

Basel Gold Day: short summary

The virtual event on 9 October 2020 gathered gold industry experts from across the private and non-profit sectors to explore perspectives on the challenges of ensuring responsible and sustainable gold supply chains. This summary highlights the key points of discussion that could form the basis of future meetings and activities. It does not reflect the views of any one panelist or of the Chair, the University of Basel or the Basel Institute on Governance. Nor does it imply consensus.

Basel Gold Day was hosted by the University of Basel and Basel Institute on Governance. Full agenda and panelists at: www.pieth.ch/gold-day. Questions, thoughts and comments to conference@pieth.ch.

1 Consumer demand for “clean” gold: a clear trend, but more is needed to drive real change

Panellists agreed that there is a clear and growing trend in demand by retail and banking customers as well as institutional investors for gold that is considered “clean” or “ethical”. This reflects a wider shift in the preferences of new generations of consumers, investors and employees towards companies that demonstrate responsible and sustainable business practices. It is particularly evidenced in luxury consumer goods, such as the jewellery and watches sector, where emotions influence consumer choice.

In this trend, however, different customers prioritise different qualities in the products they purchase or invest in, with some requesting recycled gold and others preferring gold from artisanal and small-scale (ASM) or large-scale (LSM) mining. Also, while asking for products from responsible and sustainable business practices is a clear trend, customers that ask questions are still in the minority, particularly in the banking or tech sectors. This despite various efforts to educate customers on this topic.

In order to achieve a critical mass, panellists agreed that more education is still needed, particularly if customers are asked to pay a premium. But one panellist pointed out that consumer pressure alone will never be enough to drive widespread change across the industry, and that stronger incentives and collective efforts are required to mainstream

demand for responsibly and sustainably sourced gold. Another panellist referred to the need for companies in a sector to move from viewing “ethical” gold as a marketing tool or competitive advantage to the idea of it as a collective responsibility.

2 Communicating progress, managing expectations and engaging in Collective Action

Staying with the topic of education, one panellist argued that companies in the gold sector still have significant scope to better communicate their integrated approach to responsible and sustainable business practices.

In this context, however, it was argued that transparency is essential to manage expectations, as panellists repeatedly stressed that supply chains are complex and global and the issues won’t be solved overnight. Communication should therefore be honest about progress rather than promise perfection when in most cases that cannot quite be achieved.

Tools to this end are audits, public disclosure and customer education campaigns, which could all benefit from being developed or improved through Collective Action or other forms of partnership. The publication of the first London Bullion Market Association (LBMA) Responsible Sourcing Report in 2020 is one such positive step in demonstrating transparency and progress. One panellist also suggested partnerships of mutual support between companies that are at different stages of the learning curve.

Expectations must also be managed with respect to the roles and responsibilities of different players along the gold supply chain. In this regard, concern was raised about the portrayal of refineries as “gatekeepers” of gold supply chains, as it was considered to cause people to underestimate the complexity of the situation and the level of effort, resources and commitment needed to guarantee “clean gold” at all times. For example, it was argued to be unrealistic that refineries could micro-audit every action on the ground on a continuous basis. Such an approach would also not be in line with the widely supported concept of a risk-based approach. It was argued that companies should explore more strategic approaches, for example working with NGOs and initiatives such as the Swiss Better Gold Association.

Similarly, it is challenging when a small group of companies in one region is asked to take responsibility for what is actually a global problem involving multiple stakeholders within and outside the supply chain. Panellists representing refineries acknowledged their special

position and responsibility in the gold “ecosystem”, as well as their ability to ensure segregation of different gold sources. But they questioned the idea (explored in more detail in #3 below) that it could and should be possible for refineries to trace each individual gold product right back to the mine(s).

In a perfect world, it was argued, all stakeholders along the value chain would engage individually, according to their respective roles in the supply chain, as well as collectively to improve the conditions under which gold is mined globally. This would provide general confidence in the responsible production and sourcing of gold. In this sense, there was wide agreement that further thinking towards new and additional forms of Collective Action, bringing together all key stakeholders, i.e. governments, companies, industry associations and civil society organisations, could help with tackling the challenges of supply chain due diligence for the gold industry.

As with any Collective Action, having a critical mass in such an effort is essential, because practices such as segregation and traceability command a premium that ultimately has to be borne by customers too. These customers, it was noted separately, and if a critical mass in the effort cannot be achieved, can go elsewhere, including to refineries that are not on the LBMA Good Delivery List or are based in jurisdictions over which representatives at this meeting have little leverage.

In this context, panellists noted that it is already a big step forward to be sitting around a (virtual) table ready to search for solutions together. It was noted that government needs to be included in following discussions, and that commercial competition should not stand in the way of collaboration when it comes to matters of ethics and integrity. On the contrary, this problem cannot be solved by one single actor alone, and when companies operating in the same sector collectively lift standards and level the playing field, the entire industry benefits.

3 Due diligence, traceability and industry self-regulation

The problems with human rights and environmental harms in gold supply chains are not due to weak standards, it was proposed, as they are all covered by the OECD Due Diligence Guidance and its Supplement on Gold. The issue is weak implementation. There are numerous documented examples of gold entering the supply chains of companies, including those on

the LBMA Good Delivery List, which has been traced to mines where human rights abuses are taking place.

Some panellists argued that it is not possible to have meaningful human rights and environmental due diligence without detailed traceability and a strong and transparent verification mechanism. Unless a supply chain is fully mapped, a company does not have the information it needs to assess and mitigate the risks, to invest in improvements or to disinvest and disengage if necessary. But current verification mechanisms do not require tracing the gold all the way back to the mine.

Many therefore feel that a soft-law system of industry self-regulation is not strong enough to ensure that standards are fully implemented. Mandatory human rights due diligence enshrined in law, some argue, could be an important tool to set a clear baseline, boost transparency and confidence, and level the playing field.

4 Bringing artisanal mining away from the margins

A particular challenge relates to ASM. The LBMA Responsible Sourcing Report reveals that while 92 percent of LSM gold is refined through companies on the Good Delivery List, the amount of ASM production being refined by Good Delivery List refineries is “negligible”, around 1 percent.

Panellists with strong expertise in ASM emphasised the problems with public perceptions of informal mining as illegal. The vast majority of artisanal miners are not involved in conflict, crime or human rights abuses, it was stressed, but simply want to make a living. Back-of-the-envelope calculations put the number of individuals reliant on ASM for their livelihoods at 100 million and estimate that ASM generates USD 20 billion in revenue for developing countries each year. This puts miners above the poverty line in many low-income countries, with an average annual income of USD 1,000. ASM should therefore be regarded not as a problem but as an opportunity.

The human rights and environmental problems in the ASM sector are a consequence of the sector being marginalised, excluded and in some cases criminalised, it was argued. Working conditions are poor and dangerous, and investments in improving these conditions are constrained by informality and poverty. There is already evidence that the coronavirus

pandemic has exacerbated these issues and resulted in mining communities suffering from loss of income, a rise in child labour and an expansion into illegal mining and trade.

Panellists argued that the fact that most artisanal mining is informal makes the miners easy prey for criminal networks. A lack of access to formal banking forces them to deal on black markets. But the miners themselves are not those involved in money laundering and terrorist financing and should not automatically be regarded as illegal.

Therefore, instead of demonising ASM and cutting them out of the global delivery chain, participants agreed that more should be done to help the ASM sector to formalise, i.e. to establish themselves legally and access financial and global markets, with the accompanying rights to employment, healthcare and other benefits. This would, by filling gaps in due diligence for companies downstream, help to increase the amount of ASM gold being accepted by responsible refiners. Creating demand for responsibly sourced gold from ASM is one of the LBMA's two main priorities under its responsible sourcing programme. Representatives of refineries also stated that they do not want to disengage from ASM but acknowledge that these sources bring greater legal and reputational risks.

In line with the general sense that a true multi-stakeholder effort is required to further improve responsible and sustainable mining across the board, panellists agreed that a one-sided push from refineries and NGOs towards formalisation of ASM is not enough. It needs governments to support formalisation programmes and to develop policies and frameworks that are adapted to ASM and not just LSM. More explicit demand for ASM gold from downstream in the supply chain would help to catalyse this process but cannot be the only driver. There is a clear role for Collective Action to join up these efforts and make them happen.