



VIRTUAL SUMMIT

14 May 2020

Building Leverage Across the Value Chain

Speakers:

Susannah McLaren, Compliance & Responsible Sourcing Manager, LBMA/Speaker 1
Ian Warman, Head of Commodities Operations, Europe, Standard Chartered Bank/Speaker 2
Andrew Parsons, Vice President, Group Sustainable Development, Gold Fields/ Speaker 3
Grant Angwin, President, Angwin Precious Metals Advisory Services/Speaker 4

Summary:

Watch our panel from across the supply chain reflect on accountability, with a focus on who has the influence and leverage to effect change to achieve positive outcomes. Our panellists provide an overview of the value chain, the role each actor should play and their accountabilities, before discussing meaningful achievements seen through LBMA's Responsible Sourcing Programme plus any challenges encountered along the way.

Speaker 1:

Welcome to LBMA's webinar on Building Leverage Across the Value Chain. This is part of our Responsible Sourcing Virtual Summit webinar series. My name is Susannah McLaren and I'm the Compliance and Responsible Sourcing Manager at LBMA. Building leverage has been identified as one of the key priorities in our Responsible Sourcing strategy, which Sakhila Mirza presented on a previous webinar. This priority builds on the work we have been doing at LBMA to map the precious metals value chain, to assess existing mitigation measures and points of leverage. What we have identified through our work is that, although the refiner has been identified as the choke point, often there are other bigger actors in the value chain who have more resources, and greater leverage. This point was well articulated by Dr Mark Pieth in our opening webinar of the Virtual Summit. On today's webinar, we will discuss accountability in the precious metals value chain with a focus on who has the influence and leverage to effect change, to achieve positive outcomes. I'm delighted to be joined today by an esteemed panel of key actors in the precious metals value chain. Ian Warman is Head of the Precious Metals Transaction Management Unit at Standard Chartered Bank, with a bullion career spanning thirty years. Ian is also the chair of LBMA's Physical Committee, where Responsible Sourcing is a standing agenda item. Further upstream, Andrew Parsons joins us from Gold Fields where he is Vice President, Group Sustainable Development. Andrew has a wealth of experience working in the mining sector for over twenty-six years, including former roles with AngloGold Ashanti, ICMM and the Chamber of Mines of South Africa. Grant Angwin is an independent, Precious Metals Advisor. He is a veteran of the industry, and extremely well placed to be the voice of the refiner on this panel. Until recently, Grant was President of Asahi Refining North America, the world's largest gold and silver refiner. Among other noticeable roles, Grant is also former chairman of LBMA. So,

turning now to our panel, let me ask you to please begin by reflecting on two questions very much from the view point of where you sit in the value chain. So, the first is, what effort is your organization taking to achieve positive outcomes in Responsible Sourcing? And, secondly, what do you think has been the most meaningful achievements to date and some of the main challenges that you faced along the way? Ian, I invite you to respond first, followed by Andrew, and Grant.

Speaker 2:

Thank you for that and thank you for the introduction. I guess the answer to the first question, that's a multi strand attack and people need to look at various levels of risk, and a key control is around knowing your counterparty, but also knowing your counterparty's sorting chain. So, you need to be detailed in digging when you're looking at buying metal, so that you understand exactly where it's coming from, and if you don't understand, you need to ask more questions. So, I guess in a way this is a good advertisement for the LBMA, because the LBMA do do a lot of that due diligence and work and detail. But if you're applying non-LBMA accredited metals then you need to do a lot more investigation yourselves. So, it's about the assigning on a level of risk for specific jurisdictions. The level of risk in some countries is certainly higher and that is something that people need to be aware of. And then maybe some countries where the risk is certainly higher than the level of appetite, and there are business opportunities that we at SCB would decline because they're in regions where we consider those to be too high-risk. So, people need to do their own due diligence and risk assessments. And to the second point, what do we think has been the most meaningful achievements? Understanding that the supply chain is a major achievement and working with your suppliers to mitigate the risks is something that I would strongly recommend. There are a lot of people in the market that do understand the detail in terms of the full supply chain and those contacts are invaluable, and we should work together more, to understand the full end-to-end risk. So, it's a – there is a lot of experience within the LBMA Market Members, and those people are willing to talk and help so it's something that – building those relationships is a positive.

Speaker 1:

Thanks Ian. Perhaps we'll come back to that point later when we move on to explore some of the solutions, and maybe you can give us some of your ideas there. Andrew, I turn to you for your comments please.

Speaker 3:

Thank you very much for the opportunity. We're the mining company at the start of the value chain, so, I think the controls that we have in place, and what we do, is very important. So, we are signatory to the World Gold Council, Conflict-Free gold standard, and we apply that. It's a fairly straight forward set of controls to ensure that the gold that we produce is not contributing to a conflict or to gross human rights abuses. We're a proud member of the ICMM – the International Council on Mining and Metals – and implement their Sustainable Development framework. Well, in fact, it's a requirement of membership and that covers the whole gamut of sustainability criteria. So, by implementing the framework, we ensure that we address all the key sustainability – well, really, E.S.G, environmental, social and governance challenges or issues that we confront as a mining company and, as a member of ICMM, we're going to be complying with their performance expectations, which, really implements the Sustainable Development framework – and apply a set of auditable requirements that we must beat. And so, therefore, further strengthen the standards that we have in place, and the ability that stakeholders have to ensure that we are meeting them. Of course, we apply the International Cyanide Management Code, which governs our use of cyanide at all of the mines where we use cyanide, which is all but one.

And then, each of these requirements is externally assured. So, it's not just our words that we give but it's vouched for by external experts, who are independent of us and provide us with the assurance statements. And our performance has been recognized by ratings agencies and others. So, I think that each of these are very important building blocks that provide assurance to those downstream of us in the chain and to all stakeholders, whether they're consumers or in the investment and banking industry or, indeed, the NGOs and communities that we interact with, and the governments that regulate what we do. In terms of our own supply chains, we carry out due diligence on our largest suppliers. We've recently published our first modern slavery report for our Australian operation. So, that's another building block. In terms of our greatest achievements, I think – it's why I refer to them as building blocks – is all of these different components that over the years

that we've added in, and then it's been an expensive undertaking over many years to add in all of these so I wouldn't single out any one particular achievement for that. I think they all build on each other and give confidence to stakeholders that the product that we provide, and supply, is reliable and has been produced according to the highest standards.

Speaker 1:

Thank you, Andrew. And Grant, do you have anything to add?

Speaker 4:

Yes. Hello everybody, just taking on board what Ian and Andrew have said and, you know, having run some of the world's largest refiners for a number of years, I think, you know, the global commercial refining industry can look at this position and hold its head up very high, and certainly in terms of working with large-scale miners. I'd say it's easier to on-board and work with, your companies are – (illegible) become members of World Gold Council and ICMM and adopt the Responsible Gold Guidance. The harder part becomes when you move down the scale into the medium-sized producers, that are not necessarily public listed companies and then we ended up at the, should we say, the end of the chain with the small-scale mining companies, which has become very difficult to go through the due diligence process. I think what the industry has done with the large-scale and, to a degree, the medium-scale is very commendable and I think it's working generally very well. The issues rely – become more involved – in the small-scale area. I, for one, you know, having worked in the industry for a long time, I think, you know, a lot of what we've done in Johnson Matthey and Asahi and, of course, other refiners is worked with the smaller companies in, say, developing countries to ensure that, whilst they are not members of the ICMM or the World Gold Council – or even the LBMA – they are adopting and following the procedures that come out of these organizations. And that's been very, very good and, you know, policies with companies like Johnson Matthey and Asahi were very much, 'If you don't do this, or have to do it under the RGG, we would walk away from the business'.

Speaker 3:

Thank you, Grant. And on that, I mean, it sounds like a lot of effort is applied to particularly the smaller producers. Do you feel that the refiners are getting the support they need along the value chain, or are they putting a lot of work in and then finding that somehow they're penalized for trying to move into these areas of activity?

Speaker 4:

That's a very good question. I think the refiners have often felt that they've been sandwiched in the middle – between the miners, the associations, the bankers, and the regulators. And a lot of pressure has been put on the refiners to deliver in certain areas that they really are experts in. And I have to agree with Mark Pieth, you know, they are small, medium enterprises and do not have an enormous amount of resources. I think that's why a lot of refiners, including myself when I was running them, focused on the large-scale because that is the bulk of the business was – that was the easier one to approve, on-board and manage with less costs and less resources. The further you go down the chain, the more you need to become – you need to have a large compliance department, a lot of legal support and, ultimately, a lot of cost. It's been talked about at LBMA conferences in the past, how the refining business is a tough business. So, it's a lot easier to say, 'We're focused on what we can manage'.

Speaker 1:

Thanks! Ian, from the perspective of a large financial institution. Do you have anything to add here in terms of, I mean, you started by talking about risk appetite, levels of risk. Clearly, you mentioned that some countries are higher risk and perhaps might inform a strategy – a no-go strategy. Was that relating to areas in terms of small-scale mining, or was that for other issues such as higher propensity for money laundering or aspects like that?

Speaker 2:

Actually both. Clearly for us, if we were talking to the small-scale miner, the level of extra work that's involved in doing the due diligence makes it more expensive for us to be involved in doing those trades. So, there is a trade-off – an economic trade off – as to whether it's actually worth us doing it,

given the scale of business involved. The other side of it is around money laundering and sanctions, and all of the regulatory controls and compliance that we have to go by. So, there are countries that we would consider to be too much of a risk for regulatory and money laundering requirements that we just wouldn't talk about. There's a conscious decision not to be involved in those countries, just because it's taking too much of a chance. There is genuine business to be done in some of those countries, but it's too much of a risk for us to be involved in something that is not clear, so we won't take the chance. If it's not clear, we would decline that business. So, it's interesting when we were going through the earlier question about the independent cooperation, and the fact that the multiple building blocks of process and building that security. I think both of those are relevant for financial institutions, as well as the refineries and the mines. There are multiple levels of security and assurance, and there is independent validation of what you're being told is actually true. You can't just rely on what somebody is telling you, because you believe them. You have to prove that so that you can assure your buyer when you sell it on, that you've done the correct due diligence to prove where it came from.

Speaker 1:

Thank you. And in terms of solutions, I don't know if – Andrew – in terms of a large mining companies, such as yourselves, with all the expertise, all the investment, you've put it into the right processes, is there anything then in terms of supporting, you know, the wider mining community? Is that something/initiatives that you're involved in already, or areas you see opportunity to do more of – well let's say level the playing field. I recognize you are in competition as well, but something to somehow support the smaller players, particularly, you know, the artisanal, if you like, miners so that we're not seeing efforts diverted elsewhere.

Speaker 3:

Yeah. Well, I think mining companies have a long tradition of collaborating on safety and health, for example, and also in ensuring confidence in our product. So, this is why ICMM has been formed, the World Gold Council with its work on gold standards and now the Responsible Gold Mining Principles. So, definitely there's scope to work together amongst the larger companies, and we have done so. It does become a challenge working with artisanal mining because there is, depending on where you are and which countries you are, there can be quite a lot of criminality involved. And because of concerns around being involved in that money laundering and all sorts of things, that does make the larger companies quite wary of working with artisanal miners and it's just an enormous challenge. You know, there's many more people working in artisanal mining than there are employees in large gold mining companies, millions upon millions of people. There's an awful lot of people who are working honestly to find income and support their families but, as I said, you know, there's challenges around criminality as well. It's a challenge that the companies in ICMM and World Gold Council has grappled with for many years. There's been more challenges, I think, than successes, but there have been some good initiatives of working with the UK Government. So, the Canadian Government has also done some good work so, as you need, so I think that it tends to be initiatives at the national level where one can work with the government, and various agencies and NGOs, rather than the big international initiatives stuff and, tend to get caught up in all sorts of bureaucracy. I'm not really providing any answers because it –

Speaker 1:

This isn't an area to uncrack completely, but it's useful to just understand. Of course, at LBMA, a lot of the work we do is working with refiners who source from large-scale mines and we're very supportive of that. We're just trying to understand how we also open the landscape to other players in a way that meets some of the standards that a large mine, like your large mining company, like Gold Fields, would be implementing and perhaps that's something – an aspiration – but one that stakeholders are interested in. I'm afraid we don't have a huge amount of time left but, I think I would like to turn to, for some final thoughts of, are we missing a trick here, in terms of the value chain? Is there more that any one player could be doing? Are there any opportunities for collaboration, that Ian referred to, that at LBMA could be considering more and following up on? And they could just be ideas, you know, nothing that's already concrete, but the things to begin to consider.

Speaker 2:

So, maybe I can kick off with a couple of quick thoughts. So, the work that we're doing on the global database is clearly something where that will help us to track bars that are in circulation. I think that that's something that is taking longer than we would have hoped but is valuable in ensuring the integrity once the bars are in circulation. There is an awful lot of knowledge in the market amongst the participants and maybe some of the collaboration I'm talking about is how we share that information more widely and make that more available. Because we are all asking the same questions, but we're asking the same question multiple times. So there should be something that, maybe, the LBMA could help to coordinate where we become more efficient in asking the question once and maybe the LBMA then are auditing those responses to give some assurance on the further downstream chain. So, I think there is opportunity to improve the process. I think what we've started to do has been really good and positive for the LBMA, but there's a whole wide world of business that's done outside of LBMA accredited refiners that is not in scope at the moment.

Speaker 1:

Thanks. So, Andrew would you like to share any thoughts?

Speaker 3:

Well in our discussion previously, I think with Grant – I'm going to take a point from him – we talked about education of consumers. I think there's a lot of ignorance out there, or people just don't understand the industry. So, I think as players in the industry, we need to be creating awareness about what responsible gold is, how it's produced, what people can be looking for, to build confidence in the product, and to throw some light on the enormous amount of work that's being done. I think that, certainly as miners, we're pretty poor at communicating what we do. And I think that we need to work harder at that.

Speaker 1:

Thank you! And the final word goes to Grant.

Speaker 4:

Okay, I will try and keep this brief because it's obviously, it's a topic that I'm quite passionate about and been involved with for a long time. I could probably talk for 20 minutes or 30 minutes. I mean, just to take what Ian and Andrew said in the points that we discussed last week – I think education and promotion of the gold industry across the whole chain is exceedingly important. And I don't think we, as an industry, are doing it particularly well. I use a term I've used for a number of years now – the industry is extremely fragmented where there is, there are very good organizations all trying to do the right thing, but there's no one umbrella overseeing it all. And then we happen to have the issue of funding. We talked about the refiners having not a huge amount of resources to do the auditing and the, shall we say, the Responsible Gold Guidance and all that goes with that. And I can also say that the LBMA is not, you know, an overly wealthy organization. I think the industry needs to come together. The example I would use with something that happened maybe 20 years ago, or 30 years ago, with the diamond industry where they came together over the blood diamond and promoted diamonds and educated people about diamonds. The gold industry needs to do the same. It needs to focus on areas that, where there are definitely weak links – I talk about, you know, countries that will take a lot of these artisanal gold bearing in mind, according to metals focus, artisanal gold is the largest growing by percentage terms, area sector within the gold mining industry. Some 350 tonnes now close to to 15 to 20% of gold supply from the mining side comes from the artisanal world now. And I listened to what Andrew said, you know, it employs, you know, tens or hundreds of times more people and they need that business. And it isn't all bad business, you know, some of it is good. It's good for the communities, it's good for the society that they operate in. Unfortunately, it does attract the bad actors, but I could go on and on for a long time on this and I just think, you know, the overarching message for me is a fragmented set-up, and we need to come together to work on the issues to basically promote and educate the whole industry across the globe.

Speaker 1:

Thank you, that's really helpful. So, things I'm hearing and takeaways I'm definitely hearing is looking at ways for better collaboration to bring the industry together, more awareness about what we do,

what have been our achievements to date. I mean, I'm sometimes astonished by the amount of questions that I get about what I consider to be basic things, but I guess, actually, it's something in terms of are we communicating well enough about what we're doing. And then, finally, a strong role for education and for supporting some of the smaller peers. I think that's all we have time for today. So, that brings us to the end of our webinar. I'd like to say a big thank you to Ian, Andrew, and Grant for the stimulating discussion and giving up their time to join us today. I think we can all agree that we've been left with some real food for thought. I'll certainly – as some of you may have noticed, I've been taking notes all along – so, I'll certainly be reflecting on how we can take some of these suggestions forward at LBMA. I'd also like to thank all those who tuned in today to listen. A recording of this webinar will be available on our Virtual Summit site. Meanwhile, please don't hesitate to get in touch with any queries or feedback you have on our Responsible Sourcing Programme. And finally, all that's left for me to say is, please stay safe and we look forward to welcoming you on our next webinar. So, thanks again, everyone. Bye.

Speaker 4:

Thank you.

Speaker 3:

Thank you.

Speaker 2:

Thank you, very much.

Interested in contributing?

For information, suggestions, or comments about content of LBMA Webinars, or our Virtual Summit, please contact:

Taylor Birch

Events Coordinator

events@lbma.org.uk

Tel: 07388 798 992

1-2 Royal Exchange Buildings, Royal Exchange, London EC3V 3LF
Tel: +44 (0)20 7796 3067 www.lbma.org.uk

May 2020