

**CASM Annual General Meeting and Regional Learning Event in
Salvador de Bahia, Brazil, September 18-24, 2005**

Agenda for the Fair Trade Learning Session:
Options and experiences

Facilitation By:



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Projet de Gouvernance des Ressources Minerales) and Manager Advisor of the
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Rationale

Access to fair trade schemes offers interesting incentives for the transformation of ASM. The first step is the development of a framework for responsible mining that is applicable to the realities of ASM. This framework will be the basis on which to build a certification scheme which can then be tested and applied by independent certifying agents, accredited by an independent international organization. The legitimacy of the whole scheme will be dictated by the technical quality of the scheme, and by the social robustness of the process used to develop it.

The Learning session on Fair Trade in the CASM AGM in Salvador de Bahia will be primarily focused on bringing knowledge and information on the potential of this approach for the transformation of ASM, on sharing pioneer experiences in this field, on discussing the pros and cons of existing schemes in other sectors, and on discussing the stakeholder process that should be followed for the production of a legitimate and applicable fair trade scheme for ASM.

Objectives:

- Participants will have a clear idea of the potential of using certified standards as incentives for the transformation of ASM

- At the end of the session the participants will clearly identify the differences between Fair Trade, Ethical Trade and green labeling, and their potential for the ASM sector
- The session will serve to reinforce regional and global networks interested in working on fair trade issues in ASM
- The session will produce input for the Winter session of the Fair Trade Jewelry Work Group, in terms of identifying key participants, suggested issues for further discussion, and proposed agenda and venue.

A. Setting the scene: (2 hours)

1. Pilot cases:

- Certified Green Gold: an investment in peace and diversity in Colombia (Catalina Cock) 30 min
- "These carats don't come from the supermarket" The trail of a gem from an ASM in Madagascar to a jewelry store (Tom Cushman) 30 min.

2. Presentation on Fair Trade, including illustration of FT vs. ET, and eco-labeling. Existing Fair Trade Standards: the use of Minimum and Progress Criteria . Patrick Schein, President, SP Trading. 40 min.

B. Discussion and brainstorming session: (40 minutes).

C. Next steps? C. Echavarría, ARM. 20 minutes.

Summary

The Fair Trade session facilitated by ARM at the 5th CASM Annual Meeting was attended by some 30 people of all continents and belonging to all stakeholder groups, including miners, researchers, government officials, international cooperation officials, NGO representatives and dealers. Although the presentations portion of the session was quite long, given the need to convey information that was new to many of the participants, discussion was very lively and participants were very enthusiastic about the potential of FT as an innovative approach to the transformation of at least part of the ASM sector.

The session began with a presentation of the Green Gold experience by Catalina Cock (see attached presentation in Spanish). Although this experience highlights on environmental criteria, it also foments most if not all fair trade criteria. Catalina

emphasized on the importance of environmental protection for community mining given their dependence on natural resources. The diversification of productive activities, as well as the capacity building on a local level, has been fundamental for this initiative.

This was followed by a presentation by Tom Cushman who described how the marketing of sapphires and other gems is done in Madagascar, highlighting the difficulties of applying fair trade criteria in the case of sapphires, given the importance of the role of intermediaries and the immense variety in quality of gems and the subsequent variability in the cost per carat. These two presentations made visible the differences implicit in developing FT criteria for precious metals and gems.

On the basis of these two cases, Patrick Schein made a very complete presentation of the principles and fundamentals of fair trade according to the FLO model, its differences with ethical trade, green trade and solidarity trade. He went on to describe how it works, generic and progressive criteria, labeling and standards (social, economic, environmental, labor), finalizing by identifying the key challenges for its adaptation to ASM:

- Identify what ASM products are FT compatible
- What distribution system we want
- Define specific standards
- Market the products with key players mainly in Europe
- Everything exists we must just adapt it to ASM

Mr. Schein made the case for using the fair trade model for ASM products, rather than ethical, green or solidarity models, based on the following:

Fair trade:

- Development objectives prevail, its objectives converge with those of the MDG, CASM and others in terms of poverty reduction. It benefits the poorest communities and producers
- It is market driven, hence the resources must come from the conscious consumer
- Eliminates intermediaries who do not add value in the production and marketing chain
- Based on the initiative of the producer group, requires commitment from them, it is a life choice, the producers must want it.
- Re-investment of a percentage of the prime into community projects

- It is a gradual process that uses generic (basic) and progressive criteria, hence promoting continual improvement in performance
- A key aspect of the FT model is that it involves the consolidation of long-term partnerships between mining communities (producers) and the FT buyers. This provides opportunities for accessing pre-financing of production and for the accumulation of sufficient produce to respond to demand of FT minerals

Ethical trade:

- Based on compliance with ILO labor standards
- Mostly accessible to established, formalized, medium and large-scale producers with economic capacity to comply with ILO labor standards.
- Large scale mining industry uses mostly ethical standards, hence making the inclusion of artisanal and small-scale producers very difficult to begin with.

Solidarity trade:

- Used in developed country contexts to support trade of products made by vulnerable groups, such as disabled people. Therefore it is not applicable to ASM.

Green labeling:

- The Green gold experience provides an important precedent for the inclusion of environmental criteria in the FT standards. The degree and speed of incorporation of green standards into the FT criteria will be contingent on the adaptation of FT standards on a case by case basis (depending on the ecosystem where mining activity takes place. I.e. they will not be the same for Santa Filomena in the Peruvian desert, than for Green Gold in the Colombian tropical rainforest).

MAIN POINTS IN THE DISCUSSION

- “Keep it simple” despite the diversity, was strongly emphasized by UNCTAD and all present were in agreement.
- To what kind of ASM can FT be applied? ASM encompasses many kinds of situations. It was agreed by all that FT may not be applicable to all kinds of ASM. For example, it is not applicable to “rush” situations where hundreds of people converge on a mineral rich area to mine with no organization or regard for human rights or environmental impacts. It is applicable to what we have

denominated “community mining”, where a local community, with territorial rooting, mines its own resources. This kind of stable community is more likely to regard minerals as a long term asset, and therefore will have greater interest in committing to fair trade standards. This is the case of the Green Gold experience and may be the case in places like Santa Filomena in Peru, or for mining by indigenous peoples and other rural communities in their own territories.

- FT is based on the existence of an educated consumer, who makes the choice to buy products that directly benefit the producer. It is important therefore to work through FLO, the established Fair Trade Label Organization that already articulates these educated consumers and has experience in developing FT standards. To work with FLO we must establish a partnership to bring the know-how on artisanal and small-scale mining.
- There was a discussion on the convenience of establishing “the elimination of all the intermediaries who do not add value to the product in the production chain” as a dogmatic criteria of FT. Concern was expressed that some of the intermediaries, for example, buyers at the local level, or transporters, were also part of the local community, and eliminating them could deprive families of their livelihoods. It was proposed that some of these transporters and buyers could become part of the producer organization, and hence be incorporated into the process. This would increase added value at the local level. Concern was also expressed that in some cases intermediaries represent powerful economic or military groups (such as in Sierra Leone and Colombia), and cutting them out of the business could prove to be difficult and create security problems for the producer organization. These risks would need to be managed on a case by case basis.
- At what point to value sapphires? Answer by Tom Cushman: Sapphires are and should be valued every time they change hands. And the value will be different. The price at the mine for a rough stone and the price in a boutique for a finished piece of jewelry are very different. An important point to keep in mind is that sapphires, unlike gold or coffee, each have an individual price. All the coffee in a sack is similar enough to make no difference. All grams of gold, allowing for purity are identical, but each sapphire in a lot will have a different price as it is not the rough sapphire that sets the price but rather the potential finished jewel inside. What should that price be is also best answered by “that depends”. At the mine a rough stone will be worth less than the same stone at a market, even less than after exported, even less than after transformed either by heat treatment or cutting and even less than after having been made into a lot for a particular buyer. It is important to keep in mind that gemstones are

sold to manufacturers who will require a particular size, color and quality of stone and won't want any other. A maker of small, multi-stone cheap, fashion rings will not want to buy larger, better stones than his order calls for. The manufacturer of better quality jewelry will only buy goods of his quality and will not accept a mixed parcel. The dealers who make and break bulk provide a service for the industry and will be paid for it. The person who transports stones from the mine or from the country of production provides a service as well. Knowing who buys what and making sure they each get just what they wanted and nothing more or less is equally a valuable service. Owning the stock and holding it so the customer can buy it "just in time" is an incredibly expensive service that doesn't get the credit it is due but adds real value. That person buys for less than he sells for, and he should or he wouldn't be there when needed. So who is to say what the price is or should be? Fortunately sapphires are usually sold in competitive marketplaces. The miner or first dealer selling to "businessman" or an exporter will usually have his choice of several willing buyers, each seeking to pay the minimum but each needing to offer the maximum so he will get the stone instead of his competitor. This puts downward pressure on margins and upward pressure on prices. At the end of the day the buyer offering the most and willing to make the least that usually ends up with the stones. This is globalization in action. And where markets are in disequilibrium due to a lack of buyers, where prices are below fair market value, other buyers will enter the market and equilibrium will prevail. So, when should we value sapphires in the chain? All the time. Everytime they change hands. What should that price be? It depends. It depends on who, what, where, when, why and how.

- There was some discussion on what a "Fair price" could be. Green Gold charges a premium of 10%. Certified miners receive a premium of 5% when they sell their metals to the Green Gold Corporation. (COV, is a non-profit entity created as an alliance by two local community councils (Condoto and Tadó) and two NGOs (Fundación Amigos del Chocó and Fundación Las Mojarras) . Revenues produced by COV are reinvested in collectively identified community projects.
- It was suggested that a combination of local cost of living for a mining family combined with the international price of the commodity should serve as a basis for defining the percentage of the prime. This point needs further discussion since community miners sometimes have diversified livelihoods that combine mining with other economic activities.
- The group also discussed the question of what percentage of a product had to be originated through fair trade, for the final object to be certified as fair trade. The example of cocoa was given, indicating that fair trade cocoa in chocolate bars started at 10% and now reaches 80%. The main point being that

fair trade production needs to be addressed as a process with continual improvement. This needs further discussion.

- Who certifies? It was agreed that certification should be undertaken by local or national independent, credible and transparent organizations (these can be academic and research institutions, whose capacity would therefore be strengthened through this process). These certifiers need to be trained and accredited by an international umbrella organization. This accreditation organization could emerge from a partnership between ARM and FLO.
- NGO's and other groups directly involved in working with mining communities cannot be certifiers, but they have an important role in working with community miners and organizations in improving performance to achieve FT standards and its progressive improvement.
- The development of the standards needs to incorporate key organizations and programs for the development of specific standards. For example, we need to work with the IPEC-ILO program on progressive elimination of child labor on establishing generic and progressive criteria regarding child labor. We also need to work with the Global Mercury Project to establish generic and progressive criteria for use of mercury in gold mining.

NEXT STEPS:

- In order to keep it simple it was recommended that we begin with gold, rather than gems, given the complexity of the sapphire trade so clearly articulated by Tom Cushman.
- Issues which emerged in Bahia that need further discussion:
 - What is a fair price? How is it to be determined?
 - What is the minimum percentage required in a product for it to merit fair trade branding?
 - The issue regarding the denomination FAIR TRADE, versus something perhaps more neutral for jewelers and retailers, such as "community trade"

THE PROPOSED PROCESS:

- ARM offers to develop a first Draft 0 of the standards for ASM gold, for discussion, building on the Lima Vision (see attached), FLO's fair trade standards and criteria and the CASM framework for sustainable ASM communities, as a framework of reference for responsible ASM .

- The draft 0 will go through an internal consultation and feedback process with the Fairtrade list, and other key participants from Africa, Asia and Latin America, and others identified at the CASM meeting. It will then incorporate those preliminary comments.
- Draft 1 will be published widely on key web pages, including CASM, ARM and that of other interested parties. Regional CASM initiatives and other ASM networks will be focused for feedback. Further consultation will be undertaken at local level through the involvement of key practitioners in different countries.

STAKEHOLDERS TO INVOLVE:

- In Africa the process will benefit from working through the newly formed CASM Africa, which is directly managed by Africans as part of NEPAD and has been charged by the African Mining Program (AMP) with artisanal and small-scale mining issues. Key players have been identified.
- In Latin America and the Caribbean, the process will benefit from working through existing ASM networks, such as the open networks articulated over the last 5 years through the cooperation of CYTED/CASM/MPRI /UNESCO/ILO-IPEC/DANI DA-Comibol/ARM and many national partners involving miners and researchers from most countries.
- In SE Asia the situation is less clear in terms of who to articulate in the process, although there are some key contacts in Philippines and Indonesia. For China, India and Mongolia we should work with CASM contacts.

KEY PARTNERSHIPS MADE

- Partnerships are being established with the Latin American ILO-IPEC team, who have agreed to work on the standards for child labor. Further discussions should take place with ILO to involve Norman Jennings in the development of generic and progressive labour standards, occupational health and hazards, among other issues in which ILO has developed important leadership over the past decades in ASM.
- Discussions for the involvement of the GMP (Global Mercury Project) in the development of the standards for mercury use have also been undertaken. ARM and GMP are at present exploring options to take this forward.

- UNCTAD, through Olle Ostensson, has expressed interest in accompanying this process and providing a person with experience in FT to work with us in the development of version 0, and provide ongoing advice.

NEXT STEPS FOR THE “WINTER” MEETING

- “Winter” meeting: we recommend that this meeting takes place after the draft 0 of the standards have been developed, perhaps a “Spring” meeting. Funding and location were not discussed because of time constraints. Participant selection should depend on demonstration of active engagement in the process and on availability of funding.
- Estelle Levin has left CASM, although she will continue to be involved with the fair trade for ASM group. CASM will continue to be involved through Christopher Sheldon.