



RJC and Chain-of-Custody: Update

**Dr Fiona Solomon, Director – Standards Development
Responsible Jewellery Council (RJC)**

JCK Show – 2011



Outline

1. **Why Chain-of-Custody**
2. Update on other initiatives
3. RJC Chain-of-Custody initiative
4. 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 military, 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.

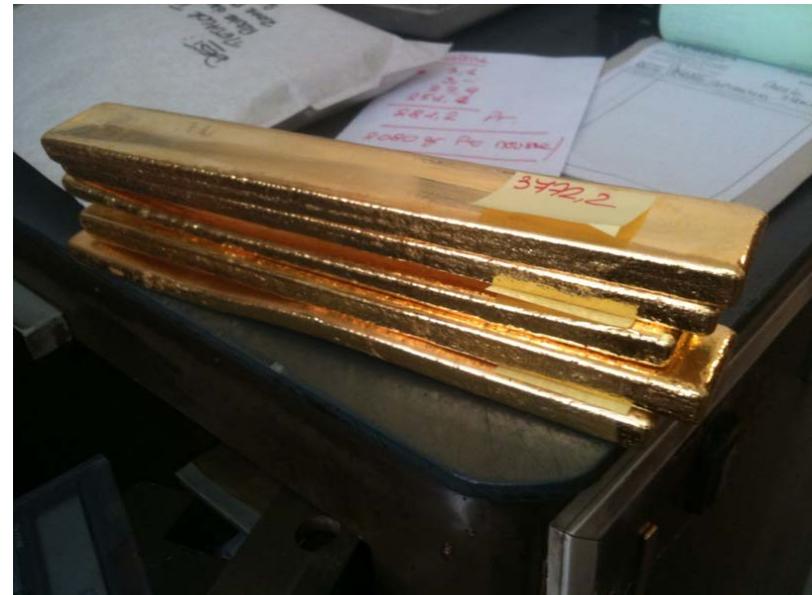
RJC Chain-of-Custody Certification

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

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

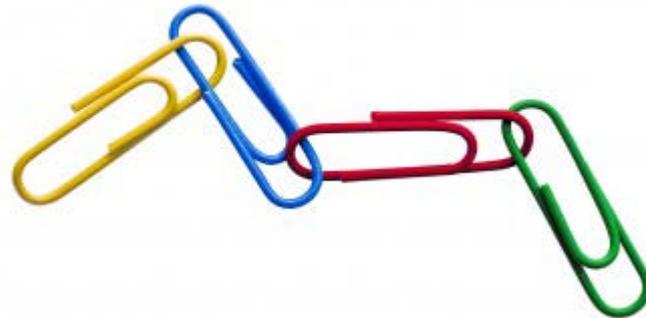
Design criteria:

- 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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Dodd-Frank Act – Section 1502 Conflict Minerals

Security and Exchange Commission (SEC) to promulgate new disclosure rules for SEC-reporting companies which manufacture (or contract to) products that contain ‘conflict minerals’ necessary to their function.

Gold is deemed a ‘conflict mineral’. Under proposed rules, disclose whether gold originated in DRC or adjoining country.

- No:** disclose reasonable country of origin inquiry and maintain records.
- Yes or Don’t Know:** disclose reasonable country of origin inquiry and furnish audited Conflict Minerals Report.
- Recycled:** deemed “DRC conflict free”, though Conflict Minerals Report still required.

Conflict Minerals Report

Description of products that contain conflict minerals that are not “DRC conflict free” .

The facilities used to process those conflict minerals.

Those conflict minerals’ country of origin.

The efforts to determine the mine or location of origin with the greatest possible specificity.

OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas

Provides management recommendations to help companies avoid contributing to conflict through their mineral or metal purchasing decisions and practices.

For use by any upstream or downstream company potentially sourcing minerals or metals from conflict-affected and high-risk areas.

Guidance published December 2010, with Tin, Tantalum and Tungsten supplement.

Work on Gold Supplement underway: first meeting May 4 and due for completion December 2011. Issues different for gold:

- Pre-financing in gold supply chain
- Confidentiality and security vs transparency
- Above-ground stocks of gold – grandfathering
- Unintended consequences eg artisanal mining

EICC-GeSI Conflict-Free Smelter program

Aims to enable global electronics companies to source conflict-free minerals from a published list of certified smelters/refiners.

Any smelter who wants to be certified conflict-free can volunteer to participate in a CFS assessment. Current focus is on tantalum processors. Tin, tungsten and gold smelters are planned to be added throughout 2011.

Requirements:

- Demonstrate conformance to the OECD Guidance via independent third party verification
- Establish chain of custody system to assure that smelters and their suppliers provide 100 percent supporting documentation regarding the mine of origin and subsequent trading partners to the smelter

World Gold Council Conflict-Free + CoC Standards

WGC developing a CoC standard for gold, applying from mine to refiner.

Proposed draft standards:

- Conflict-Free Standard
- Chain-of-Custody Standard
- Certification and Assurance Standard
- Labelling and Marketing Standard

Draft standards will provide extensive guidance on determinations of conflict. They have not yet been publicly released.

ICGLR Regional Certification

ICGLR Mineral Tracking and Certification system for African Great Lakes region:

1. Chain of custody tracking material from mine site to export
2. Regional mineral tracking using an ICGLR database
3. Independent third-party audits (quarterly for all participants)
4. An Independent Mineral Chain Auditor (for problems, anomalies)

Aims to develop certified conflict-free supply from DRC countries.
Partnership Africa Canada involved in developing program.

However there are many challenges, not least that Dodd-Frank reporting requirements may provide a disincentive to sourcing from the region.



Fairtrade-Fairmined Gold

Partnership between the Alliance for Responsible Mining and Fairtrade Labelling Organisation (FLO).

Fairtrade and Fairmined certified gold comes from artisanal and small-scale mining (ASM) organisations that meet the Fairtrade and Fairmined gold standard.

Standard includes a chain-of-custody dimension to track gold through to hallmarking with Fairtrade+Fairmined label.

Interest in RJC's CoC work to combine Fairtrade gold with CoC diamonds and other metals.

*ARM on RJC
Consultative
Panel;
Fairtrade
engagement*



Diamond Development Initiative



Development Diamond Standards: Development approach to artisanal diamond mining, to deal with 'bottom tier' of individual and small producers.

Multi-stakeholder Management Committee is working through draft standards and frameworks for implementation and governance.

DDI have expressed interest in connecting with RJC Chain-of-Custody work, to link jewellery supply chains with 'Development Diamonds'.

*RJC part of
Management
Committee;
DDI on
Consultative
Panel*

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Timeframes

On track ...

Date	RJC Process
April 2010	Discussion Paper 1 – 3 month public comment period
May – June 2010	Stakeholder Workshops – London, Las Vegas
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
March – July 2011	Develop Discussion Paper 3 – revised draft Standard, guidance etc for comment
August – December 2011	Comment period and engagement for Discussion Paper 3
January – March 2012	Finalise <u>CoC</u> Standard and associated documents; internal approvals and publication.

CoC Roundtables – January to February 2012

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.
- Avoid ‘RJC branded jewellery’, product-based certification.
- Standardise exchange of B2B information about provenance.
- Tighten requirements for outsourcing.
 - Include more detail on ‘know your customer’ due diligence for recycled metals.
 - Apply similar rules for recycling and grandfathering of diamonds, as per gold and platinum metals.

RJC Chain-of-Custody Certification

Proposal at a Glance

- Voluntary - and can select which parts of business and which materials to include
- Requires RJC Membership to support responsible business practices in the supply chain
- Applicable to diamonds, gold and platinum group metals.
- Requires independent, third party auditing
- Controls for conflict-free, responsible sourcing
- Supports implementation of Dodd-Frank Conflict Minerals legislation



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:

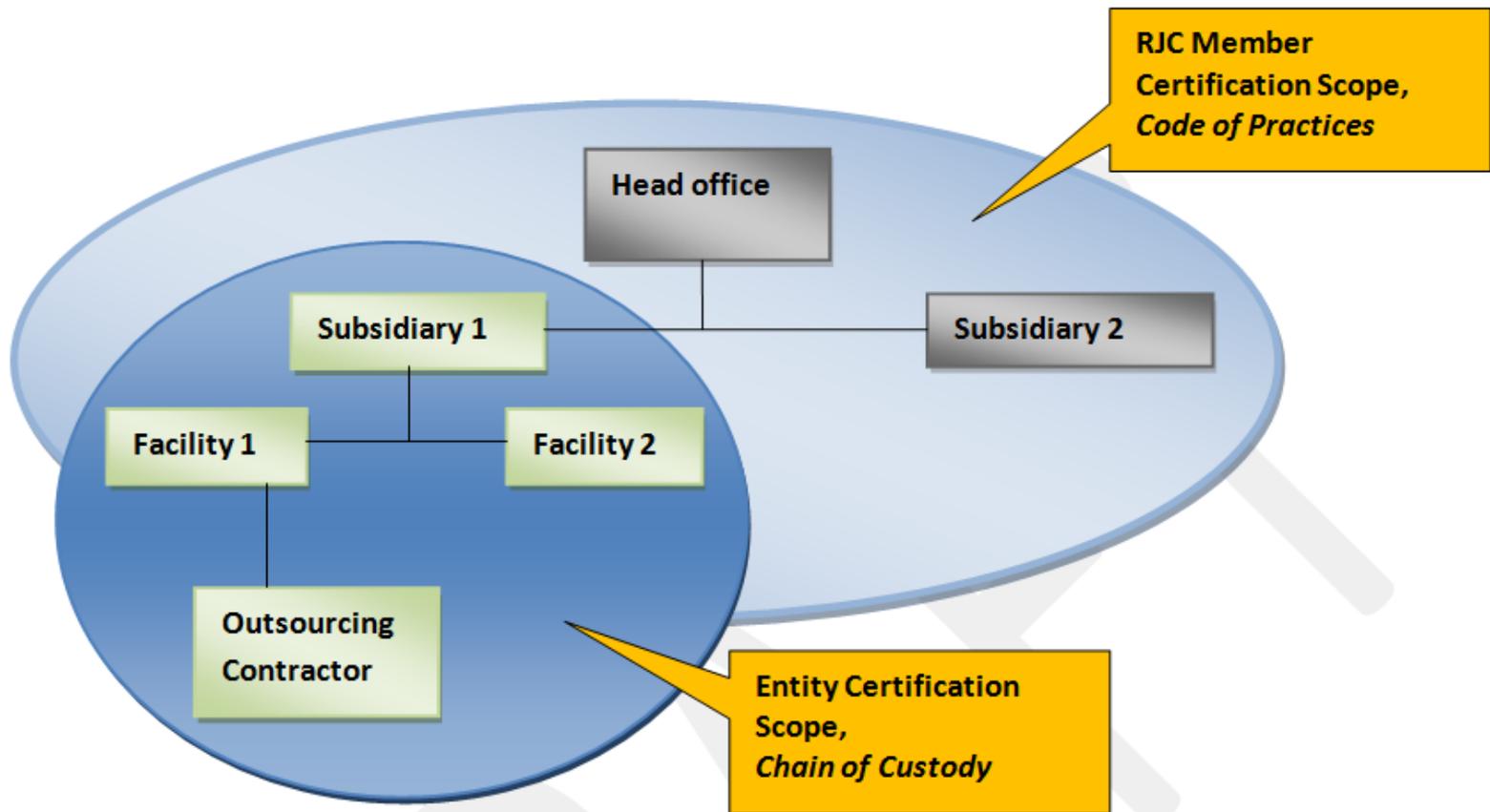
- ✓ Checks and monitoring of suppliers carried out for possible links to conflict sources or money laundering.
- ✓ While original provenance of recyclable materials may be unknown, recycling makes no further contribution to conflict and contributes to sustainable development.

Grandfathered:

- ✓ Robust evidence needed that materials were produced before a cut-off date. For example, stamped refining dates, inscriptions, or inventory records.



Decide CoC Certification Scope, Materials



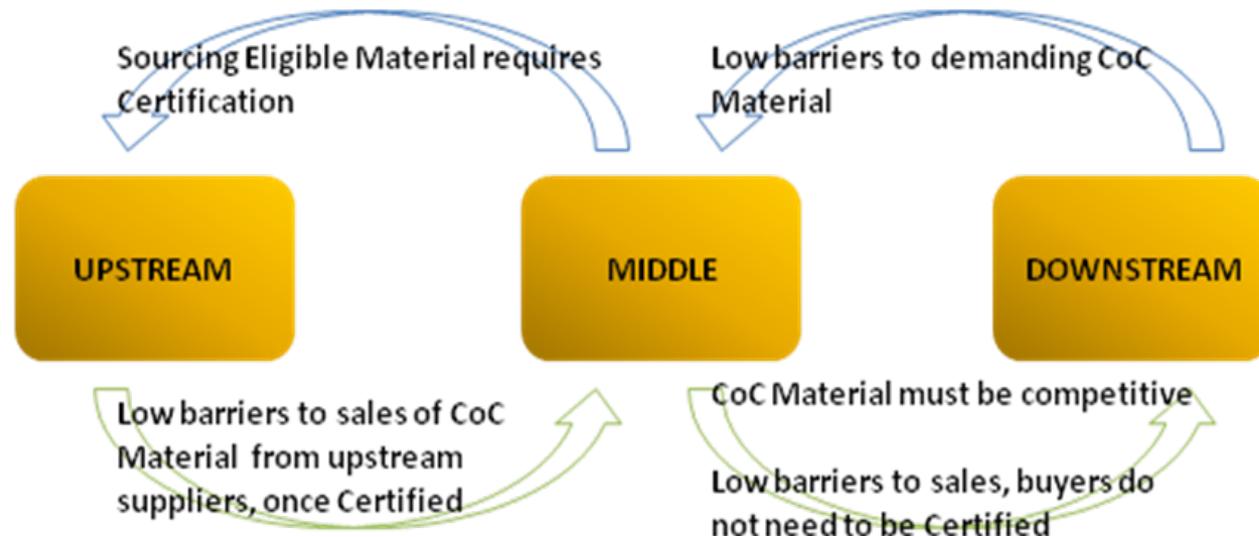
Building critical mass

- 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.



Supply of CoC Material

- CoC Certified refiners and miners would face very low to negligible incremental costs in declaring Eligible Material.
- Existing stocks provide potentially large volumes of Grandfathered Materials, particularly gold and platinum metals. Businesses operating in the middle of the supply chain can declare these sources as Eligible Material.
- No constraints to the sale of CoC Material by any CoC Certified Entity, as purchasers do not need to be CoC Certified.



Demand for CoC Material

- Depends on the interest expressed by retailers and other downstream purchasers, who could include CoC Materials in their specifications and/or preferences to suppliers.
- Purchasers don't need to be CoC Certified: minimal barriers to initiating a chain of custody sourcing approach.
- Critical part of the supply chain will be traders, wholesalers and manufacturers operating in the middle of the supply chain.
 - Need to become CoC Certified to maintain chain-of-custody
 - Need to be able to source and sell CoC Material at competitive terms and prices.
 - Cost of CoC Certification for businesses in the middle of the supply chain should be relatively low, where required management systems and controls are already in place.





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Why would my company use CoC Certification?

Depending on your 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 does CoC relate to KP?

RJC CoC Standard would offer a chain-of-custody for diamonds that have been responsibly mined, and for legitimate recycled diamonds.

CoC certification thus offers additional choice for RJC Members, particularly those who may be concerned about the governance of the Kimberley Process, and/or the narrower definition of conflict that it uses.

Compliance with the Kimberley Process and the WDC System of Warranties remains an auditable requirement under the RJC Code of Practices, while CoC certification would be voluntary.

RJC continues to support the Kimberly Process and System of Warranties, and it remains a minimum expectation for RJC Members in the diamond supply chain.



How could CoC help Dodd Frank reporting?

CoC definitions for Eligible Material work with and reflect the SEC Rules (as proposed). SEC Rules still to be finalised on recycled and grandfathered materials.

CoC Certification aims to establish a chain-of-custody for gold from the relevant starting points in the supply chain, thereby removing the requirement to conduct retrospective inquiries to determine origin.

All gold transferred under the CoC Standard would be DRC Conflict-Free. Due diligence processes assure that CoC gold is either mined gold that is declared as conflict free; or legitimate recycled gold; or Grandfathered gold (tbc).

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 an option for Refiners that allows for a Conflict-Free Gold Refiner designation to be included within its Certification Scope.

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. The CoC Standard could be used as part of a responsible sourcing strategy. CoC Certification is not relevant if you do not intend to maintain segregation after sourcing CoC Material.

In such cases, the business could describe the role of CoC Material in its responsible sourcing strategy, including targets for the use of CoC Material in the products they sell.

However:

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



Key messages

- ✓ RJC is developing CoC Certification to support Members 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 planned for Q3, 2011.
- ✓ Aim to finalise and public 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



	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 Complaints Mechanism				★
	10.2 Supply chain policy				★
	10.3,10.4 Conflict Free Refiner				★

Screening to confirm Eligible Material

Flow of CoC Material

