Birks Ethical Gold Sourcing - From Mammoth Tusk Gold

Project Summary

Birks & Mayors is a luxury jeweler founded in 1879 in Montreal, Canada. In 2002, the company merged with Mayors jewelry, becoming Birks & Mayors. As a sponsor of the 2010 Vancouver Olympics, Birks has been asked to demonstrate their commitment to promoting sustainable development though the "Sustainability Star" program.

Birks employs its own ethical purchasing program—with a particular focus on finding Canadian sources of gold, silver, and diamonds that adhere to environmental and social good practice. With the Kimberly Process already in place to address conflict issues related to diamond sourcing, Birks focused on sources for gold, platinum and silver. With regard to gold, Birks began a direct sourcing relationship with Mammoth Tusk Gold the subject of this profile. Mammoth Tusk Gold is a small placer mining operation in the Canadian Yukon that seeks to operate in an environmentally and socially responsible manner.

Without a recognized and certified product to utilize, Birks intervened in the marketplace to establish its own supply chain, through direct sourcing, with a business partner it felt was making genuine efforts to promote environmental and social best practice.

Project Description

Birks did not seek to create its own sustainability criteria, nor did it create a certification system. Instead, Birks made an in-principle endorsement of the "golden rules"—a set of objectives drafted by NGOs and then sought to find a supplier willing to offer public evidence of environmental and social good practice at their operations.

In the case of Mammoth Tusk Gold, Birks found a placer mining operation that was already building a set of standards and verification program that sought to comply with civil society initiatives such as the "golden rules." The Mammoth Tusk system adheres to all legal requirements and makes additional social and environmental commitments and contributions. Mammoth Tusk also initiated a verification process that utilizes an independent audit firm.

Birks worked with Mammoth Tusk to create a unique chain-of-custody from mine to retail. Gold is processed and poured at the Mammoth Tusk site and then hand delivered to officials from Birks.

Mammoth Tusk Gold's Ethical Gold Certification Program certifies gold as "ethical" using independent third-party verification and a self-initiated and self-organized chain of custody from the mine to the retail counter. Mammoth Tusk gold is refined on site to ensure it is not mixed with non-certified gold. Mines that take part in the certification program must comply with environmental and social standards, including workers' rights, community and First Nations participation and cooperation, and reduction of the mines' carbon footprint. The operations also

work to restore previously mined lands—this is particularly beneficial in a region where past gold mining has left un-reclaimed tailings on and near stream beds.

Mammoth Tusk initiated this program, hiring a consultant to develop a set of environmental and social standards based upon placer mining regulations in the Yukon but with a number of additional provisions. NGO, community, government and First Nations input was sought during the standards development process, including a review of related NGO initiatives and those of multi-sector organizations. The standard is owned by Mammoth Tusk. Mammoth Tusk is planning to seek additional stakeholder input in the future as it updates the standard. Some aspects of the system rely on sworn statements to verify compliance.

Mammoth Tusk hires an external audit firm to verify site compliance with standards. Mammoth Tusk uses the accounting firm Ernst & Young to review documentation and certify that the mines are compliant with the established standards.

The chain-of-custody is uniquely designed and is verified by a third party.

Through its direct sourcing program with Mammoth Tusk, Birks is able to demonstrate corporate leadership and self-initiative through a business-to-business partnership. Lacking an independent, legitimized certification system for gold, Birks has taken steps to show that it is possible to work with business partners to reach into its supply chain and source directly from mines showing evidence of environmental and social good practice. Birks found this preferable to simply making an in-principle commitment and then waiting for results to emerge from industry or multi-sector initiatives. While the sustainability agenda of the Olympics was a key driver for Birks, this initiative also helps support broader company and product-wide sustainability goals. Additionally, Birks has experimented with the development of product lines tied to particular sources or environmental attributes.

Birks has supplemented this supply chain initiative with clear, public positions on specific policy initiatives such as responsible metals sourcing, ecosystem protection and coral conservation. Both Mammoth Tusk and Birks have been very public and open in describing this initiative—they appear to assert its value without overstating its achievement.

Specific Birks actions include:

- Endorsement of the Kimberly Process to respond to the issue of conflict diamonds.
- Endorsement the Boreal Forest Conservation Framework.
- A policy not to sell coral in Birks stores.

Nature of Supply Chain, Products, and Issues

Jewelry typically accounts for 70% or more of annual demand for gold, with electronics and dental accounting for approximately 11%. The percentage used in electronics has been growing in recent years.

Gold is unusual in that it plays an economic role as a store of value—creating market and demand dynamics that are different for gold than for metals that are treated as pure commodities. For Example, large above-ground stocks of gold are held by governments and investors.

Silver is more akin to a pure commodity; however there are very few silver mines in the world—most silver today is a byproduct produced when other metals, such as gold or copper, are the target.

Gold typically loses its track-ability as it moves through processing and into the economy. The supply chain for gold is complex with little or limited ability to track a particular atom of gold from a mine to consumer product without direct intervention. Provenance can be lost in the processing, trading, fabrication, and melting or re-melting of gold and gold ore. For example multiple mines can feed into a gold roaster or smelter. The exception is when a particular smelter or processing system utilizes inflow from one mining operation, or when inflow from a mine is significant and can be "batched" or tracked through the smelting process. When this occurs, it is then possible to take a marked "bar" or quantity of gold into the manufacturing process.

Large-scale industrial mines are usually part of the formal economy (i.e., they are permitted, pay royalties and/or taxes and subject to government regulations.) Large-scale gold mining is highly industrialized and technologically advanced. Mines are mechanized, require sophisticated planning and engineering, and are capital intensive. Most large-scale gold mines utilize cyanide as a processing chemical, to leach gold from crushed ore. While the use of cyanide has generated public controversy in some instances, other issues present more significant environmental issues and challenges—these include the potential for acid mine drainage and its affect on water, impacts on biodiversity, energy and water use, alteration of the landscape, and the potential for the release of mercury (from the ore body) into the environment. Development of large-scale gold mining can also raise issues related to indigenous rights, effective community participation in decision-making, mining's contribution to sustainable economic development, mining in conflict zones and conflict over natural resources, and other issues (MMSD, Newmont CRR, ICMM, Enough, Make IT Fair, Global Witness report.)

While large-scale mines in a some jurisdictions can be identified and monitored, to identify and monitor, small-scale or artisanal mines present different issues and challenges. Artisanal and small-scale (ASM) mining is often informal—it is not always regulated or sanctioned by governments, although in an increasing manner governments are addressing ASM formalisation and legalization. In the mining sector, there is growing attention to the challenges and conflicts that can result when large-scale and artisanal mining occur in the same area, usually due to the lack of an inclusive mining and natural resource planning policy that allow ASM to gain legal access to mineral resources.

The World Bank estimates that there are 13 million people in about 30 countries engaged in ASM on a global basis, and over 100 million people depending on ASM for their livelihood. On

a regional or local basis, these numbers will vary due to the market price for gold, local economic and political conditions, and the stability or instability, and capacity, of governments. ASM in some regions is linked to child labour, labour and human rights abuses, unsafe working conditions, conflict and myriad other problems. ASM is often an economic last resort—a means of survival. Challenges related to artisanal mining are particularly significant in conflict zones such as the DRC.

While the environmental footprint of isolated ASM operations is limited, the cumulative impact of artisanal mining, when practiced by thousands or tens of thousands in one area, can be significant. Mercury is typically the most efficient, accessible and low-cost method for gold processing at ASM operations—as a result its use is pervasive. The uncontrolled use of mercury as a processing agent for gold can lead to exposure that has serious human health consequences for ASM miners and their families and other community members.

CASM and other governments and organizations have developed programs and strategies aimed at supporting and formalizing the sector and providing benefit to small-scale mining communities. Most of these strategies prioritize human welfare, health and economic development as a first priority. ARM's premise is that formalization of the sector, including legal access to mineral resources, effective health and environmental safeguards, improved working conditions and labour rights, as well as reclamation, can help promote responsible economic development and benefit responsible ASM and communities. The ARM strategy seeks to promote integration of ASM activity into the formalized economic sector and offer incentives for best practice.

The ability to manufacture products with gold marked from a specific mine or source typically requires direct intervention in the supply chain to ensure appropriate record keeping. Tracking may also require different or unique processing methods or techniques. For example, a smelter or processing facility may be required to process gold ore from a specific mine in a separate batch so that it is not mixed with gold from other sources. This batching and tracking would most likely have to continue in some form through the manufacturing process. Full 100% physical traceability throughout the supply chain is a financial and technological challenge with small volumes, therefore it may be necessary in the future to maintain effective documentary traceability, while seeking more financially viable models, in order to expand the consumption responsible ASM through market incentives.

While gold jewellery is a coherent product (i.e., it is comprised mostly of the primary metal such as gold), jewellery is not comprised of 100% gold. Gold is blended with other metals to produce a final product with a karat grading or rating. For example 24 carat gold contains 99.99% pure gold, and 9 carat gold contains 37.5% pure gold. Therefore, when it comes to a particular piece of jewellery, while gold track-ability does not address the source or provenance of the non-gold metals, it does address the provenance of the primary metal in the product. The important point is

that the Fairtrade and Fairmined standards will clearly communicate to the consumer that only the gold in the final jewellery product, is certified at this time.

Once in the economy, gold is easily malleable. In other words even "marked" gold can be re-melted and remixed and therefore lose provenance. For example, jewellery that is certified from a particular source could be re-melted and lose its provenance. However, the development impact of the responsibly produced certified gold will have served its purpose to improve the lives of artisanal and small scale mining communities at the time of production of the certified gold.

Analysis

Supply Chain Complexity--Steps *(Complex)*

The supply chain is for gold is typically complex in terms of the number of steps. It is therefore a valid comparison to EICC-GeSI target minerals which are also complex. The focus on placer mining has the potential to shorten the supply chain since the gold is processed and poured at the mine site. However, it was necessary in this case for Birks, in collaboration with Mammoth Tusk Gold, to take a number of unique steps to shorten and simplify the supply chain.

Formalization of Sector *(Formal)*

In regard to formality, the placer mining sector in the Yukon is now highly regulated. EICC-GeSI target minerals (tin, tantalum, and cobalt) are likely to originate from sources that are both highly formalized and informal—with greater social and environmental challenges in the informal sector.

Material Processing, Coherence *(Mixed)*

Gold is typically mixed in processing, fabrication and trading—this is true for most EICC-GeSI target minerals. In this instance the company response was to create a unique supply chain to prevent typical mixing and maintain coherence.

Significance in Product Composition *(Relatively Significant % for jewellery)*

Metals in an electronics product are typically parts of or ingredients in subcomponents or used to connect components. Each metal typically represents a fraction of the product. Jewelry products, such as gold and diamonds, typically represent a visible and significant portion of the consumer product. Therefore, EICC-GeSI companies would be pursuing a strategy where specific components or subcomponents had ethical properties rather than producing a fully certified or marked product.

Issue/Source Geography *(Somewhat Relevant)*

This project is geographically relevant in that the Yukon and other regions of Canada are or could be sources for many of the EICC-GeSI target minerals. However, the product does not

directly address DRC but could offer useful methods or strategies tied to particular sources in the DRC.

Stage of Development, Maturity *(Full, Recent Implementation)*

While Birks may expand or alter its sourcing relationship in the future, its sourcing relationship with Mammoth Tusk Gold is fully implemented. This provides EICC-GeSI members with an opportunity to learn from this effort.

Nature of Governance *(Individual Companies with Stakeholder Input)*

Birks' sourcing relationships are based upon internal company guidance criteria—established by a review of external stakeholder (NGO and company) standards and systems. Birks publicizes some of its sources. Birks' intention is to seek to mitigate risk and promote concrete site-based community and environmental benefit by establishing dedicated sourcing relationships. While benefits do not match those that might accrue from a multi-sector initiative, Birks was able to act quickly and efficiently and demonstrate leadership; in essence, the company worked with a site to test the project. Stakeholder reaction has been generally favorable. Given the complexities of DRC and the supply chain challenges faced by EICC-GeSI companies, a similar testing strategy may be wise; a series of structured trials could be considered.

Standards Breadth or Focus *(Multi-Issue: Environmental and Social Objectives)*

The Birks criteria and the Mammoth Tusk Gold standards address a broad range of social and environmental issues. In particular, the Mammoth Tusk Gold standards and operation should add benefit because the program targets tailings from past mining, currently lying on and near streambeds. When mining is complete the new tailings are reclaimed, with a net positive result.

The issues addressed by the system are directly relevant for a number of issues and could be utilized in regard to EICC-GeSI sourcing criteria.

Nature of Standards/Program Development *(First Party, with Stakeholder Input)*

The standards were developed by Mammoth Tusk Gold and are a fit for the social and environmental objectives established by Birks. While the standards were not negotiated with stakeholders, they did specifically reference and draw from stakeholder objectives and documents. They are also described as a first iteration, and the proponents have established an open and engaged posture with NGOs and industry associations. Furthermore, they have accurately described the limits of their program. These characteristics allowed the program to advance quickly and efficiently into the field in the absence of a broader multi-sector set of standards.

Approach to Verification *(Third Party, External Audit)*

With regard to mine site performance, verification is third party in that the mining company has hired an external audit firm to verify compliance. It should be noted that some of the verification is done against first-party affidavits, although these are legally binding.

Key Findings

Generally speaking, the supply chain for gold, silver and other minerals does not lend itself to a program that seeks to ensure a chain-of-custody from mine to retail. For large-scale gold operations, there is a high-degree of formalization at the mine site, but gold typically mixes as it is transformed into a consumer product. For small-scale, artisanal operators, the sector is highly informal at its source and this pattern continues with materials mixing and loss of provenance occurring at multiple steps in the chain-of-custody. For placer mining operations, the formality will vary depending upon the jurisdiction.

Birks intervened in the supply chain to source directly from a small-scale, placer operation that operates in a formalized regulatory context. Birks found a unique partner, one that was already developing an environmental and social program and certification system and that was located within a region of interest. The criteria and approach for the two companies was a fit—significant adaption of standards was not required. Mammoth Tusk Gold was looking for a retail partner; Birks was looking for a mining partner. The strategy has most likely been implemented fairly efficiently since it is an internal Birks approach, and the company can set its own parameters and timelines.

At least for the gold sourced from Mammoth Tusk, Birks has altered and shortened its supply chain. The nature of placer mining, in terms of scale and systems, made it easily adaptable to the establishment of a unique supply chain—it was not difficult to put a direct mine to retail program in place because the gold leaves the mine in bar form, from there a supply chain is simply a set of transactions.

The nature of this short supply chain would likely not fully translate to other target metals used in the electronics sector.

A jewelry product is relatively coherent, with a relatively short supply chain as compared to most consumer electronic products. While a gold ring is not 100% gold, it does not contain myriad sub-components and parts, that are in turn comprised of various materials. Therefore, a jewelry product is more readily branded as “responsibly” sourced, in the fullest sense. Such a fully branded product would be more difficult with electronics where a successful chain-of-custody approach could lead to, for example, the tantalum in a capacitor marked as responsibly sourced, which makes up a very small percentage of the material in a particular product.

The regulatory context in the Yukon created a baseline that was useful to the project. This regulatory context would most likely not be easily applicable or transferable to conflict regions.

In other words; resolution of the conflicts are likely to be a prerequisite to the establishment of a similar regulatory context.

However, there are substantive aspects of this project and the supply-chain strategy that could be directly relevant to EICC-GeSI companies. In particular, company-to-company initiatives may be useful to test the potential for ethical supply chain relationships in the electronics sector—from both small-scale (such as this operation) and larger scale sites. Another lesson is that Birks advertises its ethical sourcing as a company but does not label its products from the site—this limits risk for Birks. This approach has generally won a favorable response from NGO stakeholders because the company does not appear to be overselling results.