

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

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



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# They are also the warlord's best friend

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**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?

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## 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 conflicts, 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 3<sup>rd</sup> party audits of supply chain due diligence
  - Publically report on supply chain due diligence
- Guidance to be interpreted as a “minimum threshold” .....



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## 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***



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## 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?

## *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

