The PM Supply Chain is Becoming More Regulated For the Better or Worse? A Refiner's Perspective

3rd
ASIA PACIFIC
PRECIOUS METALS
CONFERENCE
9-11 June 2019
PARKROYAL on Beach Road, Singapore

Richard G Hayes
10 June 2019



Diamonds are a girl's best friend......







They are also the warlord's best friend





Initial concerns raised in 1980s.

The Kimberley Process introduced in 2003

- Governments
- Industry
- Civil society participants

Currently 81 countries signed up





If Kimberley Process diamonds are again a girl's best friend, what about the rest of the setting?







If diamonds can be regulated, why not gold?



- Increasingly, today's investors and consumers are looking for ethically and responsibly sourced and produced products
 - Consumer activism originated in the fur and diamond industries in 1980s
 - Gold is (unfortunately) an ideal way to launder dirty funds and finance conflics, wars & terrorism
 - Mining does have a bad image in some parts of the world
- Its now mainstream, not fringe





The gold supply chain is highly fragmented with many regulations.....



No one overarching regulation of the gold industry

Gold Mining

- Heavily regulated by government in most countries
- Focus on environmental & safety management, approvals, societal impacts, taxation and labour practices

Sourcing of gold

- Dodd-Frank (2010, in force from 2014)
- EU Conflict Free Minerals Regulations (from 2021)
- OECD Due Diligence Guidelines Responsible Supply Chains (2010)
- OECD Gold Supplement 2012





The gold supply chain is highly fragmented



- Gold Market Infrastructure
 - FCA (or equivalent) regulates conduct of participants
- Voluntary Codes
 - LBMA Good Delivery
 - LBMA Global Precious Metals Code (May 2017)
 - Various other codes and rules around the world



A common framework to bring it all together



- Dodd Frank, OECD guidelines now operationalised by WGC, LBMA,
 RJC
 - Moved beyond the original "areas of conflict gold" intent
 - Now covers supply chain wherever it is located
- LBMA Responsible Sourcing Program (currently V8)





LBMA Responsible Sourcing Program V8 (Dec 2018)



Key facets:

- 5 step framework:
 - Establish strong company management systems
 - Identify and assess risk in the supply chain
 - Design and implement a management strategy to respond to identified risks
 - Arrange for independent 3rd party audits of supply chain due diligence
 - Publically report on supply chain due diligence
- Guidance to be interpreted as a "minimum threshold"..........





LBMA Responsible Sourcing Program V8 (Dec 2018)



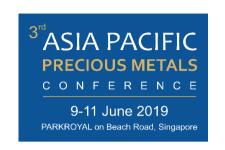
Who is responsible?

- The refiner is at the choke point in the value chain
- The refiner bears the primary responsibility for co-ordinating and monitoring implementation
- The refiner also bears the costs for this, without compensation from any other supply chain participant





Do the regulations achieve their intended aim?



YES

Aims to ensure supply chain integrity with respect to:

- Environmental practices
- Social and societal obligations safety, labour practices, legal frameworks
- Contemporary governance practices

But

- Not all refiners are LBMA accredited or will abide by this or other Programs
- Some LBMA refiners are less robust in their commitment to implement
- There are ways of cheating the system (Ghana dore, DRC gold via the ME to India)
- Grandfathering arrangements (Elemetal etc)





Do the regulations achieve their intended aim?



Participation potentially at the wrong level

- No sovereign or government role or commitment
- Needs global agency backing (United Nations for example)

Penalties for non compliance unclear or weak

- Not easy for clear action to be taken against rogue players
- Gold rebirthing continues, some PM exchanges fail to act decisively





Do the regulations achieve their intended aim?

3rd ASIA PACIFIC PRECIOUS METALS C O N F E R E N C E 9-11 June 2019 PARKROYAL on Beach Road, Singapore

The Opportunity

- Won't increase gold demand (yet, if ever)
- Should make compliant gold more attractive, perhaps with higher premiums
- Development of a globally acceptable supply chain tracking systems
- Involving global agencies will enhance the role and reputation of gold

