

# **Certified Trading Chains in Mineral Production**

## **Project Outline and Status**

Federal Institute for Geosciences and Natural Resources  
Bundesanstalt für Geowissenschaften und Rohstoffe

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## Background

Mining in Central Africa has been associated with violent conflict, mistreatment of artisanal miners, illegal trading and the diversion of state funds. In 2002 the United Nations' Panel of Experts presented their findings to the Security Council on the Illegal Exploitation of Natural Resources in the Democratic Republic of Congo (DRC)<sup>1</sup>. The Panel had found that the plunder of natural resources and other forms of wealth of the DRC was fuelling conflict in the region. Like DRC, many developing countries are richly endowed with mineral resources that bear potential for sustainable social and economic development if managed responsibly.

Taking up the proposal put forward by the United Nations Expert Group, BGR started two strains of research in 2006 to provide assurance of the origin of coltan. The first research project aimed to test the feasibility of 'fingerprinting' coltan samples based on the mineralogical characteristics of specific ore bodies. First results indicated that such an analytical proof of origin is feasible but very demanding in terms of cost, time and the required skills of laboratory personnel. The second research project, developed in parallel, had BGR elaborating a chain of custody assurance system, based on the establishment of transparent, traceable and ethical trading chains. This concept of Certified Trading Chains (CTC) found entry to the preparatory discussions for the G8 summit in Heiligendamm in 2007. The summit protocol stressed the need for action in the Artisanal and Small-Scale Mining (ASM) sector and acknowledged the potential of certification systems to increase "transparency and good governance in the extraction and processing of mineral raw materials ... to reduce environmental impacts, support compliance with minimum social standards, and resolutely counter illegal resource extraction" (article 85)<sup>2</sup>. It also expressed support for "a pilot study... concerning the feasibility of a designed certification system for selected raw materials" (article 86)<sup>3</sup>. To this end, the German government has taken the initiative to design and finance such a pilot project for implementation in Rwanda. CTC in mineral production is an instrument to implement ethical standards and transparency in mineral production thereby improving responsibility in the minerals sector by introducing a concept of voluntary self-commitment among the partners within the value chain. Since industrialized and Large Scale Mining (LSM) operations commonly operate within acceptable corporate social and ecological responsibility (CSER) standards, the approach focuses explicitly on artisanal mining organisations, and small-scale companies which use artisanal labour in developing countries

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<sup>1</sup> United Nations Security Council. (2002). Final Report of the Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth in the Democratic Republic of the Congo, UN Security Council, S/2002/1146 (No. UN document S/2002/1146). New York: United Nations.

<sup>2</sup> G8 Summit (2007) *Growth and Responsibility in the World Economy: Summit Declaration (7 June 2007)*. At [http://www.g-8.de/Content/EN/Artikel/\\_g8-summit/anlagen/2007-06-07-gipfeldokument-wirtschaft-eng,templateId=raw,property=publicationFile.pdf/2007-06-07-gipfeldokument-wirtschaft-eng](http://www.g-8.de/Content/EN/Artikel/_g8-summit/anlagen/2007-06-07-gipfeldokument-wirtschaft-eng,templateId=raw,property=publicationFile.pdf/2007-06-07-gipfeldokument-wirtschaft-eng).

<sup>3</sup> Ibid.

## Finding a Solution

Export bans on natural resources are costly and difficult to enforce fairly. In contrast, certification can be oriented at the same goals, whilst allowing companies to continue to mine in or buy from the region on the basis that they are demonstrably achieving their social and environmental responsibilities, as required by the certification system. In this way, responsible buyers can use their buying power to effect positive change through remaining engaged in the mineral supply chains, rather than disengaging.

By ensuring traceability of the trading chain, CTC serves as an instrument

- to ensure that the trade of certain mineral resources is conducted legally and does not support belligerent groups in the region and
- to assure that process and production methods at the mine site adhere to minimum social and ecological standards.

CTC is a voluntary system of self-commitment by the partners in the trading chain. On the one hand, it aims to increase the contribution of the minerals sector to poverty reduction and the political stabilisation of developing nations. On the other, it aspires to improve supply security for the processing industry and fosters responsibility in industrialised economies thus strongly implicating the dual objectives of producer and consumer benefits. The various stages of certified mineral production are audited by an independent third-party against a set of standards (requirements) derived from five principles. The auditor is accredited as being capable of assessing compliance (see Annex, Fig.1).

Certification can only be regarded as the second best option and would be superfluous in case of total conformity with national and international laws, regulations and standards, which seek to protect environment commons and human and labour rights, and promote sustainability and transparency. However, with law enforcement and institutional capacity often weak in the mineral sector of many developing countries, CTC tries to transitionally fill the gaps between the ideal and reality of sectoral governance (see Annex, Fig. 2). The standards have been developed in line with national law and the certified company must comply with or exceed the requirements of host-country laws and regulations.

The proper implementation of certification will create islands of good governance, where mineral resources are produced and traded legally and transparently and in ways which protect workers, communities, and the environment. Certification will also progressively transform and formalise informal mining. Formalisation is a precondition for achieving transparent recording of production and trade, to improve governance and reduce conflicts associated with the mining sector.

## The CTC Standard

On the basis of company audits at different mining sites in Rwanda a set of standards were drafted based on a number of international ‘integrity instruments’ as well as national law. Each standard was derived from specific provisions in the Organisation for Economic

Cooperation and Development's (OECD) Guidelines for Multinational Enterprises (2000) and Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones (2006), as well as some of the International Finance Corporation's Performance Standards and the Voluntary Principles on Security and Human Rights.

For each of the standards, a simple procedure has been devised for measuring company adherence to them. This procedure asks an independent certifier to choose between five levels of compliance: if the company complies fully, the compliance level is 4 and if it does not comply at all, the compliance level is 0. The choice of a number corresponding to a compliance level is justified with an in-depth discussion of the evidence for why one choice was made instead of another. The sum of all compliance levels for all standards then gives a composite score that can be expressed as a percentage of the maximum score; this in turn gives an overall assessment for how close the company comes to fully meeting these standards.

The original set of standards was drafted with the focus on transparency along the trading chain including certification of origin as well as assuring corporate social and environmental responsibility. After consultation on the content of this standard at the 8<sup>th</sup> annual conference of the World Bank's initiative Communities and Small-Scale Mining in Brasilia, Brazil, October 2008 five basic principles were established each referring to a thematic cluster and two additional standards added, one referring to gender issues and the other on handling influx migration.

Principle	Standard
<p>1. Origin and volumes of produced and traded goods as well as company payments to host government are transparent.</p>	<p>1.1 Origin and production volume of minerals from the pilot mine site throughout the trading chain are traceable.</p> <p>1.2 Meet fiscal obligations required by host government law.</p> <p>1.3 Publish all payments made to government according to internationally accepted standards.</p> <p>1.4 Actively oppose bribery and fraudulent payments.</p>
<p>2. The company does not use child labour and ensures fair remuneration and work conditions as well as continual improvement of health and safety measures for all employees.</p>	<p>2.1 Maintain salary or payment levels equal to or greater than those in comparable enterprises within Rwanda.</p> <p>2.2 Ensure that no child labourers (age under 16) work on company sites.</p> <p>2.3 Support workers' organizations and collective bargaining.</p> <p>2.4 Provide essential protective and production services to support the work of artisanal miners.</p> <p>2.5 Ensure occupational health and insurance in all company operations.</p> <p>2.6 Provide training for employees and contractors on safety, health and effective use of on-site facilities.</p>
<p>3. The company ensures security on company sites whilst respecting human rights.</p>	<p>3.1 Provide sufficient and adequately trained security forces.</p> <p>3.2 Undertake security risk assessments.</p>
<p>4. The company consults communities in which it operates and contributes to their social, economic and institutional development taking into account gender sensitive aspects.</p>	<p>4.1 Interact regularly with communities and local governments to address grievances and other common concerns.</p> <p>4.2 Support local enterprises to supply company operations.</p> <p>4.3 Implement integrated development programs in nearby communities for livelihood security, social and physical infrastructure and capacity building.</p> <p>4.4 Obtain free, prior and informed consent before acquiring land or property.</p> <p>4.5 Understand the situation and perspectives of the women in the company's area of influence and design and implement company's operations in a gender sensitive way.</p>
<p>5. The company seeks continual improvement of its environmental performance</p>	<p>5.1 Carry out an environment impact assessment as the basis for developing an environmental management and protection plan and strategy.</p> <p>5.2 Properly treat or dispose of hazardous material and waste from its site(s).</p> <p>5.3 Makes provision for the full cost of rehabilitation upon closure.</p>

A further step in the CTC consultation process was a workshop on the revised standard held at Fatal Transaction's and Bonn International Centre for Conversion's conference "Digging for Peace - Private Companies and Emerging Economies in Zones of Conflict" in Bonn, 21/22 November 2008. The workshop enhanced dialogue with civil society on the content of the CTC. As a result of the implementation workshop with national stakeholders on 25<sup>th</sup>/26<sup>th</sup> of March in Kigali, Rwanda, the standards were adopted specifically for Rwandan conditions.

## CTC in Practice

The pilot project on CTC in Rwanda has been started within the framework of a technical co-operation programme to strengthen the competitiveness of the Rwandan mineral sector by developing best practice and enhancing transparency. The pilot project is implemented in cooperation with the Office de la Géologie et des Mines du Rwanda (OGMR) and private mining and processing companies.

Rwanda supports the desire to establish Certified Trading Chains (CTC) through the strengthening and supervising of the mining sector in the country. In order to implement socio-economic and environmental best practice in its mining industry Rwanda is setting and will later enforce good standards in its mining sector to guarantee a sustainable market for its minerals. Preliminary findings suggest that high value metals produced in and exported from Rwanda including tantalum (coltan), tin, and tungsten offer a leverage to handle poverty alleviation, conflict prevention, as well as supply security.

First steps were bilateral consultations with Rwandan government and other national stakeholders, especially from the industry. A workshop with stakeholders from government institutions and the mining industry started implementation in March 2009. Four mining companies, local producers of cassiterite, wolframite and tantalite concentrates who cooperate with or engage ASM, volunteered to join the initiative: Natural Resource Development (NRD), Gatumba Mining, Eurotrade Ltd and Wolfram Mining and Processing (WMP). An independent auditor conducted base line assessments of the companies, their concessions and trading chains and developed indicators for the certification scheme, to assess the actual status and to give recommendations for improvement. An official audit of the participating companies is planned in 2010.

As a next step technical cooperation between BGR and the Congolese Ministry of Mines with the aim of introducing a certification system for coltan, cassiterite, wolframite and gold started in October 2009. The cooperation will combine pilot implementation of CTC (with a focus on transparency of origin) at selected mining sites in South Kivu with capacity building of sector institutions so that they can fulfill their mining oversight function.

In November 2006 the eleven member states of the International Conference on the Great Lakes Region signed the *Protocol against the Illegal Exploitation of Natural Resources*, which includes the aim of implementing a mechanism for the certification of natural resources

in its Article 11. By implementing the exemplary pilot project in Rwanda and launching the next certification exercise in DRC, CTC aims at enhancing regional stability and peace building, as designed by the ICGLR and to support the intergovernmental body in implementing certification. The result of the initiative was brought to the ICGLR meetings in April 2009, in September 2009 and in April 2010 as a Rwandan contribution to the development of a regional certification mechanism.

## Contact

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Annex

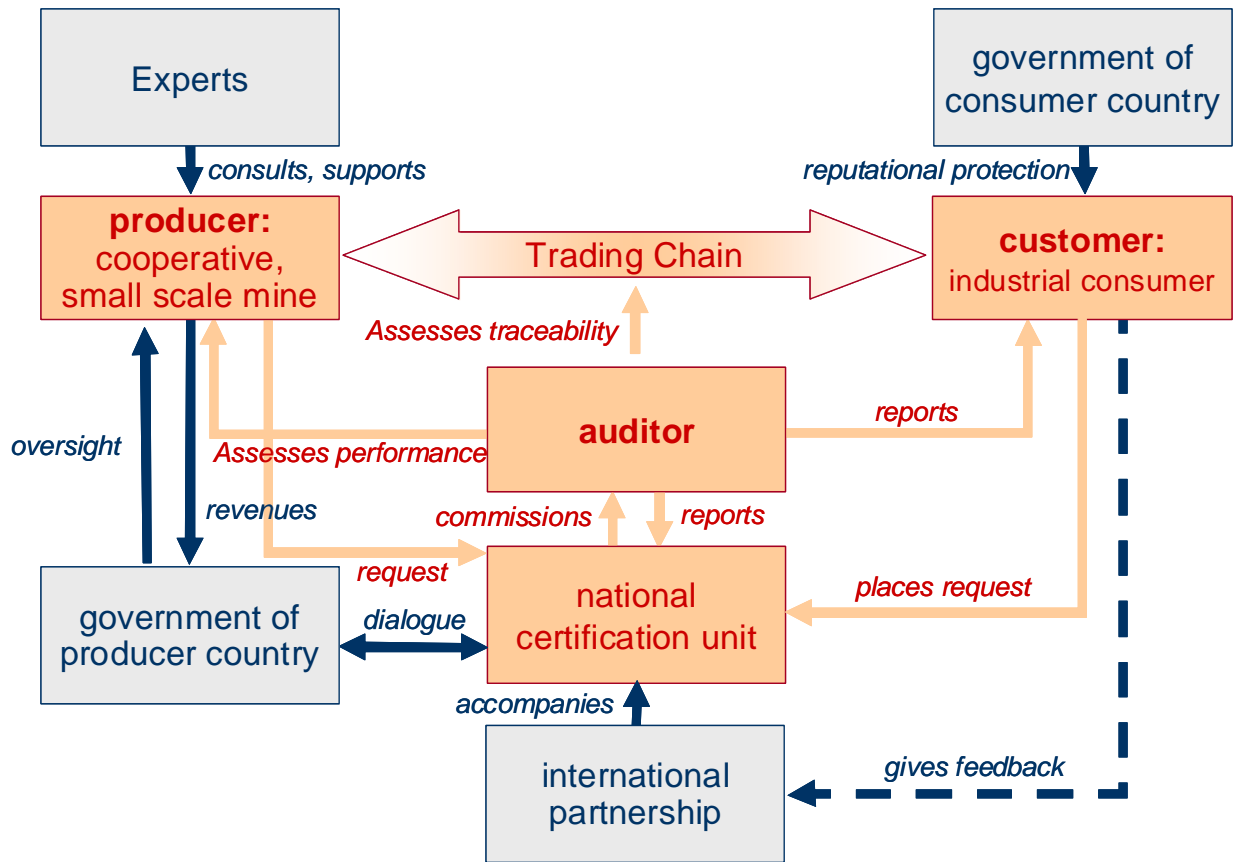


Figure 1: Conceptual Flowchart of a CTC

Responsible Use of the Mineral Potential		
	<b>Certified Trading Chain</b> Small-scale Mine or Cooperative	<b>Good Governance</b> Mineral Sector
Transparent Trading and Financial Streams	<ul style="list-style-type: none"> <li>Purchasing and delivery guarantees</li> <li>Verification of production quantities by origin through internal records (Producer) and external control (Auditor)</li> <li>Transparent organizational structure of the producer</li> </ul>	<ul style="list-style-type: none"> <li>Transparency in issuing and administrating mining licenses</li> <li>Supervision of production and trade of minerals</li> <li>Control and administration of mineral exports</li> <li>Mineral statistics</li> <li>Transparent documentation of state revenues</li> </ul>
Conform to Social and Ecological Standards	<ul style="list-style-type: none"> <li>Definition of standards (National Certification Unit / International Initiative)</li> <li>Implementation of standards (Support through Expert, Consultant, Development Program)</li> <li>Practice conforms to standards (Mine Site Inspection, Auditor)</li> </ul>	<ul style="list-style-type: none"> <li>Securing mining licenses as legal titles for Small Mines, Cooperatives, ASM</li> <li>Inclusion of ecological, social and ethical standards into legislation</li> <li>Regular control and inspection on the maintenance of standards at mining sites</li> </ul>

Figure 2: Integrating a CTC Pilot Project in the national framework of Good Governance



