

Conflict-Free Gold Standard

An introduction



About the World Gold Council

The World Gold Council is the market development organisation for the gold industry. Working within the investment, jewellery and technology sectors, as well as engaging with governments and central banks, our purpose is to provide industry leadership, whilst stimulating and sustaining demand for gold.

We develop gold backed solutions, services and markets based on true market insight. As a result we create structural shifts in demand for gold across key market sectors.

We provide insights into international gold markets, helping people to better understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, the Far East, Europe and the USA, the World Gold Council is an association whose members comprise the world's leading gold mining companies.

Our Board of Directors represents the whole of the World Gold Council membership and is chaired by Ian Telfer, who is also Chairman of Goldcorp. In most cases, members are represented on the Board by their Chairman or CEO. Members' active support of the World Gold Council represents their shared vision of ensuring a sustainable gold mining industry, based on a deep understanding of gold's role in society, now and in the future.

Member companies are¹:

African Barrick Gold Plc
Agnico-Eagle Mines Limited
Alamos Gold Inc.
AngloGold Ashanti
Barrick Gold Corporation
Centerra Gold Inc.
Cia de Minas Buenaventura SAA
Eldorado Gold Corporation
Franco-Nevada Corporation
Gold Fields Limited
Goldcorp Inc.
Golden Star Resources Limited
IAMGOLD Corporation
Kinross Gold Corporation
New Gold Inc.
Newcrest Mining Limited
Newmont Mining Corporation
Primero Mining Corporation
Royal Gold Inc.
Yamana Gold Inc.

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1 As at 1st December 2012

Foreword by Aram Shishmanian CEO, World Gold Council

Across cultures and time, gold has been a symbol of trust. Investors trust gold to preserve wealth against the ravages of inflation. Young couples trust gold to express their love and commitment to each other. Scientists trust gold to deliver exceptional performance in a variety of technological applications.

In uncertain times, the world turns to gold. So nothing could be more important than maintaining the confidence which consumers, investors, governments and producing nations place in this precious metal.

We are introducing the *Conflict-Free Gold Standard*. Its objective is simple; to create absolute trust that the gold produced under its principles and processes is delivered in a manner which does not fuel armed conflict or fund armed groups, nor contribute to the abuse of human rights associated with such conflicts.

Responsibly undertaken, mining and its related enterprises play a crucial role in contributing to sustainable development and alleviating poverty in many of the world's developing countries. The direct economic contribution of professional gold mining creates new possibilities for these nations, their communities and individuals.

The supply chain for gold is highly complex, made so by multiple factors including: gold's role as a parallel currency, high levels of recycling amounting to over 35% of annual supply, and the significant production of newly-mined gold from artisanal sources which is often informal and sometimes illegal.

Nevertheless, the World Gold Council on behalf of its members, together with leading refiners, has created this Standard. We believe this initiative represents a major advance towards eradicating gold that fuels conflict from the legitimate supply chain. This Standard has been widely recognised as credible and workable. In its initial draft form, our Standard was released in June 2011 and then in a revised form in March 2012, before the Standard was published in October 2012. Throughout, we have actively sought and incorporated feedback from the broadest range of stakeholders including governments, supply chain participants, NGOs, investors, academics and civil society organizations through multi-stakeholder roundtables, meetings and written submissions. This work has proceeded under the Chairmanship of Pierre Lassonde, the Chairman of Franco-Nevada Corporation.

As a result, we are confident that the *Conflict-Free Gold Standard* is robust, practical and should be fully auditable by independent third parties to ensure its integrity. It is global in scope; it takes direct account of legislative and normative developments and we will work to ensure that it complements and integrates with other industry frameworks. It has been designed from the outset to create trust that the gold which conforms to its stringent processes is free from the taint of conflict.

Gold that conforms to the *Conflict-Free Gold Standard* will tell a different story. It will reinforce the trust that people place in this precious metal and further recognise its contribution to the advancement of sustainable development and the futures of the people who produce it.

Executive summary

The *Conflict-Free Gold Standard* is designed to apply to World Gold Council members and other companies involved in the extraction of gold. The Standard has been developed to establish a common approach by which gold producers can demonstrate that their gold has been extracted in a manner that does not fuel conflict or the abuse of human rights typically associated with such conflicts.

The financial turbulence of recent years has led many people and organisations to re-evaluate the role of gold. Many countries are, once again, building up their reserves – recognising gold's role as a store of value. In addition, gold's unique properties have increasingly been recognised through new applications in electronics, medicine, energy efficiency and environmental science.

Regrettably, some of gold's special characteristics – in this case its intrinsic value and portability – have made it a potential source of finance for armed groups involved in civil conflicts and insurgencies. The actual proportion of newly-mined gold that is potentially implicated in financing unlawful armed conflict is extremely low – probably less than 1% of total annual gold production – but it is important that responsible actors take steps to make it harder for gold to be misused in this way.

With this in mind, the World Gold Council instigated work to devise a *Conflict-Free Gold Standard* towards the end of 2009. Subsequent to this, the USA passed legislation (Section 1502 of the Dodd-Frank Act, July 2010), which declared four minerals – tin, tantalum, tungsten and gold – to be potential 'conflict minerals'. The Organisation for Economic Co-operation and Development (OECD) also developed guidance on the responsible sourcing of minerals in May 2011, together with a Supplement on Gold in July 2012. The former is focused entirely upon the Democratic Republic of Congo and adjoining countries; the latter, like the World Gold Council approach, has global application to areas considered to be 'conflict-affected or high-risk'.

The World Gold Council and our member companies strongly support the responsible production of gold and believe that gold mining should be a source of economic and social development wherever it is found and that any possibility of gold mining funding conflict should be eradicated. The *Conflict-Free Gold Standard* is a common approach by which gold producers can assess and provide assurance 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. It is an open standard that is available for use by any party involved in the extraction of gold. Gold producers will need to publicly disclose their conformance with the Standard and will require external assurance on this disclosure.

This initiative matters not only because of the immediate challenge of unlawful armed conflict but because the measures taken to counter such conflict need to be structured in such a way as to avoid the stigmatisation of newly-mined gold from any particular area. Many people are alarmed that in pursuit of the important objective of excluding gold that fuels unlawful armed conflict from the market, damage may be done to responsible gold mining – and the livelihoods of gold miners and their surrounding communities – in a number of the world's poorest countries. This booklet ends, therefore, with some illustrations of the contribution made by gold mining to economic growth, poverty alleviation and development.

Background to ‘gold and conflict issues’

The misuse of natural resources to finance or motivate conflict has been evident in many situations over the last 15 years: from timber in Cambodia and Liberia to diamonds in civil wars in Sierra Leone and Angola. Natural resources represent mobile and internationally tradable assets which, without countermeasures, can be used to fund armed groups and associated conflicts.

In recent years, the principal focus has been on the role of minerals in partially funding the conflict in the Democratic Republic of Congo (DRC). Over four million people are estimated to have died in the country over the last fifteen years – the heaviest loss of life in any conflict since the Second World War. Reports by the UN Group of Experts have highlighted how warlords have looted the rich mineral endowments of the eastern DRC and used them for personal enrichment and as a source of funding for their militias.

Attention in the region has focused upon four minerals: tantalum (where the DRC accounts for almost 15% of world supply); tin (c. 6% of supply); tungsten (c. 2–4% of supply) and gold. Authoritative sources estimate that the DRC produced 22 tonnes of gold in 2011 (0.8% of newly-mined gold for that year). It is doubtful that much, if any, of this gold would make its way into the formal gold supply chain. Before October 2011, when Banro’s Twangiza mine started production, there were no large-scale corporate mines in the DRC, the majority of production coming from artisanal and small-scale sources. Weak governance, poor security and the opaque and fragmented nature of many artisanal mining groups make them easy prey for control or extortion by armed groups.

These issues are compounded by the challenges presented in trying to track consignments of gold from individual mines to its use in jewellery, electronic and other technological applications or investment products.

Gold is easily melted and, once mixed with other sources of gold, as is standard practice in gold refineries, it is impossible to trace back to the mine of origin. Gold is not generally sold directly by the producer to the customer but moves through a series of complex transactions, including refiners, bullion banks, manufacturers and retailers. Gold is also inherently recyclable – indeed that is one of the key reasons why it is such an effective store of value. In recent years, over 35% of annual gold supply has come from recycled (or ‘previously refined’) sources.

Furthermore, around 10–15% of newly mined gold comes from artisanal and small-scale sources. Although artisanal mining is an important source of economic activity in some developing countries, a significant proportion of this mining is illegal and much of it is in the informal sector, operates beyond government supervision, outside the tax regime and is prone to smuggling. The provenance of such gold is often, therefore, difficult to establish.

Against this background, significant work has been undertaken to address the potential misuse of gold in 'conflict-affected or high risk' areas. Along the gold-supply chain, industry-led approaches have been developed including the London Bullion Market Association's *Responsible Gold Guidance* (which is focused on refiners), the Responsible Jewellery Council's *Chain-of-Custody Standard for Precious Metals* and the GeSI-EICC Conflict-Free Smelter Programme.

At the same time, governments and multi-lateral institutions, have also been addressing these issues, including:

The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas – this guidance set out a five step process for corporate due diligence in sourcing minerals from 'conflict-affected and high-risk' areas¹. The World Gold Council has been closely involved as part of a multi-stakeholder group in the development of the Supplement on Gold.

The Wall Street Reform and Consumer Protection (Dodd-Frank) Act

creates obligations for US-listed manufacturers to identify whether they source any of the four so-called 'conflict minerals' from the DRC or adjoining countries (Section 1502). If they can establish that the materials do not come from the African Great Lakes region then they have little more to do. However if the minerals do come from the region – or they are unable to establish their origin – the company must file a 'Conflict Minerals' Report and have it audited. Many people fear, whilst supporting the humanitarian objectives behind the legislation, that to avoid the staff time and compliance costs and potential legal liabilities of producing such a report, manufacturers may mount a 'de facto' boycott of gold from the region – thereby damaging responsible producers, destroying the legitimate livelihoods of many thousands of people, and damaging the prospects for new investment.

The European Union, within the context of its overall work on trade and development and raw materials policy, has stated its intention to produce proposals on improving the traceability of minerals.



Cleaning a doré bar.
(Copyright World Gold Council)

¹ The five steps in the OECD due diligence framework are: i) establish strong company management systems; ii) identify and assess risks in the supply chain; iii) design and implement a strategy to respond to identified risks; iv) carry out independent third party audits of the supply chain at identified points; and v) report on supply chain due diligence.

The *Conflict-Free Gold Standard*

World Gold Council member companies and other gold producers who apply the Standard will be expected to make public statements relating to their conformance or otherwise with the Standard. These statements may be published on the company website or in company reports (e.g. their annual financial report or sustainability report). Conformance with the Standard will be externally assured.

The Standard takes the form of a decision tree split into five sections:

- **Part A – Conflict Assessment:** this uses external criteria to assess whether the area in which the company is operating should be considered ‘conflict-affected or high-risk’.
- **Part B – Company Assessment:** where the area is assessed to be ‘conflict-affected or high-risk’, this assesses whether the company has the appropriate management systems in place in order to discharge its corporate obligations and responsibilities in this area, to avoid fuelling or funding unlawful armed conflict and associated human rights abuses or breaches of international humanitarian law.
- **Part C – Commodity Assessment:** where the area is assessed to be ‘conflict-affected or high-risk’, this assesses the processes in place to manage the movement of gold and gold-bearing material while in the custody of the company so as to mitigate against the misuse of this material by illegal armed groups.
- **Part D – External Sources of Gold Assessment:** when the company or individual operating site acquires gold from an external source, this assesses the processes that need to be in place to ensure that appropriate due diligence is undertaken so as to exclude gold tainted by conflict.
- **Part E – Management Statement of Conformance:** where the company has demonstrated conformance to Parts A–D (as relevant) an appropriate statement needs to be provided to the next party in the chain of custody.

Each section sets out the key decisions that will determine whether the gold produced by the company is in conformance with the Standard. Criteria are set out together with the process by which the decision should be made to assess conformance.

Throughout the *Conflict-Free Gold Standard*, reference is made to objective benchmarks and sources of best practice guidance produced by credible third parties or international codes such as the OECD Guidance, the *Voluntary Principles on Security and Human Rights* and the *UN Guiding Principles on Business and Human Rights*. The production and export of gold in defiance of international sanctions, for example, triggers an automatic non-conformance.

Each participating mine will first carry out a conflict assessment. This relies on guidance from an appropriate body that defines certain areas as being ‘conflict-affected or high-risk’. The principal sources of guidance in determining if an area should be considered as ‘conflict-affected or high-risk’ is the *Conflict Barometer* produced by the Heidelberg Institute of Conflict Research. A rating of 5 (war) or 4 (limited war) is taken as guidance that the area may be considered as ‘conflict-affected or high-risk’. Companies may also, at their discretion, use additional reference sources including:

- The United Nations Security Council (or subsidiary bodies such as a United Nations Group of Experts), to the extent that it identifies specific countries or collection of countries as being ‘conflict-affected or high-risk’ or as constituting a threat to international peace and security
- The European Union, the African Union or the Organization of American States
- National bodies that have widespread international acceptance or recognition
- The presence of a mine in a ‘conflict-affected or high-risk’ area need not, in itself, lead to the mine being judged as non-conforming. Indeed, disinvestment or withdrawal by responsible operators – with the consequent loss of livelihoods, tax revenues and economic and social infrastructure – may make it more difficult to stabilise a conflict situation or to achieve post-conflict reconstruction.

Where the operation is in a difficult environment, the focus then moves to whether the implementing company has the right policies, systems and skills to enable it to operate responsibly, accountably and in a transparent manner.

The Company Assessment and Commodity Assessment are only required if the mine is operating in a 'conflict-affected or high-risk' area. The Standard lays out a demanding framework of tests and prompts through which companies must assess their systems and analyse their impacts on those around them. Their conclusions must be auditable.

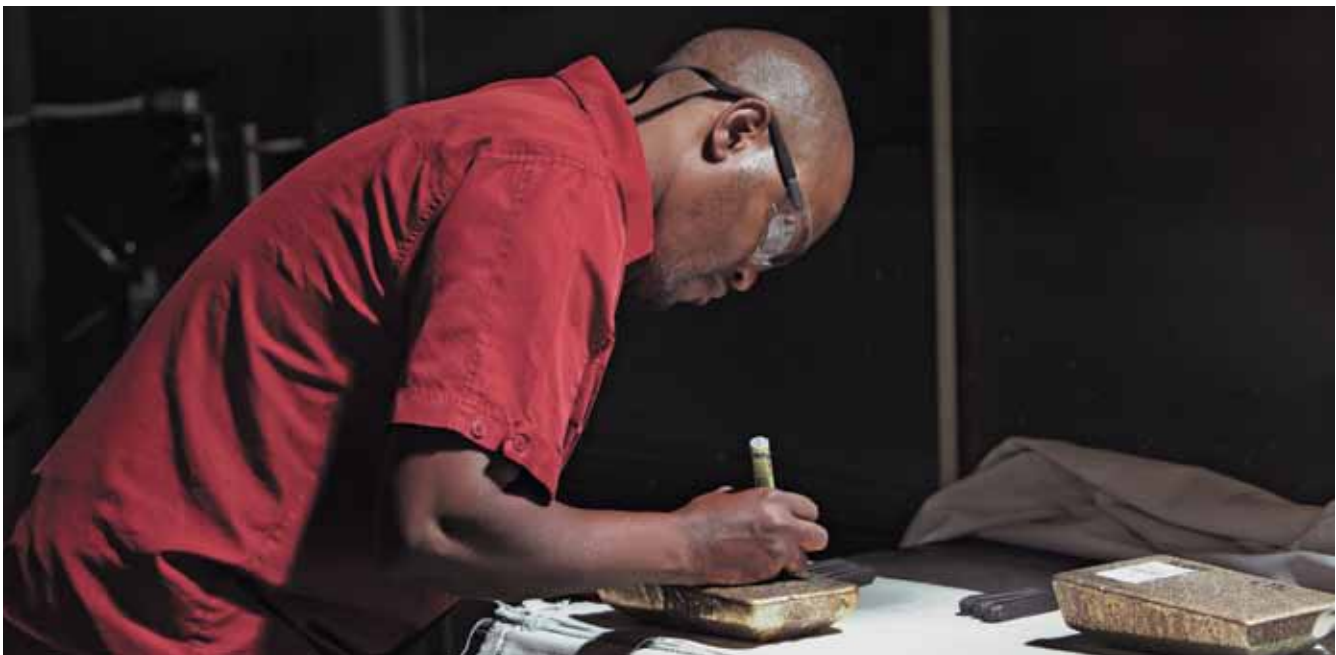
The Company Assessment includes sections on:

- commitment to human rights, including whether the company has a public commitment to human rights and whether they implement the *Voluntary Principles on Security and Human Rights* or equivalent systems
- corporate activities, including disclosure of credible allegations alleging involvement of the company in human rights abuses
- security, including whether the mine has sought to use its influence with public security forces acting in the vicinity of the mine to ensure that they observe human rights and international humanitarian law and the rule of law
- payments and benefits-in-kind, including disclosure of payments to governments
- engagement, complaints and grievances, including assessment of whether the company has a process in place through which it engages with the local community, including traditionally marginalised groups such as women, young people and indigenous peoples.

The Commodity Assessment includes sections on the nature of the gold production and control of gold at the operation (including steps taken to prevent theft) and due-diligence undertaken on transport providers.

If the company can demonstrate that it complies with the Conflict, Company and Commodity Assessments, it also needs to demonstrate that any externally sourced gold is subject to appropriate due diligence. This due diligence needs to be in line with the OECD Guidance.

If all the above criteria have been met, a Management Statement of Conformance should be produced which provides confidence to downstream users of the gold and aids their due diligence processes.



Identification of individual doré bars.
(Copyright World Gold Council)

Gold's contribution to development

While working to exclude illegitimate gold from the supply chain, it is critical that mining companies and the broader international community also recognise the important role that gold mining can play in protecting the interests of countries and communities which are dependent upon legitimate gold production.

Over 70% of new gold production originates in non-OECD countries. In many countries, gold mining is a major contributor to economic growth and development. This contribution can be made through a number of routes including: macroeconomic; job creation; infrastructure development; building supply chain capabilities; human capital investment and governance.

Macroeconomic impacts

Gold mining has a strongly positive macroeconomic impact on some of the poorest communities in the world, for example:

- Mali, a top five producer in Africa, but one of the poorest countries in the world. Gold is a crucial element in its route to development, accounting for some 75% of the nation's foreign exchange earnings
- A survey in Ghana in 2010 by the Chamber of Mines found that 76% of revenues were retained in the country in the form of taxes and royalties, wages and training costs, procurement and community investments; a comparable study in Tanzania found that 70% of revenues were retained in the economy
- Gold is one of the top sources of foreign exchange earnings for countries as diverse as Papua New Guinea, Peru, Mongolia, Uzbekistan and South Africa.

Although the industry is relatively capital intensive, gold mines have a significant employment impact, especially when direct employees, contractors, suppliers and multiplier effects have been taken into account. For example, in Tanzania, 15,000 people are directly employed in the formal mines and a further 50,000 are estimated to be employed in servicing the requirements of the mines.

Gold is a major source of foreign direct investment for some of the world's most vulnerable countries and is a major driver of infrastructure and wider development. Over the life-cycle of a mine, gold mining will typically make a significant contribution to government revenues. For example, gold mining accounted for 18% and 17% of government revenues in Mali and Ghana respectively in 2010 and is of growing importance in countries like Tanzania, where investment in professional gold mining is more recent.

Infrastructure

Gold mining can create the infrastructure that helps kick-start broader economic and social development.

Mining is a foundation industry which catalyses the wider provision of key infrastructure – such as transport, piped water, electricity and telecommunications. For example, in Tanzania, African Barrick Gold has invested \$100 million, in partnership with the national utilities company, to link its four mines and many local communities to the national electricity grid.

Similarly, in Peru, Minera Yanacocha (jointly owned by Newmont, Buenaventura and the International Finance Corporation) has recently invested in a new 70km road that not only enables heavy traffic to bypass the city of Cajamarca but also creates trade and tourism opportunities for the communities of San Pablo and Chiletá.

Local procurement and livelihoods support

Responsible gold miners routinely seek to build up local supply chains. A World Gold Council study of four major gold mines in Peru published in 2012 concludes that 90% of their procurement is from Peru-based companies, creating jobs and prosperity in local communities.

Newmont's Ahafo Linkages Program in Ghana is a partnership with the IFC, the World Bank's private sector arm to support communities in an area of subsistence farming and low educational attainment. The programme has three strands:

- Local supplier development which created opportunities worth \$23 million over three years through the provision of management training in topics such as marketing, financial planning, budgeting and HR management
- Local economic development through the provision of support for 44 non-mining related businesses in areas such as hospitality, catering and brick making
- A technical development assistance programme which has provided training to 250 individuals, including 67 women, on business and technical skills in areas such as improving agricultural practice and pottery production.

Health and education

It is common to find that a gold mine will help to establish or support schools and health clinics in local communities, as well as improving access to potable water. In fact, some of the programmes which companies are leading are becoming much more ambitious. This is true, for example, of AngloGold Ashanti's malaria eradication programme. This was first created around its Obuasi mine in Ghana with such impressive results that the company has now extended the model to a further forty districts and has received a grant of \$138 million from the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria.

Also in Ghana, on the theme of skills building and community upliftment, Gold Fields' Sustainable Community Empowerment and Economic Development (SEED) programme works to improve: the economic position of 4,000 households; the health status of 30,000 local residents and the level of education and skills of 5,000 local young people and adults.

Governance

The leading gold mining companies are also active in seeking to spread international best practice and in promoting governance reforms. This may occur through capacity building schemes with local government or through initiatives like the Extractive Industries Transparency Initiative (EITI). Gold producing countries are well represented in the ranks of EITI implementing nations including: Mali, Guinea, Côte d'Ivoire, the Democratic Republic of Congo, Ghana, Tanzania, Peru, Indonesia, Mongolia and the Kyrgyz Republic. In each case, EITI succeeds or fails because of the effectiveness of the in-country coalition established between government, business and civil society.

The gold industry is committed to working to promote the stability and prosperity of the countries where it works. Assisting countries out of poverty and empowering citizens through the improvement of health, education and infrastructure helps, in turn, to strengthen institutions and to make conflict less likely to destabilise a society.

It is crucial that, in taking steps to combat the potential misuse of gold, legitimate producers are still able to find their way to market. That is one of the objectives of the *Conflict-Free Gold Standard*.



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