



Green Gold?

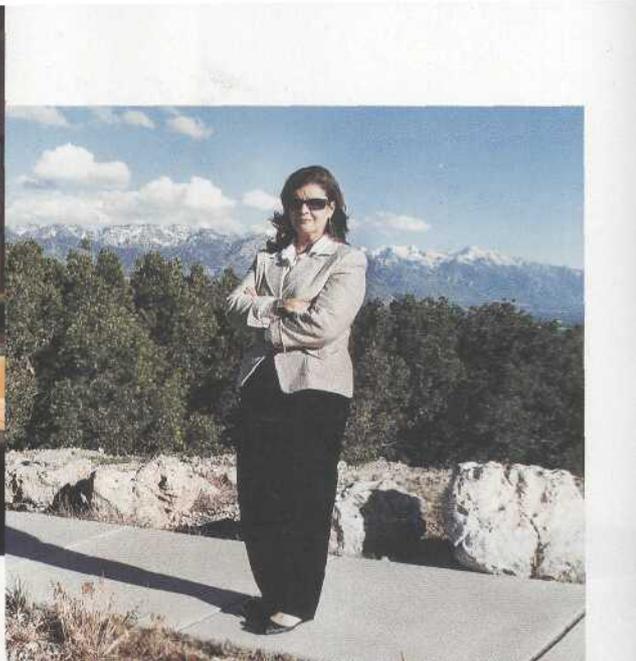
WAL-MART AND TIFFANY ARE TRYING TO CLEAN UP THE GOLD-MINING INDUSTRY. NOT EVERYONE IS CHEERING THEM ON.

By Marc Gunther
Photographs by Chris LaMarca

THE BINGHAM CANYON open-pit mine is the biggest hole dug by man anywhere in the world—about 2½ miles long and nearly a mile deep, according to its owner, Kennecott Utah Copper. Miners have been digging copper, silver, and gold out of Bingham Canyon, just outside Salt Lake City, since 1906. These days huge trucks that cost up to \$3 million each work around the clock, hauling about 450,000 tons of dirt out of the earth each day. More than 99% is waste. But by expending vast amounts of energy—the mine operates its own coal-fired power plant—Kennecott is able to extract an average of about 795 tons of copper, 12,000 troy ounces of silver, and 1,400 ounces of gold a day.

It's the gold that Pam Mortensen has come here to see. Mortensen, 52, is in charge of buying fine jewelry for Wal-Mart. And recently she has moved the world's largest retailer to the forefront of a loose alliance of businesses and environmental groups that have set out to clean up gold mining, one of the world's dirtiest industries.

No one is more surprised by this development than Mortensen, who grew up in Wal-Mart's hometown, Bentonville, Ark. When I ask her what she knew about mining before the company got onto its much-publicized sustainability kick a few years ago, she holds up her thumb and her forefinger to make a zero. "We were just buying pretty stuff from our suppliers," she says.



RAISING THE GOLD STANDARD TIFFANY & CO. CEO MIKE KOWALSKI HAS BEEN OUTSPOKEN ABOUT ENVIRONMENTAL ISSUES IN MINING. PAM MORTENSEN, WAL-MART'S CHIEF JEWELRY BUYER, SAYS 10% OF THE RETAILER'S GOLD WILL BE RESPONSIBLY PRODUCED BY 2010.

Now she has bigger things in mind. Wal-Mart is pushing miners to adopt strict environmental and social standards, verified by independent third parties. Its allies in this campaign include Tiffany & Co. and the Richline Group, the world's biggest manufacturer of gold jewelry and a unit of Warren Buffett's Berkshire Hathaway. The retail giant is also working with a good-cop, bad-cop duo of environmental groups based in Washington, D.C. Business-friendly Conservation International consults, for a fee, with both Wal-Mart and mining companies. And Earthworks, a watchdog group, is behind

a hard-hitting five-year-old media and Internet campaign called "No Dirty Gold." "The more you know, the less gold glows," its commercials say.

That kind of talk unnerves jewelers and upsets the mining industry. But facts are facts. Mining enough gold to make a typical 18-carat wedding ring leaves behind 20 tons of waste. In the U.S., metal mining creates nearly 30% of all the toxic releases measured annually by the EPA, more than any other single industry. And in poor countries, where regulation is lax, the picture gets really ugly. Gold mines and their waste have poisoned rivers in Guyana,

destroyed rain-forest land in Papua New Guinea, and forced the evacuation of villages in the Philippines. In West Africa, thousands of children dig for gold under harsh conditions. According to the UN, a fifth of the world's supply is scratched out of the ground by desperately poor miners working for subsistence-level wages.

By contrast, Bingham Canyon employs union workers and boasts a safety record far better than its peers'. It doesn't employ cyanide, which is commonly used to separate gold from rock, and hasn't had a significant chemical spill in six years. And when Kennecott expanded the mine a decade ago and encroached on about 1,000 acres of wetlands, the company compensated by creating a 3,670-acre nature

reserve near the Great Salt Lake. (Fortunately for the shareholders of Rio Tinto, Kennecott's London-based parent, the company can afford to do things right—the mine made \$1.6 billion in profit last year as prices for gold, silver, and copper all rose.) In an often messy business, you might say Bingham Canyon is the gold standard.

So it makes sense that Mortensen has come here to buy gold and silver for a new, eco-friendly line of jewelry dubbed "Love, Earth," which went on sale at Wal-Mart and Sam's Club in July. The launch marks the first time a mass-market jeweler has been able to track its precious metals through the supply chain—no easy feat, as we'll see.

But Mortensen has tougher tasks ahead. Though Wal-Mart is the No. 1 retailer of jewelry in the U.S., with \$2.8 billion in jewelry sales last year, according to *National Jeweler*, it's still a relatively small player in the world's \$80 billion global market for gold. And the world's mining giants aren't in the habit of having their behavior dictated to them by a retail chain, even a big one. Canada's Barrick Gold, the world's largest gold-mining company, has refused to directly join with the retailers or environmentalists to set standards, preferring to be represented by its industry group. The state-owned China National Gold Group, now a major producer, has likewise declined to participate. Wal-Mart and Tiffany may have figured out how to begin shielding themselves and their customers from the tarnish of dirty gold, but the struggle to clean up the business is just beginning.

PERHAPS NO ONE HAS DONE MORE to alert the jewelry industry to these problems than Michael J. Kowalski, the 56-year-old chief executive of Tiffany & Co. An impeccably tailored man with degrees from Wharton and Harvard Business School, Kowalski is seen by some as a tree-hugging radical. "Almost everyone in the mining industry considered our degree of engagement suspect, stupid, or insane," he says.

As it happens, Kowalski loves the outdoors—he's a scuba diver and a hiker—but he has become an environmental activist for pragmatic reasons. "If the mining companies and the NGOs go to

U.S. JEWELRY SALES MAKE UP SOME 10% OF THE WORLD'S \$80 BILLION MARKET FOR GOLD.

war, the battles are going to be fought on the sidewalks in front of Tiffany," Kowalski says. That's a nightmare scenario for the 151-year-old purveyor of luxury goods, because the appeal of gold jewelry, like that of a fur coat, depends upon its cachet.

Kowalski has been digging into Tiffany's supply chain since the late 1990s, after human rights groups accused the jewelry industry of trafficking in so-called conflict diamonds, also known as "blood diamonds" because they were traded by rebel groups in Africa to finance brutal civil wars. "Shame on us and the entire jewelry industry," Kowalski says. "It was a wake-up call." Jewelers worked with the NGOs and governments to develop a scheme called the Kimberly Process that enables retailers to assure customers that their diamonds are "conflict-free."

But when Tiffany began asking questions about the origins of its gold and silver, the company hit a wall. Gold is mined in more than 60 countries, and the industry that supplies the metal to retailers is highly fragmented, with dozens of refineries buying gold from mines across the globe and often melting it together before shipping it off to banks or manufacturers. The refineries and banks that sold Tiffany its precious metal could not tell the company which mine, or even which country, produced its gold. "There are many impermeable membranes in the supply chain for gold jewelry," explains Assheton Carter, an industry expert at Conservation International who advises Wal-Mart. "You don't know if your gold comes from a responsible company like Rio Tinto or Newmont, or from a child laborer in Sierra Leone."

That's why traceability is vital. Without it, retailers and their customers can't use their buying power to reward mining companies that act responsibly and avoid those that don't. This approach is by no means unique to mining; on the contrary, it has been developed and refined over time in such industries as fishing, forestry, and agriculture, where activist groups have pressured brand-name retailers to set standards that protect natural resources. So, for example, Whole Foods now promotes salmon certified by the Marine Stewardship Council, wood sold at Home Depot is adorned with the logo of the Forest Stewardship Council, and Starbucks sells Fair Trade coffee. Instead of selling pure commodities, these retailers are selling fish, wood, coffee—and now gold—with a backstory.

Tiffany solved its traceability problem by opting to buy its gold exclusively from Bingham Canyon. But Kowalski wasn't finished. He put in a call to Steve D'Esposito, the president of Earthworks, to see what else the company might do. Since then Kowalski has convened meetings of jewelers and NGOs, financed studies of mining practices, and publicly opposed new mines in environmentally sensitive areas. "Putting our Tiffany house in order is nice," Kowalski says, "but it doesn't address the issue of responsible sourcing in the jewelry industry."

That's harder because all the jewelers in the U.S.—Wal-Mart, Tiffany, Cartier, and the mom-and-pop shops organized as the Jewelers of America—account for only about 10% of the world market for gold jewelry. India, China, and the Middle East each buy more. So if mining companies don't want to meet the standards set here, they have plenty of other buyers for their gold.

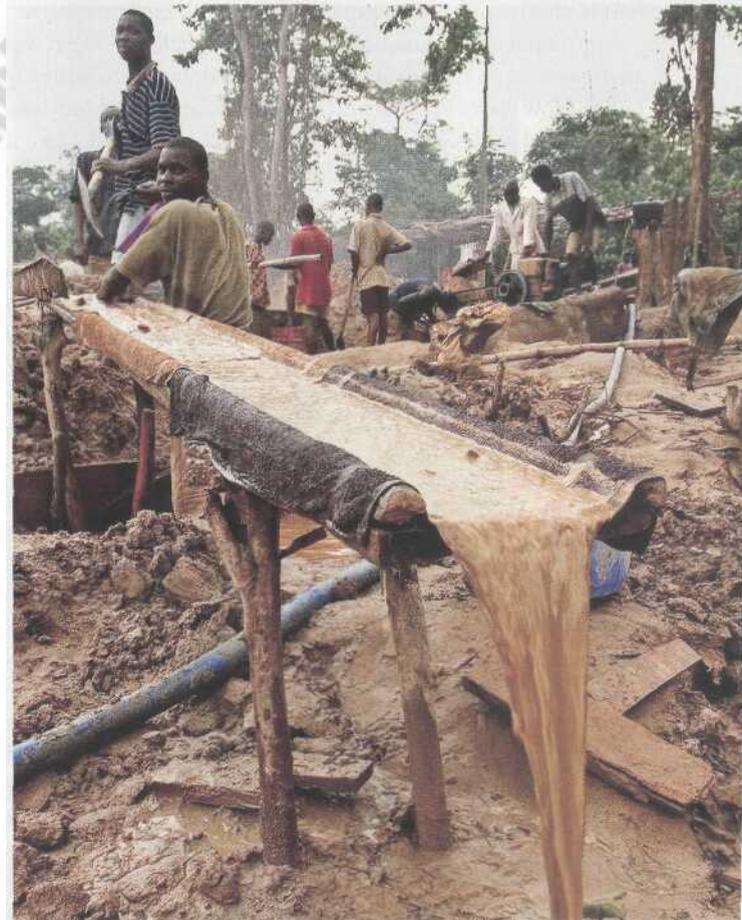
Just getting jewelers and mining companies into the same room has been a challenge. "The jewelers had never talked to a mining company," D'Esposito says. Gradually, two organizations have

emerged: The London-based Council for Responsible Jewelry Practices (CJRP) includes jewelers, refiners, mining companies, banks, and trade associations but no environmental groups, while the Initiative for Responsible Mining Assurance (IRMA) has all those parties plus the NGOs. Both have begun the painstaking process of developing mining standards, but progress has been slow. "IRMA's been going round and round in circles for two years," says Carter of Conservation International. "Wal-Mart cut through the b.s."

WHEN WAL-MART LAUNCHED its big sustainability push in 2005, the people who design the stores and manage its fleet came away with clear marching orders to save energy and cut waste. But as a jewelry buyer, Pam Mortensen wasn't sure where she fit in. "What can we do in our little world?" she wondered.

First Wal-Mart brought in Assheton Carter to give Mortensen and the other jewelry buyers a crash course in mining. He argued that their business would benefit by building closer ties to suppliers. (He's the good cop, remember.) Then bad cop Earthworks and its "No Dirty Gold" campaign weighed in with newspaper advertisements on Valentine's Day 2006, naming Wal-Mart a "laggard" while praising Tiffany and Cartier. In the argot of the

MESSY BUSINESS IN WEST AFRICA, MINES FREQUENTLY EMPLOY CHILD LABOR AND ARE TYPICALLY RUN WITH SCANT ENVIRONMENTAL OVERSIGHT. BELOW, WORKERS WASH THE SOIL TO EXTRACT THE GOLD AT A MINE NEAR NOYEM, GHANA.





BULLY FOR BULLION
FRESHLY POURED
BARS OF GOLD AT
BINGHAM CANYON



NGOs, this is known as a "rank 'em and spank em" campaign.

Mortensen wasn't sure how to respond. "I really felt like it was an impossible task," she said. "We had no relationships with any mines. How do we even tackle this?" Wal-Mart looked into buying recycled gold—which is the "greenest" kind of gold, since it requires no new mining—but the supply is limited. Besides, the

"Love, Earth" line would not be quite as romantic if customers traced their gold back to a discarded cellphone, a pawned wedding ring, or someone's old dental work—all of which are used to feed the recycling stream.

Mortensen then turned to Kennecott and to Newmont Mining Corp., which agreed to supply gold and silver to Wal-Mart from its mines in Nevada. But because Wal-Mart, unlike Tiffany, does not make its own jewelry, Mortensen needed a way to track the gold through its supply chain.

It is here that Warren Buffett makes a cameo appearance in our story. The

Richline Group, a unit of Buffett's Berkshire Hathaway, manufactures gold jewelry for Wal-Mart and other retailers. After consulting with Buffett, Dave Meleski, the president of a Richline division called Aurafin, tried to figure out how to track Wal-Mart's gold from the mines and refineries to Richline's factories in Providence, the Dominican Republic, and Bolivia, and from there to a Florida distribution center and Wal-Mart and Sam's Club stores. "My first reaction, like most

everybody in the jewelry industry, was that the hurdles were bigger than we can deal with," Meleski says. "Who the heck knows how the jewelry can be traced?" He found the answer in a small startup company called Historic Futures in Gloucestershire, England, that specializes in supply-chain traceability. Historic Futures built a web-based system to track serial numbers etched on bullion that enables buyers of "Love, Earth" jewelry to track the history of their gold bracelet or necklace (at loveearthinfo.com) to its origins.

While Wal-Mart says it eventually wants all of its gold, silver, and diamonds to be sourced from mines that meet its standards, it has set a modest target of buying just 10% from responsible sources by 2010. By then both Mortensen and Tiffany CEO Kowalski are hoping to have persuaded more big mining companies and banks to join IRMA, the responsible mining initiative.

But Mortensen is not sitting still in the meantime. After months of conference calls with miners and NGOs, Mortensen and Gail Campbell, who oversees jewelry buying for Sam's Club, recently produced a report for Wal-Mart called "Vision and Principles for Sustainable Sourcing of Jewelry." It's essentially a code of mining-industry practices, like the ones that the other jewelry and mining groups are still arguing about. "We just kept pounding away at the issues," says Mortensen. But they left some big questions unresolved. What, for instance, does it mean for a mining company to achieve "the widest possible acceptance and support of communities" before a new mine can be dug? That issue is not likely to get settled anytime soon.

"We realize that it's not a perfect world," says Mortensen at the end of her full-day VIP tour of the Bingham Canyon mine. "But if we don't start somewhere, we won't get anywhere."