



A review of key issues



TOWARDS AN ETHICAL JEWELLERY BUSINESS

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Executive Summary taken from “Towards an Ethical Jewellery Business”

This report presents the results of phase 1 of research which is intended to identify the main social, environmental and ethical issues in the jewellery sector and to assist industry bodies in identifying how to integrate ethical considerations into their activities. The phase one report is based on an extensive review of literature related to ethical issues in the jewellery sector, covering ethical issues throughout the jewellery supply chain, from extraction of jewellery materials by mining processes, through to the retail of finished jewellery. In addition to highlighting established existing knowledge and literature in this field, our report highlights gaps in the literature and understanding that will influence the form and focus of more applied research to be proposed for phase two of the project.

Small-scale gemstone mining

The gemstone industry is comprised of distinct diamond and non-diamond sub-sectors, with the vast majority of non-diamond gemstones mined in low-cost, widely dispersed artisanal and small-scale mines (ASM) in remote regions of developing countries. Countries with major non-diamond gemstones and gemstone production include Brazil, India, Tanzania, Mali, Sri Lanka, Madagascar, Thailand and Mali.

There are a rapidly increasing number of people seeking ASM livelihoods in rural areas of the developing world, which is putting pressure on available environmental and social resources, compounded by increasing gender inequality and child labour as well as poor health and safety and environmental practices in ASM. These issues are made all the more challenging by limited public budgets for investing or regulating the ASM sector.

Usually, the environmental impacts of ASM mining are negative and are physical, atmospheric, biological and ecological in nature. Many of these are preventable and are affected by location, timing, mining methods and technology. The social impacts of ASM are both positive and negative and tend to relate to health, livelihoods, economics and culture. The most significant negative social impacts are indirect and a consequence of environmental impacts and a lack of investment. The most significant positive impact is employment.

Most gemstone producing countries have punitive environmental and social ASM policies that are rarely enforced. The focus of policy has therefore shifted from legislation, to programmes that assist ASM as part of a general poverty alleviation strategy. The latter do not aim to exclude ASM but to minimise its negative, and enhance its positive, impacts. Many successful programmes involve institutional partnership support for the ASM sector.

Large-scale silver mining

The vast majority of silver is traded as a homogenous product, based on large-scale mining in the hands of a relatively small number of producers. In different ways, these factors make it both difficult and easy to trace the source of silver and to

implement ethical considerations along the supply-chain. Over three quarters of all silver output is driven by, and produced as a primary product of, lead / zinc, gold, and copper mine extraction and processing.

Key environmental issues in silver mining relate to waste management, groundwater contamination, acid rock drainage, and pollution from accessory metals. Positively, metal mining is a significant source of employment in remote and underdeveloped regions and provides crucial tax revenue for many developing countries. However, community voluntary and involuntary mine resettlement and dependency present major ethical dilemmas and have forced companies to adopt innovative management approaches.

The environmental impacts of large-scale silver mining are generally negative and influenced by the nature of mining processes and regulation. The social impacts are more generic, both positive and negative, and affect local health, culture, economics and livelihoods. The most serious social impacts are often the least tangibly connected to mining and often include cumulative impacts like mental illness and alcoholism.

Social and environmental metal mining policies exist in all mining economies, but larger companies tend to adhere to more stringent international standards because of the need to secure a 'license to operate'. Stakeholder pressures have given rise to a wide range of mining initiatives and codes that are being increasingly translated into innovative and responsible practices at the operational level in a new risk conscious investment climate.

Processing gems and metals and jewellery manufacture

There is little literature on the sourcing and trading of gems and silver in the jewellery industry. The exception is some key studies in the gold and diamond supply chain. The industry is extremely complex, involving many thousands of businesses involved at different stages. In general, processing and manufacturing tends to be fragmented, although there are many small companies bound together in intricate trading relationships. Despite changes precipitated by globalisation, most notably the movement of labour-intensive activities to regions with low labour costs, the industry is characterised by geographic clusters of firms. Within these clusters, firms are inter-linked with each other through trading relations and layers of sub-contracting, often bound together through ethnic and family ties, or links built up over long periods of trading. There are close links between the various processing centres, held together by traders, in often-impenetrable networks bound by secrecy.

Despite the complexity of the industry, we can identify three basic stages in jewellery production: (i) cutting and polishing of gems, (ii) finishing of metals and (iii) setting and final preparation of the jewellery. However, there are frequently overlaps between manufacture and wholesale. The report explores these stages in the chain through case studies of the gem and jewellery industries in India, Sri Lanka and Thailand.

Some of the more business-focused literature on the sector highlights the important role that is played by industry associations, from the perspective of economic development and co-ordination of export promotion in the industry. In such a

fragmented industry, a representative organisation is likely to be pivotal to the introduction of ethical initiatives in relation to gathering support and ensuring that local understanding is embedded in the initiative.

Jewellery retail and the consumer market

At the distribution end, small and unbranded companies predominate, with only a handful of branded retailers. In the middle, are thousands of small traders whose trading relations are very private and largely invisible to the public, tending to hide information on procurement and sales destinations from their competitors.

As with many smaller businesses along the supply chain, their management remains disconnected from wider public interests and consumer attitudes. It is therefore difficult to make them responsive to ethical supply base and production issues. Indeed, any such strategy will have to sensitise and raise their awareness in language they understand.

To date, action on ethical issues in the industry is dominated by the Kimberley Process Certification Scheme, but the scope of ethical action is being widened by Jewelers of America, which has projects focusing on labour issues in gem and jewellery processing and environmental issues in mining. Some individual jewellery businesses, often characterised as fair trade, have focused more on the development of partnerships with suppliers.

Cross-sector and supply chain standards and initiatives

There are an increasing number of standards and initiatives that are relevant to, though not particular to, the jewellery sector as a whole. They feature significantly in key policy debates on the future of the world economy and address a wide range of general ethical issues, including labour conditions, health and safety, environment and human rights.

Fundamentally, the focus of these new initiatives and standards is no longer about what is produced, but on the way it is produced and delivered. The spread of standards along the entire supply chain of different sectors has caused considerable debate, since many regard them as non-tariff barriers. However, the momentum originates from those who see compliance as essential to environmental and social development.

Multilateral institutions such as the ILO and the UN have developed and influenced many of these initiatives and standards, increasingly in collaboration with civil society, public and private actors. Among these standards and initiatives it is possible to broadly distinguish between those adopting a process approach and those adopting a performance approach.

Mapping issues and further research

The vast majority of established literature is based on stages of production along the supply chain rather than links between these stages, or the supply chain as a whole. Within these areas, differential levels of data availability exist. There is abundant

material on ethical issues in both the small and large-scale mining industry, but relatively little material on the processing and manufacture of gems and jewellery.

In particular, there is very little literature on traders and trade links between actors in the gem processing and jewellery industry or on how jewellery components are sourced. To date, the jewellery sector, as a whole, appears not to have attracted the attention of either ethical or business supply chain researchers. Even where data exists, it has contained little or no analysis of the linkages between stages of production in the supply chain.

Given these results, a research approach that analyses the nodes in the supply chain and how they are linked together would appear to have the greatest potential to further ethical understanding in the jewellery sector. It is suggested that this should focus on (a) trading networks between the key activities of mining, processing, jewellery manufacture and (b) social and environmental issues in gem and jewellery manufacturing and processing. Since the gem processing and jewellery manufacturing industries are fragmented and trading relations are typically secretive, this mapping and analysis is likely to be a difficult process. Nevertheless, a 'supply chain' approach is the best strategy to fill gaps in our understanding of the chain and inform development of an ethical strategy for the supply chain.

Strategic options for development and application of ethical business practices in the jewellery industry are; - to develop internal management systems within a vertically integrated company; - to develop partnerships with suppliers based on good working conditions, fair trading relations and a long-term mutual commitment; - or to develop and implement a code of practice for use by suppliers. The success of these respective strategies will be greatly influenced by a retailer's position in the market, by resources and extent of influence of the business, and by the scale of industry support.

Phase two of the research will be oriented toward a strategy to create information for enabling the jewellery sector, as a whole, to adopt more ethical practices. Key issues include identification of 'drivers' within the value chain and of key actors for the promotion of ethical standards, together with an exploration of the nature of ethical standards that would be viable in the industry, including content, scope and approach.



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