



POLICY BRIEF

Certified gold: too many schemes and not enough demand

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Various gold certification schemes aim to mitigate problems in the gold market, including child labour, dangerous working conditions and pollution. However, the average consumer does not often buy gold and does not understand all the complexities of the gold sector and the role of gold certification schemes. Retailers and banks still mainly drive the demand for certified gold, but they face different constraints when sourcing gold from certification schemes. Investors focus mainly on cost, while jewellers are a diverse group from small goldsmiths to large international companies, all with different motivations and incentives.

The dark side of gold

As early as the Spanish exploitation of the Americas, gold has long been associated with human rights abuses and environmental degradation. We all want to know that children did not mine the gold in our wedding rings and that the gold in the vault did not finance armed groups. Many certification schemes have aimed to alleviate the gold industry's impact at various stages of the supply chain, focusing on different issues and types of mining. The result is a highly fragmented gold certification land-

scape. In addition, the demand for gold is split into mainly two distinct sectors: the demand for gold jewellery and the demand for gold bars and coins for investment purposes. The different nature of the two sectors further complicates the demand for certified gold. I conducted interviews with people working in banking, jewellery, and certification to understand what drives the demand for certified gold.

Certification to the rescue?

Certification schemes are relatively new in the gold industry. I used three sources listing various metal certification schemes to identify 14 different certification schemes certifying gold (Fisher and Childs 2013; Kickler and Franken 2017; Mori Junior et al. 2015). Most notable schemes include the Good Delivery List and Responsible Sourcing Guidance of the London Bullion Market Association (LBMA), Fairtrade Certified Gold and Fairtrade Ecological Certified Gold, and Code-of-Practices and Chain-of-Custody from the Responsible Jewellers Council (RJC). Many schemes certify multiple metals; for example, the RJC also certifies other metals and stones commonly used in jewellery, such as diamonds and silver.

Certification schemes fall into three main categories. In a product segregation scheme, certified material is kept separate from non-certified material at every step in the supply chain, which is expensive in very complex and long supply chains. In a mass-balancing system, certified and non-certified materials can be mixed, as long as the volume of certified material entering the supply chain is equal to the amount of gold eventually certified. A book-and-claim scheme uses sustainability certificates, similar to carbon credits, to offset some impact during production (Norton et al. 2014).

Each certification scheme determines its own standards, methodology to verify compliance and scope of operation, including where in the world they operate, on which part of the supply chain and whether they focus on industrial mines, artisanal mines or both. While the LBMA ensures gold and silver bars' assay and weight standards, Fairtrade sets and verify various environmental, social, and economic standards in the artisanal mining sector. Unlike Fairtrade Gold, most certification schemes do not advertise directly to consumers. For example, RJC certification mainly aims to verify responsible practices between businesses and is not a well-known consumer label. The diversity and quantity of these certification schemes highlight the complexity and fragmentation of the gold certification landscape.

Demand for gold

Unlike other metals, there is a direct consumer market for gold. Although gold is used as an intermediary good, for example in electronics, gold as a final good is a considerably larger market. Since 2010 jewellery and the financial sector made up more than 77% of the global demand for gold (see Figure 1). The demand for jewellery includes end-user demand for newly made carat jewellery and gold watches. Gold investment demand includes exchange traded funds (ETFs) and bullion bars and coins.

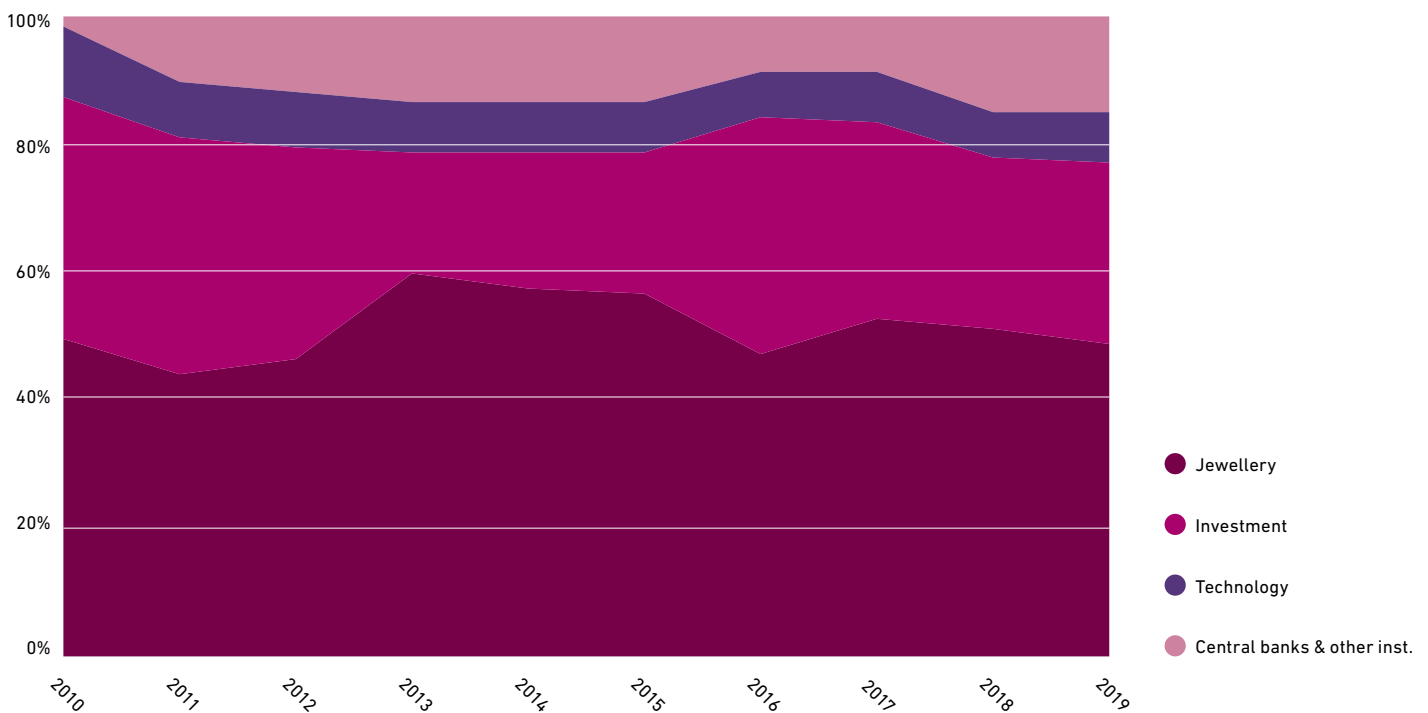


Figure 1: Demand for gold from 2010 to 2019. Source: World Gold Council

Demand for certified gold jewellery



In a household survey conducted by the Development Economics Group in 2018, 94% of 2'500 respondents said they did not buy gold jewellery in the last year. The average consumer does not purchase gold often enough to understand their preferences for certified gold. Consumer demand for certified gold remains low, as many consumers are still unaware of it; in the same survey, 83% said they never heard of Fairtrade Gold. Companies sourcing gold responsibly might not necessarily want to communicate this to consumers for marketing reasons. Connecting jewellery—marketed as luxurious and exclusive products—with sustainability labels associated with fruit and vegetables such as Fairtrade could reduce the jewellery's perceived worth.

However, the tide could be turning, as demand for ethical consumption is increasing in the gold industry. A small goldsmith in Switzerland mentioned that while he needed to convince consumers of the merits of Fairtrade Gold only a few years ago, customers now approach him specifically to buy certified jewellery. However, these small goldsmiths probably disproportionately attract customers who care about ethical consumption. Larger retailers have not reported the same pressure from their

consumers. The most significant determinant of demand for certified gold is still retailer demand, which is itself influenced by consumers.

Large companies' demand for certified gold is growing mainly to proactively avoid a scandal or criticism due to unethical conduct. Smaller organisations, such as one-person goldsmiths, have a high demand for ethically sourced gold, as they are intimately involved in the production process and feel responsible for ensuring best practices. Medium-size retailers do not have the same risk of scandal nor close connection to the product, and generally have a lower demand for certified gold. Even if medium-size retailers want to source gold more responsibly, they often use semi-finished products leaving them with less control over their production than large and small retailers who produce their products from raw materials. However, the total demand for certified gold in the jewellery sector remains relatively low, since small goldsmiths who probably have the highest demand for ethical gold only account for a small percentage of the total gold used in the jewellery sector.

Demand for certified gold investments



The cost to operate the certification label and ensure that standards are upheld makes certified gold more expensive. The price mark-up for certified gold is more important for investors than for jewellers. Since gold is only a part of the total cost of a jewellery piece and labour and operating costs could be high, the additional cost due to certification is small for jewellery. However, gold bullion bars are made of 99.99% pure gold and are directly purchased from the refiner. Therefore, the additional cost of certification is directly transferred to the price of the bar. For large investors, switching to certified gold is expensive, especially for those who would like to replace their current stock of gold with certified gold.

In addition, while there are many gold certification schemes, only a few, most notably Fairtrade Gold, have any brand recognition on the consumer level. Investors are even less willing to pay more for certified gold if they have never heard of the label. Given the limited supply of Fairtrade Gold, banks such as ZKB can only sell Fairtrade Gold in small bars (1g -10g only). In addition, due to travel restrictions of commercial and cargo air travel during the COVID-19 pandemic, many certification schemes were unable to get the gold from the mine to the market, further restricting supply.

The supply of certified gold is insufficient to meet the total demand for gold investments and replacing existing stock.

Banks need to consider a mix of sources, not only certified gold with high brand recognition but also to educate investors on lesser-known certification brands. Book-and-claim certificates could be used to offset the impact of existing gold stock. Increasing transparency on the provenance of gold to the mine level will also add to investor confidence and help keep the downstream industry accountable. Banks play a pivotal role in increasing the demand for certified investment by educating investors and making a more comprehensive range of certification schemes available.

Conclusion

While consumer demand for ethical gold is increasing, retailers and banks are still the driving force for certified gold. However, jewellers and banks face different concerns when sourcing certified gold. The additional cost of certification is a more significant issue for investors than for jewellers; since gold is only a small part of the total cost of a piece of jewellery, the certification mark-up is smaller. Through different motivations, small and larger retailers are more likely to demand certified gold than medium-sized retailers. In addition, since certified gold is very costly to investors and in short supply, banks would need to diversify their sources of responsible gold.

Recommendations

Certified gold in the jewellery sector can be promoted by:

- informing consumers on issues in the gold industry and benefits of certified gold;
- increasing certified semi-finished products to help medium-size retailers source responsibly; and
- consolidating various schemes and rebranding sustainability labels to fit luxury products.

Banks need to consider a mix of sources of sustainable gold, including:

- increasing transparency on the provenance of gold to industrial mine-level;
- using book-and-claim schemes to offset the impact of existing gold-stock; and
- promoting lesser-known certification labels to investors.

Sources

- [1] Fisher, E., & Childs, J. (2013). An ethical turn in African mining. In Mining and social transformation in Africa: Mineralizing and democratizing trends in artisanal production.
- [2] Kickler K & Franken G. (2017). Sustainability Schemes for Mineral Resources: A Comparative Overview. Bundesanstalt für Geowissenschaften und Rohstoffe (BGR), Hannover.
- [3] Mori Junior, R., Franks, D.M., & Ali, S.H. (2015). Designing Sustainability Certification for Greater Impact.
- [4] Norton, T., Beier, J., Shields, L., Househam, A., Bombis, E., & Liew, D. (2014). A guide to traceability: A practical approach to advance sustainability in global supply chains. The United Nations Global Compact and BSR Report.

Photos

P. 1: The gold refinery, PAMP SA, cast 99.99% pure gold in bars. Photo: PAMP SA

P. 3: Jeweller making a ring. Photo: Brian Kairuz on Unsplash

P. 4: Gold bars. Photo: Jingming Pan on Unsplash



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