

# 3. 2019 PROGRAMME UPDATE & Refiners' Responsible Sourcing Performance

## IMPLEMENTATION OF ESG REQUIREMENTS

2019 was the first year for all [Good Delivery List \(GDL\)](#) refiners to implement the changes that were introduced in version 8 of the [Responsible Gold Guidance \(RGG\)](#).

To summarise, version 8 of the RGG expanded the definition of due diligence by requiring refiners to not only assess risks identified in the OECD Due Diligence Annex II, regarding money laundering, but also to include an assessment of the Environment, Social and Governance (ESG) responsibilities.

**Under step one**, of the RGG, the refiner's due diligence for its supply chain must include a policy that extends to ESG requirements. Under this step, refiners are asked to strengthen ESG engagement with gold-supplying counterparties and, where possible, assist gold-supply counterparties build due diligence capacities. This would also capture the use of mercury in Artisanal and Small-Scale Mining (ASM), with the expectation that GDL refiners assist in establishing processes to eliminate its use.

**Under step two**, refiners must assess the risk in the supply chain, which includes assessing the environmental policies and practices of the producers, both in relation to Artisanal and Small-Scale Mining (ASM) and Large-Scale Mining (LSM). The guidance also gives more detail on this assessment, depending on the nature of the material being sourced (ASM/LSM).

**Under step three**, once the risks have been identified, the refiner is required to make sure it has a management strategy to respond to identified ESG risks. GDL refiners are also required to provide evidence of their sustainability policy and its effect on any associated initiatives throughout their supply chain.

**Audit reports reflecting implementation of these changes will be submitted in 2020 and discussed in more detail in the next Annual Report.**

## GDL REFINERS' 2019 PERFORMANCE

**In 2019, no GDL refiner was moved to the Former List for failure to comply with the Responsible Sourcing Programme.**

Whilst there were several escalations during the year, each one was addressed appropriately, with full co-operation from the GDL refiner in question. As highlighted earlier, LBMA relies on two important processes to help identify Responsible Sourcing issues. Firstly, the annual reports, and the information provided in these reports, will flag non-conformances. Also, market intelligence, media reports and credible NGO reports may provide information that will then instigate an Incident Review Process (IRP).

### Gold – non-conformances

2019 saw an overall increase in medium-risk and high-risk non-conformances for responsible gold audits. The two high-risk non-conformances for gold related to one GDL refinery based in the Europe & Africa Country of Origin category (see case study one). All medium-risk non-conformances for gold related to two different GDL refineries based in the Americas and were escalated to the Compliance Panel. LBMA engaged with the auditors and both GDL refiners throughout the development of Corrective Action Plans to ensure appropriate timescales

were agreed before issuing 2018 RGG certificates. No zero-tolerances were reported in 2019.

### Silver – non-conformances

As 2018 was the implementation year for silver GDL refiners, the 2019 reports highlighted a high number of non-conformances for silver. This was expected, as several silver-only GDL refiners were implementing new controls and going through the audit for the first time. We expect to see these numbers trend down as silver GDL refiners fully embed systems in their operations and work towards continuous improvement. However, no zero-tolerance non-conformances were identified, which confirms the commitment that each GDL refiner has in trying to achieve full compliance with the international standards.

As is expected for gold, all silver high-risk non-conformances were addressed within 90 days.

Non-conformances raised		Low Risk	Medium Risk	High Risk	Total
GOLD	2018	29	8	2	39
	2017	37	2	0	39
	2016	33	5	0	38
	2015	46	4	1	51
SILVER	2018	64	44	24	134

# COMMON THEMES OF MEDIUM AND LOW-RISK NON-COMPLIANCES

**GOLD TOTAL NON-COMPLIANCES = 39**



Below is a breakdown of the most common types of non-conformances raised against the five steps of the RGG and RSG.

**SILVER TOTAL NON-COMPLIANCE = 132**



## COMMON THEMES

**Communication and acknowledgement of supply chain policy.** For example, a silver refiner had issued formal communication to only some suppliers. All new counterparties were subsequently made aware of the refiner's supply chain policy, and the requirement was included in the onboarding procedure. It is important to note that all new counterparties must be updated on the refiner's supply chain policy as part of the onboarding process.

**Communication of confidential grievance mechanisms.** For example, a silver refiner had not established a robust internal communication mechanism to allow employees to voice concerns related to the silver supply chain. An anonymous hotline was subsequently introduced so that employees could escalate concerns in a safe environment. This is essential so that employees are able to escalate concerns in a safe environment.

**Staff supply chain training programmes.** For example, a refiner had not put a comprehensive programme on due diligence practices in place. An annual precious metals supply chain training programme was implemented for all staff involved in this activity.

**Maintaining adequate records.** For example, a gold/silver refiner, in occasional instances, had not requested all the due diligence documentation required. All files were subsequently updated to include the required documentation.

**Limited formalisation of criteria for risk assessment procedures.** For example, the risk matrix did not include evaluation of systematic or widespread human rights abuses associated with the extraction, transport or trade of gold and silver. The risk matrix was updated immediately to reflect these risks.

**It is important to note, a certificate for compliance with the Programme would only be issued where satisfactory assurance was provided that the non-conformances were addressed within appropriate timescales.**

## CASE STUDIES

Over the next few pages, five gold related case studies are highlighted. These provide summaries of the review and follow-up actions taken.



## ITALPREZIOSI – Case Study One: Re-Audit of 2018 Production

LBMA's Compliance Panel rejected the first 2018 RGG audit submitted by the GDL refinery due to a lack of confidence in the findings. LBMA consequently appointed a different Approved Auditor for a re-audit, who identified two high-risk non-conformances relating to steps 1 and 2 of the RGG. This broadly required formalisation of the due diligence processes and clarity on roles and responsibilities as well as escalations. This also triggered the requirement for a Corrective Action Plan to then be followed up with another audit within 90 days. LBMA also visited the GDL refinery to discuss how the non-conformances were being addressed as a high priority.

The GDL refiner was fully engaged throughout the process and was transparent in its disclosure. After the final re-audit, and through review by the Compliance Panel, LBMA issued a RGG certificate to confirm compliance. The 2018 re-audit and follow-up audit, together with the 2019 certification, were positively achieved and are available on LBMA's website.



## VALCAMBI – Case Study Two: Special Audit re UAE Country of Origin

The 2018 data included a significant increase in recycled gold sourced from the United Arab Emirates (UAE). Given that LBMA classes the UAE as a high-risk jurisdiction, the report was escalated to the Compliance Panel. LBMA required a Special Audit focused on the GDL refiner's transactions of materials received from the UAE in 2018. The Special Audit did not detect any non-conformances. The auditor concluded that the GDL refiner's 2018 Compliance Report, in all material respects, described fairly the activities undertaken during the year to demonstrate compliance. LBMA issued the 2018 RGG certificate in December 2019. The 2018 Special Audit report is published on LBMA's website.



## ISTANBUL GOLD REFINERY AND NADIR METAL RAFINERI – Case Study Three: Special Audit re Venezuelan Gold Allegations

In May 2018, the USA imposed trade and economic sanctions on Venezuela. Subsequently, LBMA received an anonymous grievance from a whistle-blower and a number of third-parties, following prominent news stories alleging that Venezuelan gold was exported to Turkey for refining/conversion to help bypass the sanctions. In order to be able to refute any link to the Turkish refiners on the GDL, an independent auditor was engaged to undertake a limited scope engagement of the Turkish GDL refiners, based on the ISAE standards.

The scope of the audit was limited to the matter of confirming that there had not been any trade or business of gold between those GDL refiners and Venezuela. The audit sought to confirm the completeness and accuracy of the public statements and the Country of Origin data provided by the GDL refiners as part of their original 2018 audits. This review also included an assessment of the management systems and controls to confirm whether the GDL refiners were able to comply with the requirements on an ongoing basis.

The independent audits confirmed that those GDL refiners had not sourced from or traded with any entities dealing with Venezuelan gold.

## MMTC PAMP – Case Study Four: IRP re media allegations on personal injuries

LBMA invoked an IRP in June 2019 in response to the human rights and environmental allegations relating to the North Mara mine in Tanzania (formerly owned by Acacia Mining).

As part of the review, LBMA spoke to a number of relevant stakeholders and obtained verification where possible. LBMA was satisfied that the due diligence undertaken by the GDL refiner was reasonable and that appropriate measures were put in place by the refiner to prevent and mitigate potential and actual adverse impacts. In particular, LBMA welcomed the refiner's joint appointment of expert consultants to undertake an independent assessment of the North Mara mine to help further ascertain remediation steps. There was positive co-operation from the refiner throughout, which kept LBMA informed of the scope of assessment and any relevant additional information. It was noted this was a high-risk mine and all parties involved were working towards improving the conditions, notwithstanding the challenges.

**LBMA'S STARTING POINT FOR GDL REFINERS IS THAT  
DISENGAGEMENT FROM SUPPLIERS SHOULD BE CONSIDERED  
AS A LAST RESORT, AND ONLY WHERE THE ADVERSE IMPACT  
IS IRREMIEDIABLE AND THERE IS NO PROSPECT OF CHANGE.**



## GOLD – Case Study Five: IRP re Cuba Country of Origin

*The name of the refinery cannot be disclosed, as Country of Origin data is confidential and sensitive.*

This IRP concluded that no zero-tolerance or non-conformances had occurred and that appropriate measures had been put in place to prevent and mitigate potential and actual adverse impacts. It was confirmed, with a separate legal opinion that no relevant economic and trade sanctions had been violated. However, LBMA took the opportunity to further clarify the requirements on economic and trade sanctions. The refiner in question was also asked to undergo a follow-up audit. This follow-up audit helped to confirm that the refiner had taken steps to terminate its relationship with the Cuban entity. Whilst there was not a breach, it was important for this relationship to be terminated in order to remove any potential for Cuban gold to end up in the international supply chain.