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The Conflict-Free Gold Standard:

Building an industry coalition to address the challenges of conflict gold

Executive Summary

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This case study describes why and how the World Gold Council led the development of the Conflict-Free Gold Standard (the Standard) from 2010 to the end of 2012. The Standard provides a common, voluntary approach through which gold mining companies can undertake due diligence and provide assurance to stakeholders, based on compliance with accepted international benchmarks, that their gold has been extracted in a manner that does not cause, support or benefit unlawful armed conflict or contribute to serious human rights abuses or breaches of international humanitarian law.

The Standard creates a framework to help gold miners to implement the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, and in the process to meet the due diligence expectations of actors further along the supply chain, especially gold refiners. In addition, it provides benchmarks to guide mining companies as to the steps they need to take in order to operate responsibly in conflict-affected or high-risk territories.

The study gives an account of the leadership role taken by an industry association in addressing a societal problem. It explains the particularities of the gold market with three main sources of supply – recycled material; newly-mined material from formal sector, industrial mines; and newly-mined gold from informal artisanal and smaller-scale operations. Once a piece of gold has been mixed with other feedstocks at the refining stage it is virtually impossible to establish its mine of origin; a major difference from diamonds which can be traced via the Kimberley Process.

The World Gold Council is a membership organisation funded by the leading gold mining companies. Its work is focussed primarily on markets and demand creation rather than on supply issues and it acts as an advocate for gold from all feedstocks, including recycled gold. The development of the Standard, therefore, raised questions as to the scope of its mandate, whether it had expertise in supply side issues, and whether it should act primarily on behalf of its member companies or as a champion of responsible practices at all stages of the gold value chain? The study outlines the challenges involved in accommodating differing company perspectives, geographical exposures and business models. It also considers the extent to which it is appropriate or feasible for an industry association to seek to establish standards for other actors in a highly complex supply chain.

The Standard was conceived as a voluntary corporate responsibility initiative, driven in part by seeking to anticipate consumer concerns. Over the course of its development, however, the context was changed radically by the passage of U.S. legislation, in the form of Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010. This created a disclosure requirement for U.S. listed companies to determine whether their products contain minerals from the Democratic Republic of Congo or surrounding countries, that may have been tainted by conflict, through carrying out supply chain due diligence. As a result of this, together with the emergence of the OECD Due Diligence Guidance on the Responsible Sourcing of Minerals and its

Gold Supplement, the Standard became part of a broader ecosystem of regulatory, normative and market-based initiatives all aimed at tackling the challenge of 'conflict minerals' and at implementing the corporate responsibility to respect human rights more broadly. These included the Dodd-Frank Act focussed on Central Africa, the OECD Due Diligence Guidance with global application and industry schemes covering gold mining, refining, jewellery and technology companies.

International Initiatives: Metals and Armed Conflict

	Global Focus	Focus on African Great Lakes
Regulatory & Normative	OECD • May 2011 – Adoption of Due-Diligence Guidance and Supplement on 3Ts • July 2012 – Adoption of Supplement on Gold	United States Congress; U.S. Securities and Exchange Commission • July 2010 – s1502 of US Dodd-Frank Act • August 2012 – Final rules issued • Focused on 3Ts & Gold International Conference on the Great Lakes Region
Industry-Led	World Gold Council; LBMA; Responsible Jewellery Council	EICC Electronic Industry Citizenship Coalition

Source: Terry Heymann: World Gold Council

The study summarises the debates about alternative approaches to identifying and recognising 'armed conflict' and around whether the Standard should focus on supporting compliance with established regulatory requirements relating to Central Africa or provide an anticipatory, normative framework for handling gold production in conflict situations globally.

The World Gold Council and its member companies recognised that there would have been limited utility in developing a Standard if it didn't command trust and credibility from external stakeholders. They sought to achieve this in two ways. Firstly, the Standard is based on accepted international benchmarks; secondly the study describes an unusually extensive, inclusive and innovative

consultation process. This involved the publication of two consultation drafts and consisted of a combination of bilateral stakeholder meetings, soliciting written submissions, promoting the Standard at third party events and the staging of seven independently hosted and facilitated roundtable meetings. Consultation events were held in Africa, Australia, Europe and North and South America and involved engagement with sixteen governments together with international institutions, civil society organisations, labour groups, academics, investors and gold value chain participants. The study reviews the significant impact which these external inputs had on the development and content of the Standard and the perceived benefits of such engagement for the industry.

The study notes that the Standard had a limited direct impact on the misuse of gold mining to fund illegal armed conflict, since this phenomenon is overwhelmingly attributable to informal or illegal smaller-scale mining rather than to the activities of the industrial mining sector. Nonetheless, it generated both public policy and sectoral benefits, including for the reputation of gold. Implementation of the Standard helped to establish that formal gold mining companies were largely free of a conflict taint and thereby to increase stakeholder trust.

It reportedly[1] improved the integration of initiatives such as aspects of the UN Guiding Principles on Business and Human Rights and the Voluntary Principles on Security and Human Rights with core site-level management systems, since implementation of the Standard (in conflict-affected and high risk areas) is subject to independent assurance. The Standard also, in principle, increased the pressure on host governments, civil society and international institutions to improve governance arrangements for artisanal and small-scale mining which is otherwise sometimes associated with organised crime, smuggling and poor social and environmental practices.

The Standard delivered two other benefits to the companies. Firstly, it helps those companies with mines in fragile environments which may become ‘conflict-affected’ to continue to operate – with benefits for the surrounding area in terms of jobs, public services and stability – for as long as they are able to establish, through objective and transparent criteria, that they are working responsibly and not causing or funding conflict. Secondly, the companies had been concerned that consumer concerns around conflict might escalate rapidly, as they had once threatened to do around ‘blood diamonds’. By taking anticipatory steps the companies were ahead of the curve and had a process in place to address such concerns. Thus, in both respects, the Standard represented good risk management.

[1] Feedback interviews and questionnaire responses from companies that participated in the Standard development process

Finally, the study considers the lessons for other industries from developing such an industry-wide Standard in terms of organisation and accommodating differing business priorities amongst competitor companies. Amongst the learnings to emerge from the process is the importance of:

- **a clear mandate and a reasonable level of consensus between the participating companies;**
- **avoiding asymmetric benefits or burdens as between companies;**
- **pursuing realistic objectives (the Standard almost foundered because its initial scope was considered by some companies to be too ambitious);**
- **good communication between company representatives on an association's board and their colleagues charged with implementation;**
- **an acceptance of the legitimacy of the process on the part of those who are intended to be covered by the rules – it is unlikely, for example, that rules generated by one group of commercial actors in a supply chain will necessarily be accepted by others;**
- **competent secretariat support to prepare policy options, liaise with external parties and prepare decisions; and**
- **authoritative and respected leadership – able to broker agreements between companies.**

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