



Alliance for Responsible Mining



FAIRTRADE LABELLING ORGANIZATIONS INTERNATIONAL

FAIRTRADE AND FAIRMINED STANDARD FOR GOLD FROM ARTISANAL AND SMALL-SCALE MINING, INCLUDING ASSOCIATED PRECIOUS METALS

Explanatory document

Current version: March 15th, 2010

ARM and FLO provide this Explanatory Document to all stakeholders to explain the intent and requirements of the STANDARD for Fairtrade and Fairmined Artisanal Gold and to guide to full understanding of these.

This Explanatory Document is not part of the STANDARD, and neither does it replace it. Producers will only be audited on the Standard, not on this Explanatory Document.

The STANDARD is recently published in its first version and during the implementation of the STANDARD further topics will surface where guidance on its intent is needed. This Explanatory document is also the first version and covers only those topics which were identified during standards development as critical for the correct interpretation of the STANDARD.

As the STANDARD reflects a harmonization of ARM and FLO Standards, many previously existing Fairtrade concepts, described in detail in FLO Explanatory Documents, also apply to the Fairtrade and Fairmined STANDARD. For better harmonization, where applicable, this Explanatory Document is based on and integrates existing FLO Explanatory Documents.

© Alliance for Responsible Mining Foundation - ARM, 2010. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without full attribution.

Contents

1. Structure of the STANDARD	2
2. Geographic Scope of the STANDARD	2
3. Certification and Auditing.....	2
4. Fairtrade Premium and Ecological Premium	3
5. Physical Traceability	4
6. Publication and Updates of the Explanatory Document	6

1. Structure of the STANDARD

The Structure of FLO Standards, described in chapter 6 of the FLO SPO Explanatory document applies in analogy for the Fairtrade and Fairmined Artisanal Gold Standard:

The *STANDARD* is made up of two sets of requirements against which *producer organizations and operators* will actually be audited:

- **Minimum requirements.** These are major *Fairtrade and Fairmined principles* which all organizations must meet from the moment they join the *Fairtrade and Fairmined system* and any time after.
- **Progress requirements.** These show the areas in which organizations will be expected to develop further and by when.

Minimum requirements ensure that Fairtrade benefits reach workers, producers and their organizations. As FLO's and ARM's main aim is to enable disadvantaged producers to access the benefits of the Fairtrade market, it is not the intention of the *STANDARD* to prevent the certification of producer organizations because of their lack of capacity at the start of their certification process. However, some aspects of the *STANDARD* are fundamental to ensuring the rights of the members, *production partners* and workers of the producer organization, as well as those of buyers and consumers.

FLO-CERT publishes time lines for compliance for progress requirements. The degree of development expected may differ between organizations depending on their situation and the level of economic benefits they receive from Fairtrade. The situation is evaluated e.g. by the size and capacity of the organization.

2. Geographic Scope of the STANDARD

Potential conflict areas between agricultural and artisanal mining producers are excluded from the Geographical Scope of the *STANDARD*. A separate Explanatory Document, describing in detail the procedure of declaring such excluded areas (ATEs), and providing report templates is published on the FLO and ARM websites.

3. Certification and Auditing

The procedure outlined in chapter 5 of the FLO SPO Explanatory document applies in analogy for all producers and operators of Fairtrade and Fairmined Artisanal Gold:

Producers wanting to apply for Fairtrade certification have to get in contact with FLO CERT. More information on the application process can be found on the website: www.flocert.net/flo-cert/main.php?id=82. After the initial certification, yearly audits are carried out to check if producer groups comply with the Fairtrade standards.

At audits and for certification decisions the certification body follows the exact wording of the standard and its objectives. Technical compliance criteria for the standards (meaning a list of what producers are expected to do to fulfill the standards) are published by FLO-CERT. This is a valuable checklist and can be accessed at www.flo-cert.net/flo-cert/main.php?id=60. When there is doubt over whether a producer organization has correctly fulfilled a requirement, the certification body will make its assessment according to the objectives of the standards. *The STANDARD* requires that producer organizations and companies always observe national legislation. When *the STANDARD* is higher than national requirements, the *STANDARD applies*.

4. Fairtrade Premium and Ecological Premium

Fairtrade Premium

The intent of the Fairtrade Premium in the STANDARD is identical to Generic FLO Standards:

“The benefit of selling in the Fairtrade system is not only about having a Fairtrade Minimum Price as a safety net for Fairtrade products, it is also about receiving an extra amount called the Fairtrade Premium. It is meant to invest in the lives of small producers, workers, their families and communities by working towards the development objectives as identified in the development plan.” (Source: FLO SPO Explanatory document.)

Correspondingly, the FLO Explanatory Documents on Fairtrade Premium use and administration apply in analogy for all producers and operators of Fairtrade and Fairmined Artisanal Gold (SPO Guidelines for ASMOs, HL guidelines for SSMOs).

Ecological Premium

Chapter 3.3 of the STANDARD indicates an additional premium for gold and associated platinum and silver produced under more stringent environmental practices which exclude the use of mercury and cyanide and require forest restoration in areas of high biodiversity and ecological restoration in any ecosystem. This additional premium is called “Ecological Premium” and corresponds in practice to a price differential, paid for a product with superior quality and usually produced at a higher cost.

Certification of FAIRTRADE and FAIRMINED Ecological Gold, if applicable, always has to cover the entire operation of the ASMO or SSMO, including all PPs. The option of splitting production lines or production facilities of an ASMO or SSMO into an ecological certified production unit and a non-ecological certified production unit is not the intent of the STANDARD and therefore not possible.

Procedures, roles and responsibilities for handling the Ecological Premium are similar to handling the Fairtrade Premium. However, the Ecological Premium may also compensate directly for economic losses due to lower gold recovery of the applied mercury-free and cyanide-free processing techniques, as well as less intensive mining activity.

The use of the Ecological Premium is decided by the ASMO. The ASMO is free to decide what is best for them, either to distribute the differential to the individual members and production partners (as an incentive), to use it collectively for measures assuring compliance

with ecologic certification, or to apply a mix, using part of the premium for compliance and the rest for higher income. The ASMO is also free to use the Ecologic Premium to top-up the Fairtrade Premium for general community development.

5. Physical Traceability

The intent of the STANDARD indicates that traceability requirements are to protect operators and consumers. The objective is to ensure the authenticity of Fairtrade and Fairmined gold can be verified, so that operators only sell Fairtrade products that are purchased as such. The objective is to trace the gold back to the producer by check of documentation, as well as ensuring that the product is also physically separate and identifiable from non-Fairtrade products. Physical and/or documental traceability requirements assure the customer that this exact quantity of Fairtrade gold was mined according to this STANDARD by one or more artisanal and small-scale mining organizations, and that the purchase of the consumer product provides immediate benefits to this/these certified organization(s).

While full documental traceability is always required, the STANDARD indicates that physical traceability has to be assured as long as the associated costs do not exceed proportionally the benefits for ASMO through the Premium.

Indicators for disproportional costs are based on the average LBMA price. “Average LBMA price” refers to the annual average of the LBMA fixing of the previous calendar year as published on <http://www.lbma.org.uk/stats/goldfixg> (*average of AM and PM fixings, rounded to zero decimals*), applicable starting with the second quarter of the following year. The delay of 3 months (first quarter) shall allow for planning and negotiating the technical processes to be contracted.

Example: The 2009 annual average applies from April 2010 to March 2011. The 2010 average applies from April 2011 to March 2012.

ASMO and SSMO producers

Processes carried out by artisanal and small scale miners in their own mine or processing plants are designed on artisanal or small scale, and compliance with physical traceability is therefore no technical problem. Section B, requirements 7.1.1 and 7.1.2 demand therefore complete physical traceability. However, in cases where miners need to sub-contract processing steps (like e.g. desorption of activated carbon) from specialized service providers, the requirement of physical traceability may become an issue of economy of scale. Physically separate processing of small quantities in facilities designed for larger batches or even continuous processes may cause the ASMOs production costs to increase disproportionately, with the effect of reducing the income of the miners. The STANDARD allows in such cases exemptions from the requirement of full physical traceability and refers to the Explanatory Document regarding indicators for traceability costs and procedures for documentation of disproportional costs (Section B, requirement 7.1.4):

Physical traceability costs in the range of 1% to 2% of the average LBMA price are considered tolerable, as in exchange producers receive a 10% Fairtrade Premium. If physical

traceability costs result higher, then producers are exempt from physical traceability but are still required to provide full documental traceability. Indicators and procedures are as follows:

- If the cost differential of contracting any separate physically traceable process (compared to a process based on exact mass compensation) exceeds 1% of the average LBMA price, the producer is allowed to contract an alternative, cheaper process based on exact mass compensation.
- If more than two processes are contracted, with individual physical traceability costs below 1% but totaling more than 2% of the average LBMA price, then producers are allowed to replace one or more physically traceable processes by alternative, cheaper processes based on exact mass compensation, until the total physical traceability cost is below 2%.
- The ASMO or SSMO determines by itself if exemption from physical traceability is applicable; no external approval is required at the moment of decision making. Decisions must be taken based of evidence, must be documented and all related documents must be archived during 5 years. All related documents are subject to verification by the certification body (FLO-CERT).

Example 1: For a process to be contracted, the ASMO requests in January 2010 two written offers from its service provider: One offer regarding costs for physically separated batch processing (physically traceable) and the other on costs for feeding the material into a continuous process (receiving the product based on calculated mass compensation). The ASMO has to compare both offers and make a decision. Both offers are evidence and have to be kept on file for 5 years.

In January 2010 the applicable average LBMA price for 2008 applies (it is the 1st quarter). The applicable average LBMA price is 872 USD/oz, according to <http://www.lbma.org.uk/stats/goldfixg>. The two offers obtained for the process to be contracted are as follows: (i) for a physically traceable batch process: 12.4 USD/oz, for a mass compensation based continuous process: 5.6 USD/oz. The difference is 6.8 USD/oz, which is 0.78% (1% = 8.72 USD/oz) of the average LBMA price. The ASMO is therefore obligated to maintain full physical traceability, by contracting the more expensive batch process.

Example 2: Similar as above, but the ASMO needs to contract three processes. The cost differentials for each of the three processes are: 5.3 USD/oz (0.61%), 7.2 USD/oz (0.83%) and 6.8 USD/oz (0.78%). The total cost difference of all 3 processes together is 19.3 USD/oz (2.21%). The ASMO is therefore allowed to substitute one of the 3 physically traceable processes by a cheaper mass balanced process.

Other operators (trading, refining, manufacturing, etc.)

Processes and transactions carried out by other operators (excluding producers) vary in scale. According to the nature of their activity and business, processes, equipment and production lines may be more or less suitable for physically separate treatment of Fairtrade and Fairmined certified gold. At start-up of Fairtrade and Fairmined gold, with relatively small

supply volumes available, several interested operators might not yet have dedicated production lines for certified gold in place.

The intent of the STANDARD is to reach complete physical traceability as soon as possible. Physical traceability is therefore already required for all transactions between producers, buyers and operators (Section B, requirements 7.2.1 and 7.2.3). As this requirement applies to all operators, it is assumed to not cause any major competitive distortion.

Section B, requirement 7.2.4 demands that “During any process of further enrichment or manufacturing, all possible efforts towards full compliance to physical traceability requirements are made”, but indicates that “Where full compliance to physical traceability requirements imposes disproportional transforming costs, limiting access to Fairtrade markets for Fairtrade certified ASMOs, refiners and manufacturers will be exempt from physical traceability requirements”.

Indicators for physical traceability costs and procedures for documentation of disproportional costs follow in principle the same logic as for producers. Threshold values are however higher, as they are less related with the income of Fairtrade beneficiaries (miners) and more related with the final price of the manufactured product for consumers and therefore with the potential of market penetration. It is assumed that physical traceability constitutes an emotional added value for consumers. Indicators and procedures are as follows:

- If the cost differential of applying any separate physically traceable transformation process (compared to a process based on exact mass compensation) exceeds 2% of the average LBMA price, the operator is allowed to use an alternative, lower-cost process based on exact mass compensation.
- The operator determines by himself if exemption from physical traceability is applicable; no external approval is required at the moment of decision making. Decisions must be taken based on evidence, must be documented and all related documents must be archived during 5 years. All related documents are subject to verification by the certification body (FLO-CERT).

6. Publication and Updates of the Explanatory Document

This Explanatory Document shall be published on the FLO and ARM websites.

Updates of this document may be frequent, especially during the first year(s) of the implementation of the STANDARD. This Document shall be amended whenever questions regarding the interpretation of the STANDARD’s intent arise. Producers and operators are requested to check the FLO and ARM websites periodically for updates.