Gold Supply Chain Due Diligence

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Preamble

Good morning, ladies and gentlemen. Honoured guests, members and Executive of the LBMA, thank you for allowing me to speak today. I wonder how many of you caught the euphoria of the new James Bond film which was promoted recently. I certainly did. When it came out in the UK, a lot of the TV stations were showing the old Bond films. When I was watching it a couple of weeks ago, I watched Goldfinger, the old 1964 film. In an early scene, Bond and his boss were having dinner with the governor of the Bank of England, Colonel Smithers, who explains the gold market to James Bond. This is what he says:

‘Gold establishes the value of the dollar and the pound. Consequently, we are vitally concerned about unauthorised leakages. Because the price of gold varies from country to country, you can buy it for $30 an ounce in London and sell it in Pakistan for around $110 an ounce, and treble your money. Gold, Mr Bond, can be melted down and recast, so it is virtually untraceable, making it, unlike diamonds, ideal for smuggling, and attracting the biggest and the most ingenious criminals’.

A lot has changed since 1954 – the role of gold in central-bank reserves; the dynamics of the gold price – but one thing in that statement from Colonel Smithers remains: gold is, according to the Organisation for Economic Cooperation and Development (OECD) and the US State Department, officially a conflict mineral which is used to fund conflict and criminal activity around the world, which should concern us all, especially in the current market climate.

Global Demand

As we have seen, gold jewellery is riding a wave of economic growth and an increasingly affluent middle class in China and India, and these countries make up about 45% of consumer demand, but how long for?

Global demand for gold jewellery has been declining recently, even in China, where gold is losing share to diamonds but, more importantly, to other discretionary and luxury-consumer-goods categories, such as luxury motorcars, which are up by over 35%. Luxury-goods companies like Richemont are up 22%, LVMH up 15%. Chinese consumers are becoming very important in the global luxury-brand market, and account for around 25% of all global luxury purchases.

The affluent middle classes in China and India are influenced by aspirational international brands, many of which come from the US, which is the third largest country of gold demand and is a global trendsetter. If gold loses favour with the US consumer, and if its reputation is tarnished as a conflict mineral, it will impact the reputation of gold not only in western markets, but eventually in emerging consumer markets like China and India too. The association of gold with conflict has led to legislation in the US, as I am sure you all know, in the Dodd-Frank Act, which has implications on gold as a desirable consumer category, and significant implications for major gold-jewellery manufacture and export countries, such as China.

Creating a Traceable Supply Chain

This morning, I would like to tell you what Signet has done to address this issue and to help achieve what Smithers in Goldfinger, and many others, thought was not possible: to create a traceable supply chain for gold, and we need help from the Chinese government and trade organisations to help protect the future of Chinese manufacturing and exports to the US, the largest export market for China. For those of you who do not know, Signet is one of the largest jewellery retailers, with over 1,400 stores in the US and about 500 in the UK. Last year’s turnover was about $3.8 billion. Around 80% of the business is in the US and about 20% in the UK. Signet is by far the market-leader in both countries, with a record of consistent growth for many years. Signet is also one of the largest buyers of precious metals and precious stones in the US jewellery market.
From 2010, Signet has been a US-listed company, so it has to comply with the Dodd-Frank Act – it has a legal requirement – and most exporters, manufacturers and suppliers are not aware that supplies of gold to the US market face a legal requirement to certify their sources. If suppliers cannot certify their sources, they are simply not going to be able to ship to most US companies. Signet has been involved in quite a number of industry-wide initiatives over the past year to help improve the integrity of its supply chain and, as a result, it has developed its own proprietary Signet Responsible Sourcing Protocol. That activity has been in four main areas over the past year:

- First, we developed a detailed understanding of our supply chain.
- We have been active and support industry-wide developments in guidance and standards.
- From this, we have developed our own sourcing protocol.
- A big part of that is also evident in our recent communications exercise, firstly internally in Signet in detail with the supply base, and externally, especially to the trade and trade shows, of which we consider this but a part.

Signet believes firmly in a responsible supply chain for all of its products. There have been three phases to its due diligence in its gold supply chain last year:

- A questionnaire to all of its suppliers to understand the scale and the complexity of its supply chain.
- A detailed survey of its main gold suppliers, which constituted over 95% of its gold sources, for which we had 100% supplier participation.
- In the latter part of it, towards the middle of this year, there has been a consultative assessment with a number of those suppliers of the draft protocol that we have developed.

**Draft Protocol**

The protocol that we have is a global approach and is aligned to emerging industry standards. It will ensure that Signet can provide a conflict-free report for the Securities and Exchange Commission (SEC) in 2014. Indeed, Signet already complies with most of the requirements of the Dodd-Frank Act and the OECD Due Diligence Guidance.

In terms of Signet’s sources, most of the buyers source gold from a variety of sources, many of whom are present in this room: from banks, refineries, metals-trading companies and scrap suppliers; and, importantly, from subcontractors who then, in turn, source their gold from similar sources. Signet now understands exactly which banks, which refineries and which metals-trading companies supply gold to their manufacturers. That entails over 1,000 distinct supply chains.

I do not have time to go into detail into the requirements of the protocol that we have, but:

- Signet suppliers have to certify and audit all of their gold sources based on specific guidance for each type of supply source. If they buy from a bank, there is a detailed protocol for what they have to do to ensure conflict-free supplies; if they buy from a refiner, there is a similar set; if they subcontract, there is another set. This applies not only to the supplier that provides the gold to Signet. We pass the onus that we place on to the suppliers down the supply chain.
- Suppliers either need to certify all of the gold that they produce through their manufacturing or, which much more difficult, they have to segregate their gold suppliers and their gold sources for Signet from their other gold sources.
- A key reference in the protocol that we developed was the LBMA Responsible Gold Guidance. Gold from refineries which are on the LBMA Good Delivery List is Signet’s preferred solution to this issue. The LBMA has provided significant leadership in the industry with this, and has provided a solution for the industry, for which it deserves to be thanked and congratulated for all of its efforts.

**Reactions and Next Steps**

The reaction from Signet’s supply chain has been cautious but unanimously positive. They recognise that Signet is in a leadership position in this – not many other companies have gone down the road as
far as Signet has in doing this. They recognise that it is not easy, but it will work. Importantly, despite the fact that a number of US associations and companies have started to say that the Dodd-Frank Act is going to impose a great deal of extra cost on their business, it seems to becoming business as normal. Our suppliers believe that certified sources of gold will become the norm; therefore, trying to get other, illicit forms of gold will become more problematic. It is not, then, going to be a significant additional cost to them, nor to Signet.

We are on the track but there is a lot more that we need to do. We did an assessment of how ready Signet’s suppliers are to comply with the requirements of Signet’s protocol, and we did a simple red/amber green assessment: red means we are not going to be able do it; ambers means we are probably going to be able to do it but it is going to take a bit more work; and green means we are ready to go. 75% of Signet’s suppliers think they are ready – but they would say that, because they want to do it and they say what they think Signet wants to hear. However, they also underestimate the work that is really needed. Our view is that only 10% of Signet’s supply sources are ready to comply with the guidance that we have given them, but the other 90% will get there, and we are very confident that they will do so by the end of next year, which is the deadline that we have set them.

What we have found in terms of the development of the protocol that we have put in place is that a great key to success is the support of local government and trade organisations, especially in terms of reciprocal recognition of global guidance and standards. In terms of the total gold fabrication of around 2,800 tonnes a year, we have been very pleased to see the mutual recognition of standards and guidance from the LBMA and the Responsible Jewellery Council, from the OECD, and the electronics industry etc. Local trade associations have backed these standards to their members. In India, the Gems and Jewellery Export Promotion Council have recommended this guidance to all of their members, as have the SEEPZ (Special Economic Zones) manufacturing centres.

Signet is very confident that, in those countries, with the support of those trade associations, manufacturers in those countries will be able to continue to export to the US and to Signet. Regrettably, however, we have not yet seen any initiatives from China by industry associations and bodies to reciprocally recognise these international standards, so we would very much welcome initiatives from the Shanghai Gold Exchange, the Hong Kong Jewellery Manufacturers’ Association or the Gems & Jewellery Association of China, for example, which would help build confidence in suppliers in general from China. Signet is doing what it needs to do to ensure that its suppliers in China will enable Signet to be conflict-free, but if trade associations and other organisations spread the message within China, I think confidence levels in the US, and confidence in general, about supplies from China will improve.

The guidance that we are giving to our suppliers is that we are telling them to act now, and most of them already have. Some of you may already have included such guidance into your conditions of business; for example, that you only supply LBMA Good Delivery gold. As I said before, one of the requirements for doing business that we recommend to them is exactly that: to make supplies of gold from LBMA “good delivery” refineries a core condition of business. If they cannot do that, there is a whole list of other standards and guidance that they would have to certify gold against, which are, frankly, much more complicated and onerous.

**Conclusion**

We recognise that putting our protocol in place will take time. We started the process about a year ago and we have another 15 months or so to go, by which time our supply chain will be fully compliant. We are confidence that we will achieve that, but we recognise that, for a great deal of our suppliers, putting these processes in place will take time. If they do nothing, however, as is the case with a number of manufacturers in China, sales to the largest export market in the world –the US – and particularly to Signet will be in jeopardy.

Thank you for your attention and I am happy to answer any questions.