metals must be RJC Members and abide by the RJC Code of Practices.

→ Range of general requirements for business ethics, human rights, social and environmental performance

→ Mining-specific standards for:

- environmental management,
- tailings management,
- community engagement and development,
- relationships with artisanal miners,
- cyanide use in gold mining,
- impact assessment,
- mine closure,
- resource rents transparency and
- biodiversity.

How would CoC Material be Conflict-Free?

Mined:

- ✓ Mined by an RJC Member – Code of Practices applies
- ✓ Due diligence that material is not complicit in conflict and does not finance illegal armed groups.

Recycled:

- ✓ Checks and monitoring of suppliers carried out for possible links to conflict sources or money laundering.
- ✓ While original provenance of recyclable materials may be unknown, recycling makes no further contribution to conflict and contributes to sustainable development.

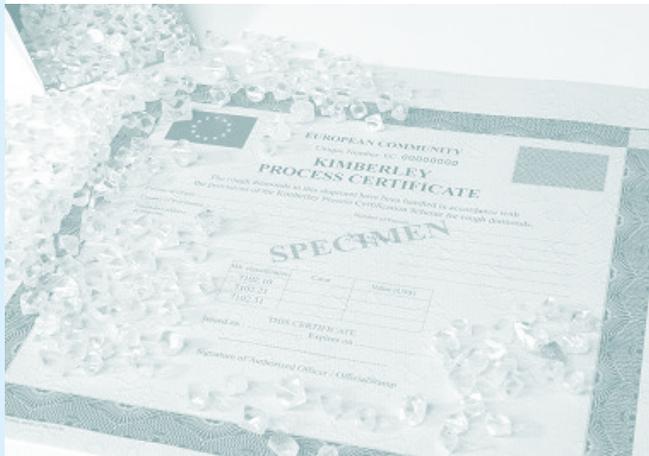
Grandfathered:

- ✓ Proposed to support transition to chain-of-custody systems and avoid unintended consequences.
- ✓ Robust evidence needed that materials were produced before a cut-off date. For example, stamped refining dates or inventory records.



How does CoC relate to KP?

- RJC CoC Standard would offer a chain-of-custody for diamonds that have been **responsibly mined**, and also for **recycled** diamonds.
- CoC Certification thus offers a new choice for businesses interested in responsible sourcing. It sets additional requirements above the Kimberley Process Certification, and addresses a wider interpretation of conflict.
- CoC Certification is voluntary. But RJC Code of Practices still requires RJC Members to be audited for compliance with the Kimberley Process and the WDC System of Warranties.



What about ‘mass balance’?

A mass balance approach to chain-of-custody is one where each company keeps track of the amount of certified product it buys and sells. There is no physical segregation of the certified material from non-certified material. Instead, an ‘administrative segregation’ is used to support a percentage-based claim.

The RJC CoC Standard requires CoC Certified Entities to use physical segregation for CoC Material if they wish to transfer that CoC Material on with a CoC claim.

Allowing a mass balance approach would:

- Mix up claims based on physical segregation (harder) with those that weren’t – potentially confusing.
- Increase the potential for accidental and deliberate non-compliances.
- Not support Dodd Frank reporting requirements, nor potential use of the CoC Standard to control for issues in the diamond supply chain that go beyond the Kimberley Process’ scope.
- Likely weaken stakeholder perceptions of the value of RJC CoC Certification as a whole.

What about ‘mass balance’?

For some complex and/or high volume supply chains, the transition to a segregated chain-of-custody approach within businesses may seem daunting or even impossible. However:

- CoC Material can be sold or transferred to any business, not just those who are CoC Certified.
- Businesses that wish to take a ‘mass balance’ approach in their manufacturing process, and not segregate CoC Material from material of unknown provenance, are free to do so, as long as they do not wish to make subsequent CoC claims about specific material.
- Thus, instead of being CoC Certified and making material-related claims about products, the business could make more general claims about responsible sourcing at the level of the business without CoC Certification.
- This will still play an important role in building demand for CoC Material.
- The business may decide it can change this approach over time, as supply of CoC Material, and potentially downstream and consumer demand, increases.

Could CoC Material from different sources be mixed?

Yes. Materials from different sources (mined, recycled, grandfathered) can be mixed once they have met the CoC Standard's eligibility criteria.

The exception is Laboratory-Grown diamonds, which cannot be irreversibly mixed with natural, Mined Diamonds because of the RJC's Code of Practices' disclosure requirements.

Gold sourced from the DRC and Adjoining Countries, whether mixed or not mixed with Gold from other sources, must be identified in all CoC Transfer Documents including the name and location of the mine, the country of origin, and the Refiner. This aims to support implementation of the Dodd-Frank Act under the proposed SEC rules.

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Why would a business use CoC Certification?

Depending on the business, CoC Certification may be of interest to:

- Support responsible mining practices
- Source legitimate recycled materials
- Identify the specific provenance of jewellery materials
- Avoid 'conflict' resources implicated in human rights abuses, illegal or criminal practices
- Enhance reputation through responsible sourcing
- Carry out due diligence of your supply chain
- Respond to the requests of your customers.



How could CoC help Dodd Frank reporting?

- CoC Certification begins at the relevant starting points in the supply chain. This avoids the need for retrospective inquiries to determine origin.
- Gold produced in the DRC and adjoining countries is identified and this information is passed downstream via the CoC Transfer Documents.
- All gold transferred under the CoC Standard would be DRC Conflict-Free. [Note: the proposed SEC Rules are still to be finalised on recycled and grandfathered materials.]
- If a company is subject to Dodd Frank, use of the CoC Standard could provide the relevant chain-of-custody evidence from Entities that have themselves been independently audited.



Does it certify Conflict-Free gold refiners?

Yes. The CoC Standard proposes to allow Refiners to choose to be audited as a Conflict-Free Gold Refiner for all sources, not just CoC Material.

The provision requires the Refiner to demonstrate:

- ✓ screening according to Know Your Customer principles for all its sources of Gold, and
- ✓ documented Due Diligence to confirm that all sources of mined Gold are Conflict-Free.



Could I buy CoC Materials without being CoC Certified myself?

Yes. CoC Materials will be sold by CoC Certified companies. CoC Certification is not relevant for the buyer of those materials if you do not intend to maintain segregation after sourcing CoC Material.

For example, the CoC Standard could be used as part of a responsible sourcing strategy. In such cases, the business could specify the types of CoC Material it wants to source.

However:

- ✓ CoC Certification is relevant if the business wants to provide assurance to its customers.
- ✓ Application of the RJC logo on CoC Material will be restricted to CoC Certified businesses.



Building critical mass

- Voluntary standard, so will take time for CoC Certifications to be implemented through a supply chain.
- Initiating a chain-of-custody system could come from different parts of the supply chain, and will build on:
 - ✓ supply and demand for CoC Material
 - ✓ exchange of information amongst businesses.
- Businesses can play a role in driving chain-of-custody supply and/or demand, no matter where they are in the supply chain.
- However businesses who can issue Eligible Material Declarations for mined, recycled and grandfathered material will be critical in building available supply.



Key messages

- ✓ RJC is developing CoC Certification to support businesses who are interested in assurance for responsible supply chains.
- ✓ CoC Certification will be voluntary, unlike the Code of Practices which is compulsory.
- ✓ CoC Standard will control for conflict sources, and help support Dodd Frank implementation.
- ✓ RJC is working closely with other related initiatives to align and harmonise standards wherever possible.
- ✓ Final period of public comment and stakeholder engagement on draft CoC Standard open until **22 August, 2011.**
- ✓ Aim to finalise and publish RJC CoC Standard in Q1, 2012.

Find out more

Visit the RJC website for information:

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

Join the mailing list for RJC updates, provide feedback, or ask us a question:

consultation@responsiblejewellery.com

Reinforcing confidence in the diamond and gold supply chain

