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WORLD GOLD COUNCIL

Q. The World Gold Council has recently released a new framework for 'The Responsible Gold Mining Principles (RGMPs)'. How is this framework positioned to transform the gold mining industry and practices, considering growing consciousness amongst all stakeholders?

A. The Responsible Gold Mining Principle are an over-arching framework that set out clear expectations for consumers, investors and the downstream gold supply chain as to what constitutes responsible gold mining. Prior to the development of the Responsible Gold Mining Principles, there was no single coherent framework that defined responsible gold mining.

ESG considerations are becoming increasingly important to investors and consumers as they are keen to understand more about the production process in order for them to have confidence that the gold they buy is responsibly mined and responsibly sourced.

It is our aim that through the implementation of the RGMPs gold mining companies can provide confidence to investors and other stakeholders that their gold has been produced responsibly. The Responsible Gold Mining Principles are designed to address the needs of refiners and to support the efficient operation of the gold market.

The RGMPs were developed as part of a two year consultation phase and was driven by the commitment of our Members, the world's leading gold mining companies, which reflects their commitment to responsible mining practices. Companies implementing the RGMPs are required to obtain external assurance from a third party, independent assurance provider. Companies will then have to publicly disclose their conformance.

Q The Covid-19 pandemic has posed a number of challenges for all industries, with many thriving by deploying unique strategies. What has been the response strategy of the gold industry?

A. The pandemic has impacted upon all aspects of the gold industry.

Mine production has been halted at various operations around the world and primary gold supply fell by 5% in the first three quarters of the year. Some gold refineries, a crucial component of the gold market were also hit by COVID shutdowns in March and April, limiting the availability of investment bars and coins earlier in the year.

The logistics of moving gold to refineries and onto end consumers and investors has been made more complicated and expensive as a result of the pandemic. Gold usually travels the world on commercial airlines, but the reduction in the number of flights – and the need for higher priority air-freight at times – has lengthened shipment times for gold, and greatly increased freight costs. In some cases, mining companies and gold traders have resorted to charter flights to move the metal, requiring new procedures are insurance negotiations.

These logistical challenges and refinery interruptions triggered a dislocation between the two largest gold markets in March. The New York-based CME Comex gold futures market traded at extreme and volatile premiums to the European-centred over the counter gold market after concerns that gold would not be available for timely delivery into the Comex delivery system. Even after record quantities of gold was shipped into New York in subsequent months, Comex trading volumes have not fully recovered from this event and the price differential between the two markets remains volatile and sometimes extreme.

We have also seen our Members respond to the challenging times by providing additional support to their host communities which included extra funding, opening their hospitals and providing tests to just name a few.

Q. What are the current global trends in the gold industry?

A. We have seen record high gold prices in many currencies in 2020 as well as record high investor demand. The news of a potential Covid-19 vaccine saw the gold price drop by 5% in a day this wasn't an unusual event. While price volatility may persist in the short term, we believe this could be seen as a buying opportunity for many strategic investors.

The price correction and slightly more positive economic outlook may revitalise gold's consumer demand, removing – at least in part – one of the significant headwinds it has faced this year. Historically, Indian and Chinese consumers have often used price dips to buy gold. And we have seen similar behaviour among more strategic Western investors.

Investment demand is not likely going away. While news about the vaccine is definitely positive and rightfully fuelling optimism, there are still challenges ahead.

And lastly, loose monetary policy will reshape asset allocation. In addition to the fiscal largesse, interest rates are set to remain very low for a long time. Amid such an environment, gold could play an increasingly relevant role as a diversifier and source of returns.

Q. What are the current and future impacts of the gold on climate change, as highlighted in your recent report?

A. We believe the gold industry can transition to a net zero pathway by 2050, but we also recognise this will be challenging - as it will be for all sectors of the economy - and will require significant changes and investment from the gold industry, and gold mining in particular.

Approximately 99% of carbon emissions associated with the entire gold supply chain occur at the gold mining stage, which makes it clear where the primary focus needs to be to reach net zero. It is evident, however, that the gold mining industry has the opportunity to be at the forefront of decarbonisation, given the often remote locations where gold mining is found, which are often well suited for adopting renewable energy technology.

Research indicates that holding gold in a portfolio can increase the resilience of that portfolio to climate shocks. We examined the exposure of different investment assets to four climate-related scenarios. We looked at temperatures of 1.5ºC, 2ºC, 3ºC and 4ºC, and the potential impact on returns to year 2030, 2050, 2100 in comparison to current base year 2019. As part of this analysis, we believe that gold will perform better than the likes of commodities, real estate and emerging markets stocks.

Q Please elaborate on gold's importance as an asset in investment portfolios and on societal level for social and economic development?

A. Gold as an asset plays a unique role in our global society by providing financial security and resilience for nations, communities and families, and has been recognised as a long-term store of value since ancient times.

In regards to the importance of it in a portfolio it's clear that gold is a trusted, accessible and multifaceted asset that is integral to the long-term preservation of wealth. It is a relevant, mainstream asset for pension funds.

The traditional 60/40 portfolio split is now a thing of the past and gold acts as an effective diversifier for portfolios because it is negatively correlated to equities and other risk assets.

Allocating 2-10 percent of a portfolio to gold improves overall performance too, for example, risk-adjusted returns can be materially enhanced by adding gold to a portfolio. Gold is also extremely liquid and easy to access. For pension funds, there are multiple ways to implement an allocation, these include investing in physical gold-backed ETFs, bullion, OTC market, futures and options.

Q What strategies are being used by your members in the gold mining industry to align their practices with the UN's 17 SDGs?

A. There is a strong commitment by our Members to the UN's Sustainable Development Goals. Gold mining, refining and fabrication contribute meaningfully to socio-economic development globally.

In September 2020, we released a report which looks at gold mining's contribution to the UN SDGs which looks at 15 of the 17 goals

Gold mining is a major economic driver for many countries across the world. Well-managed, transparent and accountable resource extraction can be a major contributor to economic growth due to the creation of employment and business opportunities for local people. In addition to direct and indirect employment, gold mining also brings foreign direct investment, foreign exchange and tax revenues to countries.

The gold supply chain, including refiners, fabricators and retailers, plays a key part; by providing employment, technical innovation, and essential medical functions

As part of the development of the RGMPs we looked closely at the SDGs and its targets, and mapped these out. This means that if a company is committed to the RGMPs it is by default also contributing to the SDGs.

Q. As the global authority on gold, what is your foresight for the future of the metal as a precious commodity?

A. 2020 has been dominated by the COVID-19 pandemic. As we begin to slowly move past this, investors are understandably looking ahead.

Interest in gold was elevated this year with the gold price in many currencies hitting record highs. So we've been ask is we see the interest in gold begin to fade. We don't think so. We have seen a marked change in how investors are perceiving and using gold over the past couple of years, and with questions swirling about the effectiveness of traditional asset allocation models going forward, there is likely to still be an important role for gold.

In addition, with countries around the world going back to a normal state, we believe consumer demand around the world will start to pick up again cementing gold's role as a reliable store of value. ■

Mr. Terry Heymann, Chief Financial Officer, World Gold Council has a broad range of experience across the gold supply chain. He also oversees initiatives on standard-setting, including development of Responsible Gold Mining Principles, Conflict-Free Gold Standard and Guidance Note on All-In Costs, supporting increased transparency and integrity in the gold industry. He also leads their work around ESG, including supporting progress by the gold industry in delivering UNSDGs and addressing climate change.

Gold Mining (Picture Courtesy: Agnico Eagle)

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