



global witness

# Making it Work

Why the Kimberley Process Must Do More to Stop Conflict Diamonds



A report by Global Witness  
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# Overview

The Kimberley Process Certification Scheme is an agreement set up to eliminate the trade in conflict diamonds. The process was created in response to a civil society campaign that exposed the way in which diamonds funded conflict and has demonstrated how governments, civil society and industry can work together on conflict prevention. Currently, 69 countries participating in the process have passed and implemented national laws establishing import and export control regimes designed to prevent the trade in conflict diamonds.<sup>1</sup>

However, this report will show that despite the progress made and the international acclaim garnered by the scheme, the Kimberley Process must be strengthened significantly if it is to achieve its aim. The internal systems of controls put in place by governments to prevent the trade in conflict diamonds are not strong enough or adequately enforced to keep conflict diamonds out. As a result, conflict diamonds continue to be certified in countries that are members of the Kimberley Process, legitimised by the very scheme which was designed to eradicate them.

Both governments and the diamond industry must share the blame for the serious flaws in the process. Governments have failed to adequately regulate all sectors of the diamond industry, from point of mine to polishing centre, to ensure Kimberley Process compliance. However, the diamond industry is also failing in its responsibility to combat the trade in conflict diamonds. Despite making repeated commitments, some parts of the diamond industry continue to evade Kimberley Process controls and engage in conflict diamond trading, while the rest of the industry turns a blind eye. Furthermore, the secretive and non-transparent manner in which much of the diamond industry operates makes it difficult for their activities to be effectively regulated by governments.

## How is the Kimberley Process working on the ground?

Global Witness undertook investigations in 2005 to assess the effectiveness of government controls on the ground. The investigations considered whether the Kimberley Process is a system that succeeds in preventing trading in conflict diamonds or simply a rubber-stamping exercise. They looked at how conflict diamonds are entering the legitimate diamond trade and identified weaknesses in government regulations that enable this to happen. These investigations provide a snapshot of how controls are working in practice.

While the focus of the Kimberley Process is on stopping the trade in conflict diamonds, illicit trade (defined as any trade that takes place outside of legal channels) shows weaknesses in internal controls where conflict diamonds could enter. Illicit diamonds can be used to launder money and to fund terrorism. This report also examines illicit trading, with a particular focus on those members of the diamond industry who have violated government regulations by continuing to trade in conflict and illicit diamonds.

The investigations focused on the diamond pipeline from artisanal mining to polishing and cutting. West Africa was examined because of its history of conflict diamond trading and the challenges facing the region's artisanal mining sector, which are also faced by other artisanal mining countries in the Kimberley Process. Global Witness looked at Armenia, a cutting and polishing centre, to examine the potential ways in which conflict diamonds can infiltrate this part of the diamond pipeline. To date, polishing and cutting centres have received little attention from the Kimberley Process.

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1. A participant in the Kimberley Process is defined as a state or a regional economic integration organisation that meets the minimum requirements of the Kimberley Process. Kimberley Process technical document, p 4. For more information and a list of participants, see Kimberley Process website: [www.kimberleyprocess.com](http://www.kimberleyprocess.com).

The findings of these investigations are alarming and show how much further the Kimberley Process needs to go in order to achieve its aims.

Diamonds mined in rebel-held areas of Cote d'Ivoire are reaching international markets. One destination for these diamonds is Mali, a country that is not a participant in the Kimberley Process, where diamonds are sold on to foreign traders. Diamonds from Liberia, which are under United Nations Security Council (UNSC) sanction, are entering the legitimate diamond pipeline at all points from mine to export in Sierra Leone and Guinea. An investigation in Armenia reveals inadequate government regulation over cutting and polishing factories where conflict or illicit diamonds can enter legitimate channels of trade.

### **What should be done?**

Both governments and the diamond industry share responsibility for these problems and must ensure the effectiveness and credibility of the Kimberley Process by acting to stop the trade in conflict diamonds. As the situation in Cote d'Ivoire shows, a rapid-response mechanism for acting on reports of conflict diamond trading is urgently needed. To date, the Kimberley Process has made statements about the need to tackle the illicit trade from Cote d'Ivoire but this has yet to translate into meaningful action on the ground. In addition, the United Nations Security Council should consider placing sanctions on diamonds from Cote d'Ivoire.

The Kimberley Process must define systems of internal controls for artisanal diamond producing and diamond trading countries. Recommendations in the Kimberley Process technical document and from the sub-group on alluvial production should become requirements verifiable through the peer review mechanism. The Kimberley Process must also define specific internal controls for trading centres that should be implemented by the relevant countries participating in the scheme. The effective implementation of these controls should be verified

through the peer review mechanism to ensure the systems are able to keep out conflict diamonds.

Although the Kimberley Process does not extend to polished diamonds, governments with cutting and polishing industries must exercise greater control over rough and polished diamonds to prevent conflict diamonds from entering the certified trade. The Kimberley Process should compile best practices for this sector and promote their adoption among relevant participating countries.

Parts of the diamond industry need a fundamental shift in thinking and must operate on a more transparent level. The industry must be willing to cooperate proactively with law enforcement agencies to expose those members dealing in conflict and illicit diamonds. The industry has failed to adequately respond to the situation in Cote d'Ivoire, with leading international associations not even taking basic measures to inform the sector of this problem.

In 2006 there will be a review of the Kimberley Process to assess the effectiveness of the scheme in stopping the trade in conflict diamonds. Global Witness offers the findings and recommendations of this report for consideration as part of the review process in order to ensure that this important agreement is made as strong and effective as possible. Only then can it prevent diamonds from ever again fuelling conflict, human rights abuses, and terrorism.



# Recommendations

## To the Kimberley Process

### General Recommendations

- Take immediate steps to ensure that rough diamonds produced in Cote d'Ivoire are not introduced into the Kimberley Process-certified trade. In coordination with the UN and other relevant bodies, carry out an expert investigation to West Africa to identify the volume and value of diamonds being mined in Cote d'Ivoire, where these diamonds are going and where the money from this trade is going. Identify and hold accountable those in the industry that are engaged in the trade of diamonds from Cote d'Ivoire and implement concrete measures to halt this trade.
- Develop a rapid response mechanism to immediately and decisively act on reports of conflict diamond trading.
- Require specific controls for artisanal diamond producing and trading countries to be implemented by all relevant countries participating in the Kimberley Process and verified through the peer review mechanism. Give the sub-group on alluvial production the mandate to continue its work in 2006.
- Work with the Financial Action Task Force (FATF) to prevent diamonds from being used for money laundering purposes.
- Work with other complementary initiatives such as the Extractive Industries Transparency Initiative (EITI) and the Diamond Development Initiative (DDI) to increase transparency within the diamond trade.
- Require participants to make known the names of individuals or companies convicted of conflict diamond trading.

## To the Working Group on Monitoring

- Develop a strategy for improving all participants' compliance with Kimberley Process controls and to promote greater regional coordination.
- Develop a set of best practices for government controls over the cutting and polishing sector that relevant countries should implement.
- Appoint a coordinator to compile and analyse requests for technical and financial assistance by collating information from annual reports, review visits, and statistical reports. The coordinator should prepare a matrix detailing the technical assistance needed by participants, as well as any offers of assistance, and ensure assistance is provided as appropriate. This should include the exchange of expert knowledge and the provision of training.
- Assist in implementing a robust system of internal diamond controls in Liberia as set out in its legislation, which follows best practice.
- Ensure that recommendations laid out in review visit reports are fully implemented as quickly as possible. Follow-up with participants should be conducted every six months to assess whether recommendations have been implemented and ascertain what more needs to be done to address any weaknesses in their systems. Participants in areas of particular concern, such as West Africa, should be subject to a more stringent follow-up to ensure recommendations have been implemented.

### **To the Working Group of Diamond Experts**

- Compile a book/catalogue detailing the characteristics and qualities of diamonds from all diamond mining areas, starting with diamonds originating in countries that are unstable or have weak governance, which can be used to assist Kimberley Process authorities to identify diamonds from conflict regions.

### **To the Participation Committee**

- Carry out thorough reviews of systems of internal control, and production capacity where appropriate, in countries applying to join the Kimberley Process that are at risk of conflict diamond trading.
- Follow up with participants to improve accuracy and timeliness of statistical reports on diamond production and trade.

### **To the Working Group on Statistics**

- Carry out analyses of statistical data every six months and follow up on any discrepancies identified.
- Make all statistical data publicly available.

### **To the *ad hoc* Working Group for the Review of the Kimberley Process Certification Scheme**

- Consider the technical and financial assistance needed to improve the effectiveness of the scheme as well as the resources and capacity needed to govern the Kimberley Process. Consider the establishment of a Kimberley Process secretariat to improve how the scheme operates and to assist countries in implementing the scheme.

- Consider mechanisms that will enhance the way in which the Kimberley Process works with other international agreements and international bodies, such as the United Nations Security Council, in stopping the trade in conflict diamonds.
- Consider the establishment of a rapid response mechanism that would enable the Kimberley Process to take meaningful action to stop the trade in conflict diamonds.
- Consider how the Kimberley Process can be made more transparent.

### **To governments of countries with artisanal diamond mining**

- Implement and effectively enforce national legislation that provides for strong internal controls.
- Develop stronger monitoring mechanisms for the artisanal mining sector. Small, effective, well-equipped teams of monitors must be trained and motivated to monitor compliance with internal controls.
- Develop better cross-border coordination of Kimberley Process authorities and law enforcement officials, including police, customs and military to curb smuggling and target members of the diamond industry that are known to trade in conflict and illicit diamonds.
- Take appropriate action to arrest/penalise traders that are found to be involved in the smuggling of conflict and illicit diamonds.

- Establish regional offices of the Kimberley Process authority in the diamond mining areas in provinces in order to improve implementation of controls over the diamond industry outside capital cities. These offices should work closely with border officials to strengthen controls.
- Ensure that taxation systems and financial requirements are harmonised regionally to reduce incentives for cross-border smuggling.
- Carry out a survey of production areas to better assess production capacity to help in monitoring production of diamonds.

#### **To governments of countries with trading centres**

- Carry out rigorous audits and inspections of diamond companies' implementation of the Kimberley Process and the self-regulation. This should include periodic random checks of imports and exports and random audits of company books to verify compliance with the Kimberley Process.
- Require that diamond companies have their financial auditors audit the system of warranties.

#### **To governments of countries with cutting and polishing industries**

- Enable national authorities to supervise imports of rough diamonds and exports of polished diamonds to and from polishing factories, and to carry out audits of polishing factories to compare stock with company records.

- Require diamond trading and polishing companies to record their imports of rough diamonds, details of the manufacture of cut and polished stones, and the remaining and residual rough diamonds for export. These figures should be submitted monthly to the government.

#### **To the diamond industry**

- The key diamond trade associations, including the World Diamond Council (WDC), World Federation of Diamond Bourses (WFDB), International Diamond Manufacturers Association (IDMA) and World Jewellery Confederation (CIBJO) should:
  - set out what the industry must do to stop the trade in conflict diamonds from Cote d'Ivoire, including cooperating closely and proactively with law enforcement agencies to help crack down on traders dealing in conflict diamonds.
  - publicise and disseminate widely the names of individuals or companies convicted of conflict diamond trading throughout the diamond industry.
  - continue to carry out educational and outreach activities on a global level to ensure that all sectors of the diamond industry, including the retail sector, know about the self-regulation and are effectively implementing it. Attention should particularly be focused on reaching out to small and medium sized companies.
- Diamond companies should effectively implement and comply with anti-money laundering regulations.



- Diamond companies should fully implement the self-regulation and system of warranties in a manner that goes beyond simply requiring a warranty from suppliers. Strict criteria must be applied in the selection of suppliers. Suppliers should have to prove they are implementing strong sourcing and independent third-party auditing procedures to help prevent trading in conflict diamonds.

### **To the international community**

- The United Nations Security Council should consider placing sanctions on diamonds from Cote d'Ivoire.
- Provide technical and financial assistance to build capacity in developing countries to effectively implement the Kimberley Process.
- Consider how current projects, such as the establishment of cooperatives in Sierra Leone, can improve the traceability of diamonds and thereby help to prevent diamonds from fuelling conflict.
- Take an active role in supporting initiatives emerging from the Diamond Development Initiative (DDI), which aim to improve the working conditions and incomes of artisanal alluvial diamond miners in Africa.

# Background

## How diamonds fund conflict and terrorism

Diamonds have provided funding for several brutal conflicts in Africa, resulting in the death and displacement of millions of people. Conflict diamonds have had devastating impacts in Angola, the Democratic Republic of the Congo (DRC), Liberia, and Sierra Leone. Rebel armies, warlords, unscrupulous diamond traders and terrorists have exploited the small size and high value of diamonds, the lack of trade regulation and the ease with which diamonds can be obtained from alluvial mining areas to fund armed conflict and to purchase arms. Millions have been killed, and thousands have suffered the brutal effects of war. In Cote d'Ivoire, diamonds are helping to fuel ongoing hostilities between the government and rebels.<sup>1</sup>

Not only have diamonds fuelled civil war, they have also been used by terrorists to finance their activities. In April 2003, Global Witness released *For a Few Dollars More, How Al Qaeda Moved Into the Diamond Trade*.<sup>2</sup> This report exposed how al Qaeda infiltrated diamond trading networks, taking advantage of illicit trading structures, weak government and trade regulations, organised criminal networks and politically corrupt regimes to raise funds for al Qaeda operations and to launder significant sums of money. The report built on several articles written in November 2001 by Doug Farah of the Washington Post exposing how elements of an al Qaeda cell had infiltrated Liberia, using rough diamonds from Sierra Leone to launder funds.<sup>3</sup>

Diamonds have played an important role in financing al Qaeda's activities and helping its members move their assets outside the formal financial sector. Gemstones are ideal for this kind of activity for several reasons: they hold their value; they are easy to transport; they do not set off metal detectors in airports; and they can be easily converted into cash when necessary.

Particularly attractive are artisanally mined rough diamonds, especially those mined in areas outside government control.

## How the Kimberley Process should work

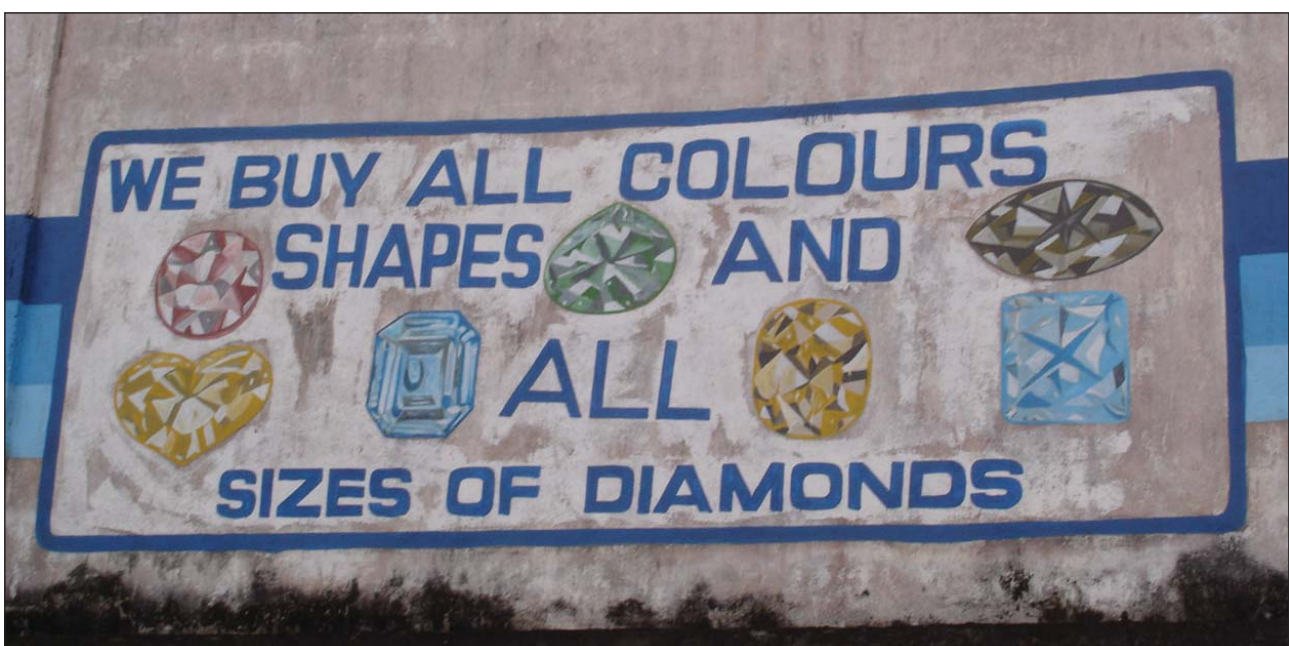
The Kimberley Process was established to "find a solution to the international problem of conflict diamonds".<sup>4</sup> The international rough diamond certification scheme currently includes all major diamond producing and trading countries as participants. It requires that all participating countries export and import rough diamonds only with other participating countries. Participants establish national import and export control regimes to keep conflict diamonds out of the legitimate diamond trade. Each country must certify all rough diamond exports as conflict-free and must only allow rough diamond imports from other participating countries that are certified as conflict-free. The certification scheme relies upon each individual participant to implement an effective diamond control system in order to ensure that no conflict diamonds are imported or exported.

Countries must meet several minimum requirements in order to participate in the scheme: they must pass legislation to implement and enforce the scheme and keep out conflict diamonds; they must ensure that exports and imports of rough diamonds are enclosed in tamper resistant containers; they must collect, maintain and exchange official statistical data on their trade and production of rough diamonds;<sup>5</sup> finally, they must produce a Kimberley Process certificate that meets the requirements outlined in the agreement (including carat weight, value, tamper and forgery resistance, and country of origin).<sup>6</sup> However, generally on the ground checks of these systems are not carried out before a country is admitted to participate in the process.

The Kimberley Process does not define specific systems of internal controls that countries should adopt. The Kimberley Process technical document states that countries should “establish a system of internal controls designed to eliminate the presence of conflict diamonds from shipments of rough diamonds imported into and exported from its territory”. It further makes recommendations for diamond mining, small-scale mining, rough diamond buyers, sellers and exporters and for export and import processes, but these recommendations are not required to be implemented by participants. As a result, participating countries are left to create their own internal system of controls, with or without these recommendations.

The effectiveness of countries’ Kimberley Process regulations also depends on actions taken by the diamond industry to keep conflict diamonds out of the legitimate diamond trade. After significant pressure from NGOs, representatives of the diamond industry agreed to a system of self-regulation aimed at supporting the Kimberley

Process. The self-regulation outlines a code of conduct for members of the diamond industry that prohibits the buying or selling of conflict diamonds and implements a system of warranties such that all invoices for the sale of diamonds must contain a written guarantee that the diamonds are conflict free. Under this code, diamond companies are required to keep records of all warranty invoices they give or receive and have these records audited on an annual basis by their own auditors. Global Witness has carried out investigations highlighting the flaws in the self-regulation and its implementation, including the lack of concrete policies backing up the warranties and the lack of proactive monitoring by the diamond industry and governments to make sure the self-regulation is being adhered to. Some of the diamond trade associations have developed check-lists outlining action that members should take to implement self-regulation. This is a welcome development which Global Witness hopes will promote better implementation of the self-regulation throughout the diamond industry.<sup>2</sup>



2. Refer to previous Global Witness reports for more details: *Déjà vu*, *Broken Vows*, *Key to Kimberley* [www.globalwitness.org](http://www.globalwitness.org)

# How the Kimberley Process is failing to prevent diamonds from fuelling conflict

## Cote d'Ivoire

### Introduction

Despite the aims of the Kimberley Process, diamonds are helping to fund the *Forces Nouvelles*, a rebel group which controls the northern part of Cote d'Ivoire. A Global Witness investigation in West Africa in September 2005 discovered that diamonds mined in the north of Cote d'Ivoire are being smuggled out through Mali and are reaching international markets. Global Witness also received credible reports that Cote d'Ivoire's diamonds have reached markets in Guinea, a Kimberley Process participant, and are likely to be going to other countries in the region.

To date, the Kimberley Process has not adequately addressed this urgent issue. While the Chair of the Kimberley Process has released statements highlighting the problem, this has not translated into action. While some members of the diamond industry are trading in conflict diamonds, the major international trade associations representing the industry have not acted to stop this trade.

The Kimberley Process must move quickly to stop the trade in diamonds from Cote d'Ivoire. Thorough investigations in the West African region are needed to identify and stop the flow of conflict diamonds. In addition, the United Nations Security Council must consider placing sanctions on diamonds from Cote d'Ivoire. However, this trade also highlights the need for all Kimberley Process participants to effectively enforce their systems of internal controls because conflict diamonds can enter at all stages of the pipeline. Issues relating to systems of internal controls are outlined in the subsequent sections of this report.

### INSTABILITY IN COTE D'IVOIRE

Cote d'Ivoire's ongoing instability threatens to erupt into renewed conflict.<sup>7</sup> An attempted coup in Cote d'Ivoire in September 2002 left thousands dead and the country divided. A "zone of confidence", an area patrolled by UN forces, separates the government-held areas in the south of the country with the rebel-held north. Attempts at implementing a peace process have made "limited progress", according to the United Nations Secretary General, and the security situation is "unpredictable and volatile".<sup>8</sup> Presidential elections due to be held on 30th October 2005, have been delayed and a lack of political will on both sides has prevented progress.<sup>9</sup> International observers believe that there is a real risk of continued violence that could destabilise not just the country but its neighbours in the region, in particular those allied with different groups in Cote d'Ivoire.<sup>10</sup>

### Cote d'Ivoire's conflict diamonds

Cote d'Ivoire has been a participant of the Kimberley Process since the scheme began in 2003. However, a Ministerial Order banning diamond exports has been in place since November 2002, due to the fact that the country's diamond mines are outside government control.<sup>11</sup>

A report by the United Nations' Panel of Experts on Cote d'Ivoire released in November 2005 found that revenue from illegal diamond production in northern Cote d'Ivoire provides "an important income for the *Forces Nouvelles*."<sup>12</sup> The Panel of Experts obtained "credible information" that hundreds of diggers are working in diamond pits in three villages in the north west of Cote d'Ivoire, Seguela, Bobi, and Diarabala, as well as in the Tortiya region.<sup>13</sup>

These reports agree with information Global Witness received during its investigations. One diamond dealer interviewed by Global Witness in Mali worked as a diamond digger for six years in Seguela, a diamond mining area in Cote d'Ivoire. The dealer said that thousands of diggers are working at diamond mines in Cote d'Ivoire at the present time and further stated that the *Forces Nouvelles* are placing a tax on diamonds, but did not specify the level of tax.<sup>14</sup> Information uncovered by Global Witness in West Africa indicates that it is very likely that these diamonds are entering Kimberley Process certified trade.<sup>15</sup>

The Panel of Experts estimated annual production in Cote d'Ivoire to be 300,000 carats.<sup>16</sup> This estimate tallies with statistics from Ministry of Mines and Energy from the 1980s, when exports averaged 300,000 carats per annum. The Ministry of Mines and Energy in Cote d'Ivoire has estimated this volume of diamonds to have an approximate value of US\$25 million per year.<sup>18</sup>

### Where are the conflict diamonds going?

“To certify diamonds, people have to say they’re from that country; [for Mali] it isn’t the truth.”<sup>19</sup>  
*Diamond Dealer, Mali, September 2005*

In September 2005, an initial investigation by Global Witness verified that conflict diamonds mined in Cote d'Ivoire are being smuggled to Mali, a country that is not a participant of the Kimberley Process. In Mali, the diamonds are sold on to international buyers.<sup>20</sup> Global Witness received several reports that indicate that diamonds from Cote d'Ivoire are also exported from neighbouring countries that are participants of the Kimberley Process.<sup>21</sup>

Mali serves as an African ‘crossroads’ where diamonds from West and Central Africa are bought and sold.<sup>22</sup> The Panel of Experts has identified four individuals that deal in diamonds from Cote d'Ivoire; three from Mali and one from Guinea.<sup>23</sup> During the conflict in Sierra Leone, the Belgian government designated Mali as ‘sensitive’ because it was possible that the country might be indirectly exporting conflict diamonds from Sierra Leone.<sup>24</sup> Malians are involved in the diamond trade in Europe, the DRC and elsewhere.

Global Witness interviewed two diamond traders in Mali who state that they take commission on diamonds smuggled in from Cote d'Ivoire, as well as diamonds from Angola, the DRC and other countries.<sup>25</sup> One dealer in Mali stated that each month, he arranges to receive several parcels of diamonds from Cote d'Ivoire.<sup>26</sup> At the time of Global Witness’ visit, the dealer had 532 carats of diamonds from Angola that he was trying to sell.<sup>27</sup> According to the trader, diamonds brought by land from Cote d'Ivoire to Bamako are then purchased by buyers flying in from foreign countries, including from Russia, South Africa, the UK and the US. Another trader told Global Witness that he was expecting a buyer from Italy to arrive the next week to purchase diamonds.<sup>28</sup>

## KIMBERLEY CERTIFIED DIAMONDS – FROM COTE D’IVOIRE?



During investigations in West Africa in September, Global Witness obtained evidence to suggest that diamonds from Cote d’Ivoire are being exported from Guinea. Global Witness was told by one major diamond exporter in Guinea that large quantities of diamonds from Cote d’Ivoire were regularly brought to his office in Conakry until approximately six months ago.<sup>29</sup> Other diamond dealers claimed that they do not see many diamonds from Cote d’Ivoire in Conakry, but are offered them from time to time.<sup>30</sup> In Sierra Leone, one diamond exporter’s agent claimed to be working with buyers that travel to Liberia to buy diamonds from Cote d’Ivoire.<sup>31</sup>

Given that an estimated 300,000 carats of diamonds are mined annually in Cote d’Ivoire, these reports of diamond smuggling from Cote d’Ivoire to Kimberley Process participants indicate a problem that Global Witness believes is much bigger. The Kimberley Process and relevant participants must urgently investigate.

Mali is applying to join the Kimberley Process. Although no profitable diamond deposits have yet been discovered, junior mining companies are carrying out diamond exploration work and Mali is keen to become a participant before they have any major diamond finds.<sup>32</sup> To date, few diamonds have been found in Mali. One geologist working with exploration companies has records of just 78 diamonds found since 1955, including three stones of over 100 carats.<sup>33</sup>

Global Witness interviewed an official from the National Directorate of Geology and Mines who stated that his office had no controls over the diamond industry.<sup>34</sup> He went on to state that the office only received information about diamond companies, informally, and received no formal statistics at all.<sup>35</sup>

Global Witness was unable to ascertain the volume or origin of diamonds being exported from Mali, and the customs authority in Mali did not have any official export figures to provide.<sup>36</sup> Official statistics reported in the Global Trade Atlas show no rough or polished diamond exports from Mali in 2003 and 2004.<sup>37</sup> However, official imports to Belgium from Mali were worth over US\$5.7 million in 2000 and just over US\$2.2 million in 2002.<sup>38</sup>

The Kimberley Process must send an expert mission to Mali before it can be accepted as a participant to ensure that the country has a strong system of internal controls. If Mali is admitted to the Kimberley Process at the present time, Global Witness believes that the overwhelming majority of its diamond exports will have originated elsewhere and been smuggled into the country. Without a strong system of internal controls, Mali has the potential to legitimise conflict diamonds and fuel instability in the West African region.

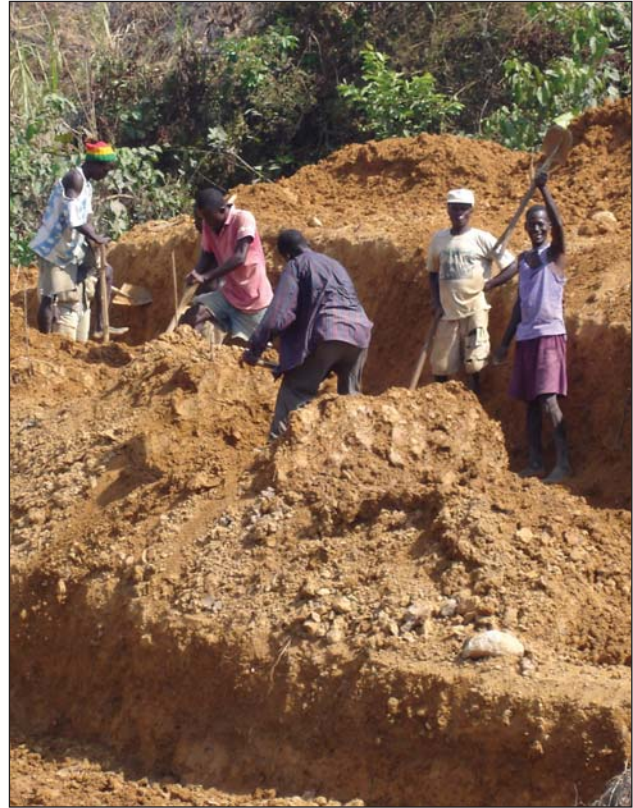
## The response of the Kimberley Process and the diamond industry

The Kimberley Process has been following the situation in Cote d'Ivoire with concern, (*see Kimberley Process action on Cote d'Ivoire*). In October 2005, the Chair of the Kimberley Process sent a message on Cote D'Ivoire to all participants and observers. The message requested that all participants:

- Instruct their customs and judicial authorities to ensure that no diamonds produced in Côte d'Ivoire can be imported into their territory or traded within their territory; and
- Urgently inform the Chair of the Kimberley Process of any instances where attempted imports of, or trade in, diamonds originating in Côte d'Ivoire have taken place.<sup>39</sup>

The message also requested that representative organisations of the diamond industry, as represented in the Kimberley Process:

- Inform all their affiliates of the status of rough diamonds originating in Côte d'Ivoire, and to this end ensure the widest possible circulation of the present notice within the diamond industry; and



- Urge all their affiliates to exercise particular vigilance in view of the risk of illicit diamonds from Côte d'Ivoire entering the legitimate diamond trade.

At the time of writing, the World Diamond Council (WDC), established by the diamond industry to respond to conflict diamonds, had not circulated this message to its members or taken other actions.<sup>40</sup>

While these statements by the Chair of the Kimberley Process are important, they come late and have not translated into meaningful action. As a result, the trade in conflict diamonds continues. Part of the problem is that the scheme has not fully investigated this trade on the ground, which is crucial to identifying and stopping the flow of conflict diamonds.

## Timeline of events and Kimberley Process Action in Cote d'Ivoire

	Timeline of Events in Cote d'Ivoire	Kimberley Process action on Cote d'Ivoire
September 2002	Disgruntled former army personnel led coordinated attacks on government facilities in three major towns. Government responded to attacks with harsh security operation in Abidjan, displacing 12,000.	
October 2002	French troops were interposed between south and north.	
January 2003	Ceasefire monitored by French and ECOWAS regional troops. Linas-Marcoussis Accord agreed in Paris.	Kimberley Process is launched with Cote d'Ivoire as a participant
May 2003	Armed groups sign full ceasefire.	
July 2003	President and rebel groups declare war is over.	
September 2003	Rebels pull out of government, accusing President of not honouring peace agreement.	
December 2003	19 killed in armed attack on state TV building in Abidjan.	
March 2004	At least 120 people were killed, 274 wounded and 20 disappeared.	
March -June 2004	"In the northern part of the country, which is under de facto control of the <i>Forces Nouvelles</i> , reported instances of human rights abuses have also included acts of extortion, arbitrary tax collection, forceful abduction and summary execution." <sup>41</sup>	
June - August 2004	"The clashes on 20 and 21 June between rival factions of the <i>Forces Nouvelles</i> in Bouaké and Korhogo led to increased insecurity in northern areas. Following the attacks, <i>Forces Nouvelles</i> elements reportedly conducted numerous house raids and arrests. Summary executions, as well as several instances of torture, inhuman and degrading treatment, persecution and involuntary disappearances, have also been reported." <sup>42</sup>	Global Witness and Partnership Africa Canada recommend to the Kimberley Process that Cote d'Ivoire be temporarily removed from the list of participants, and that diamonds from Cote d'Ivoire be put on a "watch list". NGOs recommend an urgent review visit to neighbouring Ghana and Togo to assure Kimberley Process participants that the countries' controls are able to prevent cross-border diamond traffic from Cote d'Ivoire.
August –December 2004	"Gross violations continue to be reported throughout the country, in both the Government and <i>Forces Nouvelles</i> -controlled areas, as well as in the zone of confidence. These include cases of summary executions and extrajudicial killings, torture, rape, forced disappearances, arbitrary arrests, illegal and incommunicado detentions and the destruction of houses and other property." <sup>43</sup>	Monitoring group makes recommendations to the Chair of the Kimberley Process to find out from Cote d'Ivoire authorities about the implementation of the Kimberley Process in the country, to identify areas of rebel diamond mining activity and provide information to all participants, and to seek an indication from Cote d'Ivoire that they are not exporting rough diamonds or issuing Kimberley Process certificates.



<b>October - November 2004</b>	Attacks in north and south. 57 killed in Abidjan.	Government of Cote d'Ivoire notifies the Kimberley Process that official diamond exports had been banned by ministerial order, and identified areas of diamond mining activity in two areas controlled by rebels. The Chair of the Kimberley Process requests that participants do not accept diamonds with Cote d'Ivoire Kimberley Process certificates.
<b>December 2004 -March 2005</b>	"a climate of impunity for human rights violations exists nationwide and the severely compromised administration of justice allows the perpetrators - including military and law enforcement personnel, the various militias and unidentified armed groups - to operate freely." <sup>44</sup> 17,000 refugees move to Guinea and Liberia.	
<b>March -June 2005</b>	"Summary and extrajudiciary executions, rape, sexual violence and extortion continue throughout the country, involving elements of the <i>Forces Nouvelles</i> and affiliated militias such as the Dozos, the Ivorian Defence and Security Forces, pro-Government militias and other armed groups." <sup>45</sup>	Kimberley Process review visit to Guinea. Visit of special representative of the Chair to Cote d'Ivoire to ascertain status of implementation of the Kimberley Process.
<b>April - June 2005</b>	At least 70 killed, over 100 injured, 9,000 displaced.	
<b>June-September 2005</b>	"politically motivated and arbitrary detentions, extrajudicial killings, rape, confiscation of private property and the intimidation of opposition leaders and their followers were widely committed with impunity." <sup>46</sup> 500,000 internally displaced people.	Kimberley Process provides submission to chair of Panel of Experts concerning illicit production of diamonds in northern Cote d'Ivoire.
<b>October 2005</b>		Chair of the Kimberley Process sends message to participants and observers. The message requests vigilance, stating that, "there is a possibility that it (production from Cote d'Ivoire) could be mixed in with legitimate rough diamonds in the territory of one or more Kimberley Process participants." <sup>47</sup>

**Timeline of events in Cote d'Ivoire:** First progress report of the Secretary-General on the United Nations Operations in Cote d'Ivoire, 2 June 2004, S/2004/443, Second progress report of the Secretary-General on the United Nations Operations in Cote d'Ivoire, 27 August 2004, S/2004/697, Third progress report of the Secretary-General on the United Nations Operations in Cote d'Ivoire, 9 December 2004, S/2004/962, Fourth progress report of the Secretary-General on the United Nations Operations in Cote d'Ivoire, 18 March 2005, S/2005/186, Fifth progress report of the Secretary-General on the United Nations Operations in Cote d'Ivoire, 17 June 2005 S/2005/398, Sixth progress report of the Secretary-General on the United Nations Operation in Cote d'Ivoire, 26 September 2005, United Nations Security Council S/2005/604, International Crisis Group's Conflict History [http://www.crisisgroup.org/home/index.cfm?action=conflict\\_search&l=1&t=1&c\\_country=32](http://www.crisisgroup.org/home/index.cfm?action=conflict_search&l=1&t=1&c_country=32).

**Timeline for action of Kimberley Process:** Partnership Africa Canada and Global Witness submission to the Kimberley Process working group on monitoring, July 2004, Message from the Chair of the Kimberley Process to Kimberley Process Participants and Observers, Subject: Illicit diamond production in Northern Côte d'Ivoire – urgent notice for the attention of Participants and Observers, October 2005.

## Urgent action is needed to stop conflict diamond trading

The trade in conflict diamonds from Cote d'Ivoire shows that the Kimberley Process has not been able to prevent this trade. While statements have been made, this has not had any effect on the ground. Global Witness urges that all those involved in the implementation of the Kimberley Process, in coordination with other relevant bodies including the UN, and law enforcement and intelligence agencies, take swift steps to stop the trade in conflict diamonds from Cote d'Ivoire. An expert investigation should be sent immediately to Cote d'Ivoire and neighbouring countries to gauge both production levels and trade flows out of the rebel-held areas and to identify where the money from this trade is going. The context and urgency of this conflict trade requires that this investigation be detailed and thorough and carried out across the West Africa region. Governments in the region, including those who are not participants in the Kimberley Process, should work closely with the Kimberley Process to identify and stop this trade.

Meanwhile, some members of the diamond industry continue to trade in conflict diamonds, in clear violation of national laws. Although numerous statements have been made over the years by industry leaders in support of the Kimberley Process, little action has been taken to stop the trade in conflict diamonds from Cote d'Ivoire. International trade associations, led by the World Diamond Council must condemn the trade in diamonds from Cote d'Ivoire and take action to stop it. The diamond industry should work proactively with law enforcement officials to identify and hold accountable individuals and companies continuing to trade in conflict diamonds from Cote d'Ivoire.

The solution to the problem is not only to send an expert mission. Of great importance is the need to strengthen internal controls to prevent conflict diamonds from entering the Kimberley Process certified trade at any point along the diamond pipeline. The Kimberley Process and its participants must implement effective controls all along the diamond pipeline. These issues are addressed in the next two sections of this report.

# How conflict diamonds are being laundered in artisanal mining countries

## West Africa

It is difficult to effectively regulate artisanal diamond mining as it has been situated outside the formal sector in many countries for many years. Numerous studies by Global Witness and other organisations have shown how weak controls in artisanal mining countries pose problems to for the Kimberley Process.<sup>48</sup> Reports have also highlighted the poor returns received by diamond diggers, and the lack of incentives to encourage local diggers to operate in the formal sector.<sup>49</sup> Many artisanal diamond producing countries suffer from porous borders, poor governance, fragile infrastructure, and corruption.

Diamonds from Liberia, which are under UNSC sanction, are being smuggled into neighbouring countries where they enter the legitimate diamond trade.<sup>50</sup> Global Witness investigations in September 2005 found evidence that diamonds from Liberia had been purchased in Sierra Leone and to a lesser extent in Guinea. Weak government controls that are poorly enforced are allowing conflict diamonds to enter the Kimberley Process certified diamond trade. In Sierra Leone and Guinea, weaknesses in internal diamond control systems include: governments are not capturing accurate production data at mine sites; many diggers, supporters and dealers are not licensed and therefore operate outside official oversight; there are no effective checks of transactions between dealers; law enforcement authorities lack training, funding, and expertise to tackle the illicit diamond trade; governments lack the political will to govern the diamond industry; and there is little regional coordination to stop illicit trading.<sup>51</sup> Many of these problems are not specific to West Africa, but are found in all countries with artisanal mining activities.

The lack of government control over the diamond trade enables some members of the diamond industry to trade in conflict diamonds with impunity. The diamond industry is notoriously secretive, and Global Witness believes that the evidence it was able to collect is just the tip of the

iceberg. This illegal trade in conflict diamonds from Liberia is indicative of a widespread movement of diamonds across borders in the region, similar to other regions with artisanal diamond mining.

### Allowing conflict diamonds into the system: lack of government controls from mine to export

Global Witness is concerned that in artisanal diamond producing countries hollow enforcement of controls allows elements of the diamond industry to continue to trade in conflict diamonds. While a strong system exists on paper in many artisanal diamond producing countries, calling for the licensing of diggers and traders, and the checking of daily buying records, this does not translate to effective controls on the ground.

This section does not provide an exhaustive list of all the problems with internal control systems in artisanal diamond mining countries. Instead, it outlines the findings of Global Witness' recent investigation in West Africa. These highlight some of the main problems with systems of control that enable conflict diamonds to enter the legitimate diamond trade. This section follows the diamond pipeline, from digger through to export. It focuses on how cross-border smuggling, inadequate government monitoring, and poor policing to crack down on smuggling and ensure compliance with the Kimberley Process enable conflict diamonds to enter the legitimate trade that is certified by Kimberley Process authorities. It also looks at how diamond cutting and polishing factories in artisanal diamond mining countries will threaten the aims of the Kimberley Process unless governments monitor the diamonds entering and leaving these factories. Based on these investigations, Global Witness is calling for defined government controls to be made a minimum requirement of participation in the Kimberley Process. The international community

must provide the necessary technical and financial assistance to ensure that these controls can be effectively implemented.

### **Cross-border smuggling: “There are no borders”<sup>52</sup>**

Prior to the Kimberley Process, diamonds found the quickest route to market and were exported from countries across the region. Borders imposed by former colonial powers are not always recognised by the local population, who might share close ethnic, familial or tribal ties with those across the border. Traders from all over West Africa travel between diamond mining areas, buying and selling diamonds according to the market, and their personal connections. Some may support diamond mining operations in one country, the production of which will be sold in a neighbouring country.<sup>53</sup>

Global Witness found that Liberians are going to Sierra Leone to sell diamonds. They are travelling to the main diamond trading towns of Kono and Kenema, and are also travelling directly to Freetown.<sup>54</sup> They are either men that have mined the diamonds themselves, or their ‘supporters’ that have financially supported the digging. There are many border crossings, including the official Mano river bridge point, which is passable throughout the year when other crossings may be flooded.<sup>55</sup> Approximately 30 Sierra Leonean diamond dealers, including licensed dealers and unlicensed ‘brokers’ that Global Witness interviewed for this report stated that they regularly buy diamonds from Liberia from Liberian nationals.<sup>56</sup> They stated that if a Liberian man is selling diamonds, they know those diamonds will be from Liberia, “100%”. These brokers act as intermediaries between those selling the diamonds and those buying them, and they take a commission on the diamond sales made. Several brokers admitted to Global Witness that they regularly assist Liberians that arrive in

Kenema to sell diamonds.<sup>57</sup>

Sierra Leoneans, nationals from other West African countries, and individuals from countries outside Africa are going to Liberia to buy diamonds.<sup>58</sup> There have been reports that Sierra Leoneans have been found digging diamonds in Liberia.<sup>58</sup> One diamond broker interviewed by Global Witness in Kenema had travelled to Lofa Bridge in Liberia in August 2005 to buy diamonds to sell in Sierra Leone. He spoke of the ease of crossing the border, despite the police and military presence and said that if caught with diamonds, border officials can be bribed to allow unimpeded passage.<sup>60</sup>

It is not just diamonds from Liberia that are entering Sierra Leone and being exported alongside Sierra Leonean stones. Porous, uncontrolled borders allow diamond traders to trade in diamonds from different countries, amongst each other. One diamond dealer told Global Witness that many in the diamond industry move effortlessly between the countries, “you can work one day in Guinea, then the next in Sierra Leone, and the next in Liberia.”<sup>61</sup> One small example of this was observed by Global Witness in September 2005 when smuggled Guinean diamonds were brought for sale in Sierra Leone. Global Witness was present in a dealer’s office in Kenema district when a man arrived hoping to sell a parcel of Guinean goods.<sup>62</sup> The dealer knew their origin as soon as he saw them, and this was confirmed by the seller. The dealer did not buy these diamonds in Global Witness’ presence.

### **Inadequate government monitoring of dealers**

There is inadequate government monitoring over diamond production and transactions between dealers. In Sierra Leone and Guinea, government monitors suffer from a lack of resources and poor pay in the face of a powerful industry that does not generally open itself up for scrutiny. This undermines the monitors’ commitment to their job.

Several Mines Monitoring Officers working in Sierra Leone admitted that they are being paid and housed by those they are supposed to monitor.<sup>63</sup> One explained to Global Witness that, “You cannot bite the finger that feeds you” and went on to state that, “the very people you have to chase give you accommodation and food. You will be tempted to be corrupt.”<sup>64</sup> The lack of proper checks on mining and on diamond transactions allows conflict diamonds to enter the Kimberley Process certified trade through dealers, both licensed and unlicensed.

“Lots of Liberian stones come here. You buy them because they are cheap.”<sup>65</sup> One diamond dealer interviewed by Global Witness admitted that he mixed parcels of Liberian and Sierra Leonean goods regularly in order to increase his profits.<sup>66</sup> As Liberian diamonds are not of as good quality (as a rule) as Sierra Leonean diamonds, they are cheaper to purchase.<sup>67</sup> When mixed with higher quality Sierra Leonean diamonds, the value of the parcel will be higher than that paid for a parcel of only Liberian stones. This represents an easy profit for those purchasing a parcel of Liberian diamonds. The dealer told Global Witness that when writing a receipt for Liberian goods, he simply uses a licence number from a mining plot that his boss supports, giving the receipt the appearance of legitimacy. He does not enquire about the origin of the stones, and said that “if you ask questions you block your own trade.”<sup>68</sup>

In Guinea, Global Witness visited one licensed dealer’s office in Guinea’s capital Conakry and was shown 105 carats of Liberian diamonds bought earlier that day, as well as a smaller parcel of Guinean diamonds.<sup>69</sup> Other dealers in Conakry also admitted to buying non-Guinean diamonds.<sup>70</sup> The two parcels were startlingly different to look at; and even when mixed together it was easy to differentiate between the two types of diamond. The Guinean gems were clear and greenish and of a reasonable size, while the Liberian diamonds were very small and brown. The dealer stated that he

often buys Liberian diamonds and that Indian diamond dealers are keen to buy these diamonds.<sup>71</sup> Another diamond exporter told Global Witness that Liberian diamonds are known as ‘Indian goods’.<sup>72</sup> This is a generic term used in the diamond industry. Small, poor quality diamonds that were previously only used for industrial purposes are now cut and polished in India.

Without thorough government checks of diamond purchases and sales, this will be able to continue. A United Nations Mission in Sierra Leone (UNAMSIL) pilot study carried out in Sierra Leone in July 2005 collected four recent transaction receipts from diamond dealers, which all contained a licence number tying the diamonds to a particular mining plot.<sup>73</sup> The plots identified were then visited and in not one case was it verified that the licence holder of that plot had sold diamonds to the dealer whose receipts were checked. This is just one recent example illustrating how lack of real monitoring of this system allows members of the diamond industry to buy conflict diamonds and mix these with legitimate diamonds. A small, dedicated, well-trained and well-paid team of monitors is needed that effectively check dealers’ transactions and trace these back to mine sites.

### **Policing the diamond industry**

Effective law enforcement is essential to catch those traders dealing in conflict and illicit diamonds. However, there is a lack of strong policing of the diamond industry. In Guinea and in Sierra Leone, police units exist to tackle diamond and precious mineral fraud, but these units suffer from a lack of training, resources, and capacity. A special police unit, the Precious Minerals Monitoring and Intelligence Unit, was set up in February 2004 in Freetown to focus on cases of diamond smuggling and fraud with the assistance of an international security consultant.<sup>74</sup> However, less than 18 months after it was set up, the unit is

facing debilitating staffing and financial shortages.<sup>75</sup> Experienced members of the unit who had received specialised training in South Africa have been moved to different teams without being replaced, and other members of the unit have little training. Staff have to make a request each time they need funds, or a vehicle to carry out investigations outside Freetown.

Observers of the diamond industry in Freetown question whether the unit has been wilfully crippled by government officials with an interest in preventing the team from tackling diamond smuggling in the country. Over the last year, those working on diamond sector reform in Sierra Leone have pointed to decreasing political will to seriously tackle the diamond industry.<sup>76</sup>

The unit provided Global Witness with information regarding each case they have been involved in. Only three arrests have been made relating to the smuggling of diamonds into Sierra Leone, at the Liberia-Sierra Leonean border crossing of Mano river bridge. On 9 August 2005, three men were arrested with 102 diamonds weighing 12.48 carats and valued at just US\$312.<sup>77</sup> If this was the real value of the diamonds, their quality was extremely low. The men, two Sierra Leoneans and one Guinean, have been charged with unlawful possession of precious minerals and at the time of writing were on bail and waiting for their next hearing. According to the police, the suspects stated that the diamonds were from Liberia.<sup>78</sup>

When interviewed about this case, the police unit dedicated to precious minerals stated that their duties are to apprehend those smuggling Sierra Leonean diamonds or without proper papers for their diamonds.<sup>79</sup> They did not think it was a problem to be in possession of diamonds smuggled from Liberia. They thought that it would be allowable if there were papers showing the origin of the stones to be Liberia. They understood that the aim of the Kimberley Process is to certify

national diamond production but they had little understanding of the broader aim of preventing the export of conflict diamonds. They did not appear to recognise that it is a violation of UNSC sanctions, and a violation of the Kimberley Process, for Liberian diamonds to be smuggled into Sierra Leone.<sup>80</sup>

These problems arise from a lack of training, lack of capacity, and lack of political will. The unit needs to receive the active support of the government of Sierra Leone. They also need to work with individuals within the diamond industry in Sierra Leone who can provide intelligence on those smuggling diamonds in, as well as with counterparts in the region and those internationally working to prevent diamond fraud and smuggling.

### **Threat to the Kimberley Process: polishing diamonds in West Africa**

Global Witness is concerned that conflict diamonds can enter the legitimate trade through cutting and polishing factories in artisanal diamond producing countries if there is no monitoring of diamonds entering and leaving the factories.

Diamond cutting and polishing factories are increasingly being seen as a way to add value to the diamond industry in countries with their own production. Many African countries are attempting to establish cutting and polishing industries in order to profit further from their own resources.<sup>81</sup> In Sierra Leone, the Ministry of Mines is encouraging the establishment of polishing factories in the country.<sup>82</sup> Global Witness welcomes initiatives to develop the economies of diamond producing countries, but is concerned that diamond dealers can buy conflict diamonds, and illicit diamonds, and insert them straight into a polishing factory where they will enter the legitimate trade.

One diamond buyer that is involved in plans to set up a polishing factory has told Global Witness that he buys Liberian diamonds offered to him in Sierra Leone, and that he works with men that regularly travel to Liberia to establish links with mining operations and to buy diamonds. They travel to Nimba county, in Liberia, to buy stones that originate in Cote d'Ivoire and Guinea as well as Liberia.<sup>83</sup> When asked whether he knew it was a violation of United Nations sanctions to travel to Liberia to buy diamonds he explained that he did but that people mining diamonds in Liberia needed to be fed. He went on to state that he does not see any problem with buying diamonds from Liberia because they are entering the legitimate trade in Sierra Leone and being certified by the Kimberley Process authorities in Freetown.<sup>84</sup> These diamonds could then enter a polishing factory outside Kimberley Process controls. Other diamond dealers interviewed by Global Witness also did not believe that it was a problem to trade in conflict diamonds. Many dealers admitted that they will not turn down diamonds because their origin is unknown, even though these may be conflict diamonds.<sup>85</sup>

Diamonds bought from Liberia and other countries in the region can be polished in a factory and disappear from sight, evading Kimberley Process controls. This underscores the need for the Liberian government, and its neighbours, to exercise control over its resources and to prevent the pillaging of its diamonds.

### **Kimberley Process certification of conflict diamonds**

Global Witness is concerned that Kimberley Process exporting authorities are certifying conflict diamonds. As shown above, controls over the diamond pipeline at each stage are weak. Global Witness' investigation has shown that this enables conflict diamonds to end up in the office of the Kimberley Process authorities for certification prior to export. The Gold and Diamond Department (GDD) in Sierra Leone and the Bureau Nationale d'Expertise (BNE) in Guinea told Global Witness that they never knowingly see diamonds from other countries for export.<sup>86</sup>

Independent diamond valuers provide an additional check on all exports from Sierra Leone, but Global Witness believes that Kimberley Process authorities must be more stringent in checks of all diamond exports to stop conflict diamonds from being certified and officially exported.

Global Witness understands the complexities surrounding the visual identification of diamonds, which has been discussed in previous reports, but believes that the Kimberley Process authorities must carry out more stringent checks on all diamonds brought for export.<sup>87</sup> Diamond experts generally concur that it is not difficult to distinguish the origin of diamonds based on the 'run of mine'.<sup>3</sup> However, once diamonds from different production areas are mixed, it is much harder to distinguish between them. Many diamond exporters bring parcels of diamonds for export made up of diamonds from several different mining areas in one country as well as from other countries in the region. Diamonds may have passed through the hands of many dealers and been mixed at each stage, preventing anyone from being able to differentiate between diamonds from different countries. The GDD's annual report from 2004

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3. 'Run of mine' is a term meaning that all the diamonds are from the same mine.

states that, “There is no yet no expert [sic] that can differentiate Sierra Leonean gems from Liberian or Guinean gems”, while the head of the GDD, an experienced diamond valuator, told Global Witness that, “if I saw them [foreign diamonds] I could recognise them.”<sup>88</sup>

Diamond exporters have told Global Witness that they knowingly buy diamonds from Liberia that are certified and exported officially through the Kimberley Process authorities.<sup>89</sup> Global Witness interviewed one exporter’s agent in Freetown who explained that he does not write receipts for the majority of the purchases he makes.<sup>4 90</sup> He estimated that he writes receipts for one in 10 purchases that can be used to legitimise the rest of his transactions, including the purchase of diamonds from Liberia. The diamonds from the other nine purchases may also be included in the receipt he does make. When asked about passing these exports through the GDD for valuation and Kimberley Process certification, he stated that this was not a problem and that they (the GDD) did not question the origin of diamonds brought for valuation before export.

One exporter, responsible for a large number of exports from Sierra Leone, said that a large quantity of Liberian diamonds are brought to his office, but he claimed that he does not buy them because they are not good quality.<sup>91</sup> Another exporter, based in Guinea, stated that he had seen large quantities of Liberian diamonds in one diamond exporter’s office when he had visited Freetown the previous week.<sup>92</sup> One diamond exporter admitted to Global Witness that he purchased diamonds brought to his office if he wanted them, with no concern for their origin. He feels it is not difficult to export these through the

Kimberley Process authority, saying, “I think they turn the other way. It is convenient for them.”<sup>93</sup>

Diamond buyers are also travelling to Liberia to buy diamonds. The United Nations Panel of Experts on Liberia, in its report of March 2005, stated that in Liberia, “there is evidence to suggest that foreign buyers are operating ad hoc buying offices from hotels and guest houses. They are buying illegal Liberian production and smuggling it to neighbouring States where goods may be passed off as the domestic production of those countries and obtain Kimberley Process certificates, thus legitimizing the diamonds for trade in the international market.”<sup>94</sup>

The BNE insists that the system in place in Guinea does not allow for any foreign diamonds to be introduced into the trade.<sup>95</sup> However, there is a conflict of interests for artisanal diamond producing participants of the Kimberley Process. It is in an artisanal producing government’s interest to export as many diamonds as possible, in order to collect tax from diamond exporters no matter what the origin of the diamonds. At the same time, all Kimberley Process participants are obliged to stop the export of diamonds that are smuggled in across their borders.

It is extremely difficult to determine the amount of diamonds that have been smuggled out of Liberia to Sierra Leone. There are no accurate production figures of diamonds mined in Liberia, nor is it clear what volume of diamonds from other countries in the region is being smuggled out via Liberia. However, there is industry speculation in Sierra Leone that between 10% and 30% of official diamond exports do not originate in Sierra Leone.<sup>96</sup>

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4. Under Sierra Leone legislation, exporters must be licensed, and each exporter can have several agents. The exporter vouches for these agents, but there is little oversight of the exporters’ agents who may just be using a licence number to carry out exports without having any relationship with the holder of the licence. This prevents authorities from being able to scrutinise these exporters. Global Witness attended the valuation and certification of some diamond exports from Sierra Leone, and several exporters’ agents unknown to the authorities, but with a licence number, brought diamond parcels for export.



Global Witness believes that in the past the Sierra Leonean exporting authority has knowingly certified conflict diamonds from Liberia. In September 2003, at a meeting of a committee comprising Sierra Leonean government officials and international donor governments, known as the High Level Diamond Steering Committee, the former Minister of Finance, Mr J B Dauda, told the committee that exports from August 2003 were from Liberia.<sup>97</sup> Minutes from that meeting that have been seen by Global Witness, state that a “proportion of August export was viewed by GGDO [Government Gold and Diamond Office, the previous name of the GDD] as not being Sierra Leonean production.”<sup>98</sup> However, a letter of retraction was subsequently written and signed by the Mr Dauda, Minister of Finance, the head of the GGDO, and the Minister of Mines, stating that; “with regards to the statement by the Minister of Finance during the meeting of the High Level Steering Committee on Tuesday 9th September 2003 relating to the inclusion of diamonds from other countries, it has been established that the information was not accurate.”<sup>99</sup> The former Minister of Finance, J B Dauda, was dismissed by the President in September 2005 after standing against the Vice President, Berewa, in elections to choose the new Presidential candidate for their party, the SLPP. Mr Dauda was standing on an anti-corruption platform.<sup>100</sup>

## Tightening the controls

Conflict diamonds are entering the Kimberley Process certified diamond trade. Internal control systems in Sierra Leone and in Guinea are weak and poorly enforced and are not at present preventing the certification of conflict diamonds from Liberia. The same can be said of controls in other artisanal diamond mining countries, which are known to face similar problems.<sup>101</sup> Kimberley Process certificates are not issued on the basis of conclusive evidence that diamonds are conflict-

free. Some members of the diamond industry are using Kimberley Process certificates to legitimise conflict diamonds and illicit diamonds.

Global Witness is calling for countries to implement strong systems of control that are effectively enforced to stop the trade in conflict diamonds. The Kimberley Process and the wider international community must provide technical and financial assistance to effectively implement such controls, and must encourage regional coordination to crack down on this trade. The legitimate sectors of industry must work proactively with intelligence units and government to provide information on illicit traders.

## SANCTIONS ON DIAMONDS FROM LIBERIA

Liberia was used as a conduit for diamonds mined by the rebel group, the RUF, during the war in Sierra Leone. The conflict in Sierra Leone was responsible for the loss of at least 50,000 lives, and civilians were mutilated, raped, tortured and abducted.<sup>102</sup> Over 200,000 lives have been lost in Liberia due to the conflict.<sup>103</sup> The ease with which diamonds mined in Sierra Leone could be transported to Liberia and exported from there to Antwerp and other diamond trading centres gave added impetus in 2000 for the Kimberley Process to be created.

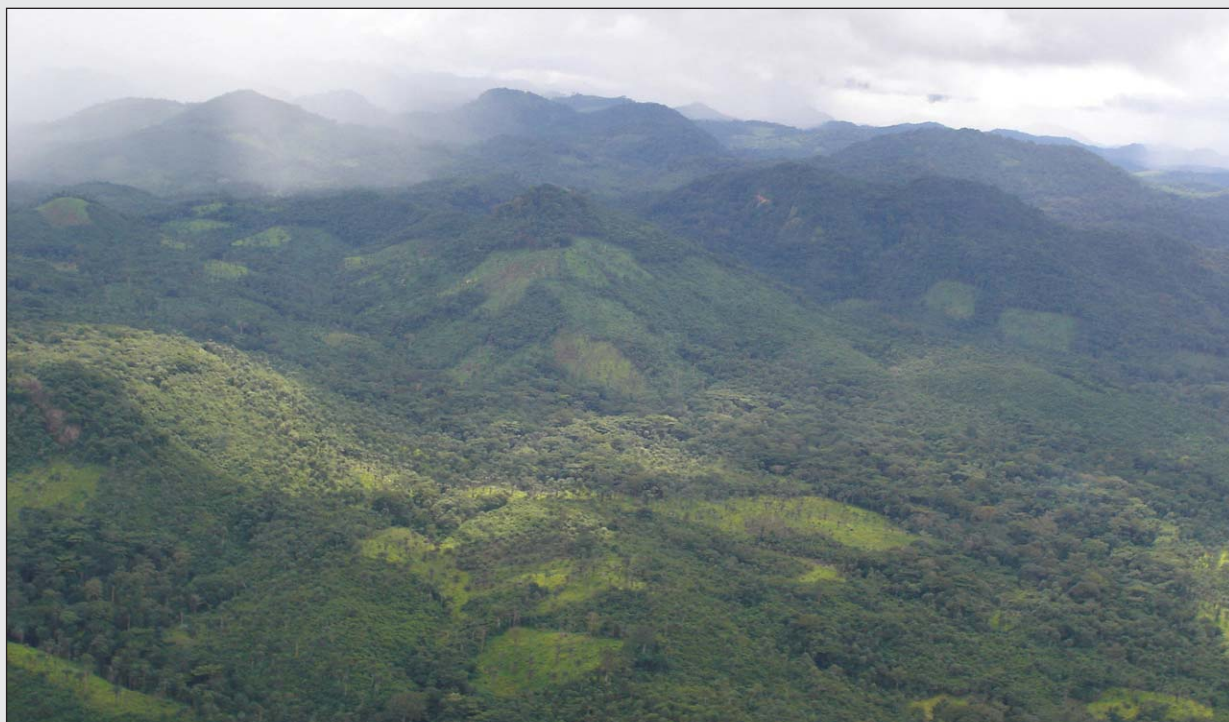
Charles Taylor, former warlord turned President of Liberia, has been indicted by the Special Court of Sierra Leone for war crimes related to his support of the RUF. The indictment states that Taylor wanted, “to obtain access to the mineral wealth of the republic of Sierra Leone, in particular the diamond wealth of Sierra Leone, and to destabilize the state, the accused provided financial support, military training, personnel, arms, ammunition, and other support and encouragement to the RUF”.<sup>104</sup> In August 2003, under international pressure, Charles Taylor left Liberia for exile in Nigeria. Despite the terms of his exile he continues to meddle in the political affairs of Liberia and maintains a strong influence there with a string of networks relating to business, politics and mercenaries.<sup>105</sup>

In March 2001, after significant pressure from NGOs, the UN Security Council (UNSC) imposed sanctions on Liberia’s diamonds.<sup>106</sup> Until this strong action was taken, the diamond industry continued to trade in Liberia. Sanctions on diamonds were renewed

most recently in June 2005 and will be lifted when the UN sees that the National Transitional Government of Liberia has “take[n] urgent steps to establish an effective Certificate of Origin regime for trade in Liberian rough diamonds that is transparent and internationally verifiable with a view to joining the Kimberley Process.”<sup>107</sup>

In February 2005, a Kimberley Process expert mission visited Liberia and concluded that Liberia requires considerable international support, including technical assistance, to meet the minimum requirements of the scheme.<sup>108</sup> Successive reports submitted by the Panel of Experts have highlighted the lack of controls over the diamond industry.<sup>109</sup> It has also uncovered secretive mining deals made by the transitional government to the detriment of the country and its population.<sup>110</sup> Two mechanised diamond operations have apparently stopped operating.<sup>111</sup> However, illicit diamond mining has continued in Liberia and there has been little response by the transitional government or the United Nations Mission in Liberia to stop this.<sup>112</sup>

Liberia has passed strong legislation on internal diamond controls but few steps have as yet been made towards its implementation. The international community and the Kimberley Process must make sure that a full and strong set of internal diamond controls are in place in Liberia, as required by law, and that revenues can be tracked back to the official treasury in order to avoid history repeating itself. Liberia’s resources have not been used for the benefit of its people. In response to the widespread corruption and



misuse of funds, the international community developed a reform programme to allow the international community to assist and supervise members of the government in the agreement and signing of contracts, to ensure that they are beneficial to the Liberian people. The Governance and Economic Management Assistance Programme (GEMAP) was launched in May 2005.<sup>5</sup>

A review of diamond sanctions will be carried out in December 2005. Global Witness has advocated for sanctions to remain in place since their imposition due to the continuing lack of

controls necessary for the implementation of the Kimberley Process.<sup>113</sup> The United States government has earmarked funds to assist Liberia's establishment of diamond controls. Global Witness believes that Liberia's history makes it imperative that it implements an exemplary set of internal controls to ensure that Liberia will not again be used as a conduit for conflict diamonds. Following recent elections in the country, the new Liberian government has an opportunity to prove its commitment to transparency and good governance. Setting up strong diamond controls is one of the first steps it must take in this regard.

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5 GEMAP is a framework for fiscal reform and financial oversight "to ensure that all Liberian revenues will be available for the benefit of all Liberian people, to ensure that the Liberian Government will have the appropriate fiscal instruments to capture the revenue required for the development of the country, and to strengthen Liberian institutions so that they can take responsibility for reversing decades of deficiencies in economic and financial management". The government's principal revenue generating agencies will be reformed under GEMAP and financial experts will be internationally recruited to technically assist and supervise with signatory powers their government counterparts.

# Weaknesses in the internal controls of diamond cutting and polishing centres

## Armenia

### Introduction

The Kimberley Process requires all participants to “establish a system of internal controls designed to eliminate the presence of conflict diamonds from shipments of rough diamonds imported into and exported from its territory”.<sup>114</sup> While a system of internal controls is one of the minimum requirements of the scheme, each participant decides for itself the nature of the systems it puts in place. The Kimberley Process recommends some controls including the registration of diamond traders and the keeping of records of diamond transactions.<sup>115</sup>

Credible information collected by Global Witness and other organisations over several years suggests that a lack of regulation and oversight in cutting and polishing centres can allow conflict diamonds to enter systems of legitimate trade.<sup>116</sup> This section will argue that it is important to monitor the trade in polished diamonds as well as rough diamonds in cutting and polishing centres. Although polished diamonds lie outside Kimberley Process controls, without adequate oversight cutting and polishing centres are at risk of allowing conflict diamonds to be laundered through their factories.<sup>6</sup> Rough diamonds can be smuggled into factories and, once polished, do not fall under Kimberley Process controls. Stronger regulations over the diamond sector play an important role in reducing a centre’s vulnerability to conflict diamonds.

In 2005 Global Witness undertook an investigation in Armenia, a growing cutting and polishing centre and participant of the Kimberley Process, to assess whether their internal control systems are adequate to prevent the trade in illicit diamonds. The illicit trade in diamonds violates national laws and illustrates how conflict diamonds can evade

Kimberley Process controls. Global Witness interviewed Armenian authorities and factory representatives and a wide range of representatives from local and international organisations in Armenia. The investigation discovered that there is inadequate government oversight of rough diamonds entering factories and of polished diamonds going out, making Armenia vulnerable to the trade in conflict diamonds. By the authority’s own admission, some of the diamond companies operating in Armenia are not even registered, despite being required to by Armenian law.<sup>117</sup>

Based on the findings here and in the previous sections, Global Witness calls upon all participants of the Kimberley Process to implement strong systems of internal controls. For participants with cutting and polishing industries, this should include increasing regulation over the diamond processing factories in their territories. Diamond cutting and polishing factories can verify their compliance with the Kimberley Process by commissioning independent, third-party audits of their own systems of control and submitting their records to authorities to review. Trading companies that contract factories to process diamonds should require their contractors to carry out these third-party audits to verify their compliance.

### Armenia’s diamond sector

In 2004, approximately US\$12 billion worth of the world’s rough diamonds ended up in cutting and polishing workshops for production into polished stones.<sup>118</sup> While the largest manufacturing centre by far is India, which processes approximately half of the available rough diamonds by value worldwide, other countries also support diamond cutting and polishing sectors, including Belgium,

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6. The Kimberley Process is a certification scheme designed to monitor the flow of rough diamonds. In order for rough diamonds to fall under the mandate of Kimberley Process authorities the diamonds must be un-worked or simply sawn, cleaved or bruted and fall under the HS classifications

Canada, China, Costa Rica, Israel, Mauritius, Russia, Sri Lanka, Thailand and Vietnam.<sup>119</sup>

Armenia has long been a centre for manufacturing diamonds and jewellery. During the Soviet era, Armenia's Shogakn factory was one of seven centres in the Soviet Union which cut and polished diamonds.<sup>120</sup> After the collapse of the Soviet Union, Armenia continued to receive subsidised diamonds from Russia which allowed healthy profit margins. According to the head of one diamond factory that Global Witness interviewed, the profit was at least 15% on manufacturing, but usually more.<sup>121</sup> A deal signed in 2002 between Armenia and Russia continued to guarantee a supply of at least 400,000 carats of rough diamonds each year until 2007.<sup>122</sup> However, in 2003 ALROSA, Russia's diamond mining and marketing company, began to sell rough diamonds at market prices.<sup>123</sup> The rise in price has meant that Armenian factories have looked to Israel, Belgium and elsewhere for sources of rough diamonds.<sup>124</sup>

Strategic considerations have also forced Armenia to push for growth in its diamond sector. Due to a regional conflict in the 1990s, borders with both Turkey and Azerbaijan are closed. Land crossings now only exist with Georgia to the north and Iran to the south. The development of the diamond industry may be one way in which Armenia has attempted to compensate for the effects of closed land borders, as diamonds come into the country by air.

In order to attract foreign investment to the diamond sector, the Armenian government scrapped all taxes relating to the import, export and internal transfer of diamonds. No VAT is charged on the movement of diamonds within the country.<sup>125</sup> Additionally, investors of over US\$1 million do not pay any tax on their profits in the first year and only 50% of the tax on profit over the next 8 years.<sup>126</sup>

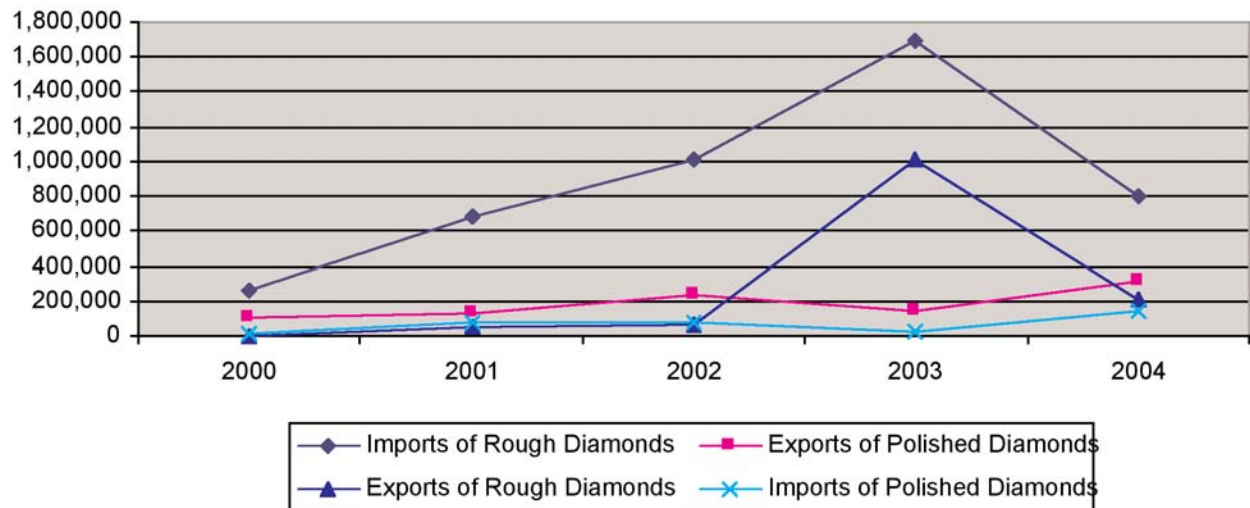


Map of Armenia

The liberalisation of the diamond sector has attracted several large investors, including Israeli businessman Lev Leviev and Indian diamond company Rosy Blue.<sup>127</sup> Factory representatives interviewed by Global Witness all cited the favourable business environment and the skilled workforce as the main reasons for doing business in Armenia.<sup>128</sup>

The centre of diamond polishing in Armenia is the town of Nor-Hachin, half an hour's drive from the capital of Yerevan.<sup>129</sup> The factory receiving the highest volume of rough diamonds in Armenia is Shogakn, now owned by Lev Leviev.<sup>130</sup> Formerly a state owned factory, Shogakn processes 40% by volume of the diamonds that are imported into Armenia.<sup>131</sup> Lori is the second largest factory in Armenia and has the highest annual turnover in the country. According to representatives of the factory, Lori's annual turnover is US\$3.5 billion, more than twice that of Shogakn, due to the high value of diamonds it processes.<sup>132</sup>

### Armenia: Imports and Exports of Rough and Polished Diamonds 2000-2004



Source: Ministry of Trade and Economic Development, Armenia and National Statistical Service of the Republic of Armenia

### Imports and exports

Diamond imports and exports currently make up approximately one-fifth of Armenia's total trade by value.<sup>133</sup> Most factories in Armenia are sub-contracted by other companies to cut and polish diamonds.<sup>134</sup> Therefore, from an economist's perspective the diamonds going into and leaving Armenia cannot be strictly considered as 'imports' or 'exports'. Shogakn and Lori are in the top ten most profitable companies, by volume of sales, in Armenia.<sup>135</sup> However, one Armenian economist told Global Witness that apart from local wages, it is difficult to see how diamonds benefit the Armenian economy at all. The economist went onto say that the trade also distorts the general macro-economic picture of Armenia's progress and development.<sup>136</sup>

The rough diamonds imported into Armenia mostly come from Israel and Belgium, which provide about 40% of the imports by volume, and Russia, which provides most of the rest.<sup>137</sup> Armenia does not have any diamond mines but does export rough diamonds that have been imported but are

not suitable for processing in Armenia.<sup>138</sup> Rough diamonds remaining in Armenia are likely to have been processed and polished. The trade data received by Global Witness raises questions that are addressed in the section below *A Closer Look at Armenia's Diamond Data*.

## Systems of internal controls in Armenia

### How controls work at the governmental level

Armenia's legislation, # 505 N gazetted in April 2003, fulfils the minimum requirements of the Kimberley Process certification scheme. The Armenian Kimberley Process authorities have also implemented several optional recommendations, including the licensing of buyers and sellers of rough diamonds and the exchange of emails giving notice of imports and exports.<sup>139</sup> Armenia's Kimberley Process authority is the Gemstones and Jewellery Department (GJD), a department of the Ministry of Trade and Economic Development. Its role is to promote the gemstones and precious metals industry in Armenia and monitor Kimberley Process implementation in Armenia. The GJD also

compiles statistics of the production and trade of rough diamonds.<sup>140</sup>

Imports of rough diamonds into Armenia are only allowed if accompanied by a Kimberley Process certificate issued by a Kimberley Process exporting authority.<sup>141</sup> Likewise, exports of rough diamonds must be accompanied by a Kimberley Process certificate issued from the GJD and can only be exported to a Kimberley Process participant. As Armenia has no diamond mines, documents verifying the country of origin are required in order to export rough diamonds. These documents include copies of the import agreement, receipts of purchase and the Kimberley Process certificate. Imports into Armenia without Kimberley Process certificates are sent back to the country of export. Violations of the legislation are subject to the criminal code.<sup>142</sup>

Armenian customs work with the GJD and are required by law to inform the authority whenever rough diamonds are declared at import.<sup>143</sup> Zvartnots International Airport, just outside the Armenian capital of Yerevan, is the only designated point of entry or exit for diamonds. Upon arrival, the representative of a company importing diamonds must declare an import of rough diamonds at airport customs. After declaration, customs informs the GJD of the import, which usually expect the shipment based on advance notice provided by email from the exporting country. The representatives of the importer, customs and the GJD should then proceed to the factory of the importing company where the parcel will be unsealed. Customs and the GJD representative unseal the parcel in the presence of the importer and check the weight of the diamonds against the Kimberley Process certificate and customs declaration.<sup>144</sup>

If a discrepancy is found between descriptions on Kimberley Process certificates and the diamonds, the parcel is held by the GJD. The GJD contacts

the Kimberley Process department in the exporting country in order to query the discrepancies. When a parcel arrives that has discrepancies, authorities request the help of diamond experts. The GJD told Global Witness that this had happened only a few times with relatively small amounts. Once the issue is resolved the parcel is released.<sup>145</sup>

### **How the system works in polishing factories**

Global Witness visited several diamond polishing factories in Armenia. Two of those visited make up over 65% of the trade by volume in Armenia.<sup>146</sup> After an imported parcel is checked and approved by Armenian authorities, the diamonds are then unwrapped and individually assessed by expert valuers employed by the factory. All the factories that Global Witness visited cut and polish gem quality stones.<sup>147</sup>

At the large factories that Global Witness visited, each individual diamond entering the manufacturing chain receives a 'passport' which details its own particular characteristics and the ideal yield that should be reached.<sup>148</sup> The passport records every step of the manufacturing process from when the diamond is valued to when the polished diamond is sorted and repackaged for export. Details are checked after each stage of the process to make sure the diamond is achieving maximum yield. The passport includes an individual description and sketch of the stone that also serves as a security check to make sure that diamonds are not switched during the cutting process. After processing the information on the passport is entered into an electronic database.<sup>149</sup>

## The case for stronger oversight of the rough and polished diamond sector

The integrity of the Kimberley Process as a whole depends upon each participant having effective oversight of its diamond sector. While this is important for diamond producing countries, it is equally important for trading and cutting and polishing countries in order to ensure the system as a whole is robust. The previous section found that conflict diamonds from Cote D'Ivoire are being smuggled out through Mali, moving along channels of illicit and licit trade. These diamonds, bought by foreign buyers, could be going anywhere in the world. Without strong oversight of their diamond sectors, trading and cutting and polishing centres are vulnerable to the laundering of this illicit trade through their systems.

Global Witness has received credible information over several years on weaknesses and problems in systems of control in a number of cutting and polishing centres.<sup>150</sup> To examine this part of the diamond pipeline further, Global Witness went to the cutting and polishing centre of Armenia, a country that has not yet been reviewed by the Kimberley Process. The investigation looked both at Armenia's implementation of the minimum mandatory requirements of the Kimberley Process and more broadly at the voluntary system of internal controls recommended by the scheme. On the basis of the findings Global Witness recommends that enhanced internal controls should be made mandatory for all participants. Although Armenia's legislation fulfils the minimum requirements of the Kimberley Process, internal controls over the diamond sector are lacking. This combined with a lack of expertise in the authority and problems of smuggling make Armenia more vulnerable to illicit trade.

## Monitoring the trade in both rough and polished diamonds

Monitoring and reconciling the trade in both rough and polished diamonds is one way for authorities in trading and processing centres to identify anomalies that may indicate illicit trade. Armenia has gone some way towards increasing oversight of the sector, but still has significant gaps which should be urgently addressed.

A change in Armenian law in May 2005 meant that companies are now required to be registered and licensed for the purchase and sale, import and export and transportation of rough diamonds, but not in order to polish diamonds.<sup>151</sup> This should mean that all diamond cutting and polishing companies must be registered at the Ministry of Finance.

A list provided by the GJD to Global Witness in November details 30 registered companies.<sup>152</sup> However, there appear to be significant gaps: diamond polishing factories that Global Witness knows to have had rough diamond imports in 2004 and 2005 do not appear on the list.<sup>153</sup> The most significant of these exclusions are factories in the disputed territory of Nagorno-Karabakh, which Global Witness has learned are currently active.<sup>154</sup> Despite the fact that these factories receive rough diamonds via Armenia, the GJD informed Global Witness in writing that there are no diamond polishing factories in Nagorno-Karabakh.<sup>155</sup> See box *Nagorno-Karabakh: Turning a Blind Eye* for further detail.

The GJD also has no mandate to check on any movement or figures relating to polished diamonds. According to the GJD, Armenian law requires companies to note all imports and exports, recording product, quantity and price, regardless of the goods. This information is audited by tax authorities and is not available to the GJD.<sup>156</sup> The GJD informed Global Witness that



it only has authority to monitor rough diamonds within the framework of the Kimberley Process.<sup>157</sup> Likewise, all companies receive an annual audit from the tax and labour authorities that check financial documents, payments for social services and environmental payments, as well as compliance with the Armenian legislation.<sup>158</sup> But again this information is not available to the GJD.<sup>159</sup>

When asked if spot checks are carried out on cutting and polishing factories, the GJD told Global Witness that it “organizes monitoring and study visits to the diamond polishing companies by informing them about the visit beforehand. The visits gives [sic] us an opportunity to get introduced to the recent developments in the diamond sector, find out existing problems and provide assistance to the companies for solving them.”<sup>160</sup> Global Witness was informed by one large cutting and polishing company that it did not receive any spot checks from the GJD at all.<sup>161</sup>

Spot checks and audits of a company’s control systems are an important tool with which authorities can check compliance with the requirements of the Kimberley Process. “Monitoring and study visits” do not constitute a proper audit of a company’s activities. Global Witness believes that Kimberley Process authorities should carry out adequate checks on cutting and polishing factories to ensure that all polished diamonds come from legitimate, Kimberley Process certified imports of rough diamonds. These should include comparing the rough diamonds that enter the factory and the polished diamonds that exit the factories against records kept by the company. Without these and other checks, any number of diamonds could be smuggled into factories and leave once polished without anyone’s knowledge.

## OVERSIGHT OF THE POLISHING SECTOR: BOTSWANA’S EXAMPLE

Botswana’s Diamond Cutting Act is an example of legislation that has expanded oversight of the diamond sector to include the cutting and polishing sector.<sup>162</sup> The Act requires every polishing factory in Botswana to maintain records of its trade in rough and polished diamonds, and submit them to the Mining Commissioner each month. By law companies are required to record their imports of rough diamonds, details of the manufacture of cut and polished stones and the remaining and residual rough diamonds for export. The Department of Mines checks these figures against agreed parameters on loss through the cutting and polishing process.<sup>163</sup>

The legislation allows for full oversight and transparency of all parts of the diamond sector. The Kimberley Process review visit to Botswana in June 2004 was impressed with the controls in place and recommended that Botswana’s internal controls on its cutting and polishing sector be adopted as best practice.<sup>164</sup> As Chair of the Kimberley Process in 2006, Botswana should call for the implementation of these best practices among the cutting and polishing participants of the Kimberley Process.

However, oversight of the rough and polished diamond trade is not simply the responsibility of government authorities. Factories should have third-party independent audits of their compliance with the Kimberley Process. As was seen in the earlier section, many factories already have a system of monitoring in place for business purposes which could easily be used by auditors to carry out Kimberley Process compliance checks. Systems put in place by factories calculate the amount lost in carat weight from each individual

diamond as it makes its way through the cutting and polishing process. For business purposes, factories enter this information into a computerised database and calculate monthly totals of loss. Many factories reconcile the volume of rough diamonds that enter their factories with the volume of polished diamonds that exit.

Considering that this information is already maintained by large polishing factories, having an independent audit of their figures and stock should be easy. Acceptance of auditing is crucial for the credibility of an industry which, as this report shows, still has elements within it dealing in conflict diamonds. Independent audits are an important way to boost consumer confidence in a company and demonstrate compliance with regulations and the Kimberley Process.

Government oversight of polished diamonds is a matter of regulation and enforcement. It is crucial for governments with polishing centres to have the authority to adequately regulate polishing factories and ensure compliance with the Kimberley Process. Given the fact that factories already have a monitoring system in place, it should not be onerous or resource-intensive for governments to carry out spot checks to check these systems. Botswana's legislation is one example of a government checking all parts of the diamond sector, from mine to polishing factory. It provides a best practice system that should be put in place in Armenia and other countries with polishing centres. See box *Oversight of the Polishing Sector: Botswana's Example* for how this can be done.

### Smuggling: holes in the system

Smuggling is one way in which conflict diamonds can enter cutting and polishing factories. Without sufficient oversight to check rough diamonds entering and polished diamonds exiting the system, it is difficult for authorities to detect conflict diamonds that may be mixing with legitimate trade.

Armenian customs authorities were reluctant to talk to Global Witness about incidents of diamond smuggling. According to authorities, "a few cases" of diamond smuggling had occurred with individuals from South Africa, Belgium and Israel.<sup>165</sup> However, Global Witness has identified two recent cases of the smuggling of diamonds to and from Russia which illustrate the need for authorities to have better oversight of both the rough and polished sectors in their territories.

In August 2004, Russia's Federal Security Bureau's (FSB) office in Bashkortostan reported that it had broken up a criminal ring engaged in smuggling rough diamonds and emeralds from mines in Siberia and the Urals.<sup>166</sup> The diamonds were sold in Russia or smuggled into Armenia for polishing. Once polished, the diamonds were sent back to Russia for sale. According to the FSB directorate in the Federal Republic of Bashkiria in Russia, the smuggling was operated by several local residents over a period of three years.<sup>167</sup> The State Procurator's and Ministry of Internal Affairs (MVD) offices in Bashkortostan confirmed this case and its details with Global Witness.<sup>168</sup>

Further diamond smuggling from Armenia to Russia ran through Kazan, Tatarstan. In May 2005, MVD carried out a counter-smuggling operation that led to the arrest of a smuggler who had on him 689 diamonds, 170 emeralds and 305 sapphires.<sup>169</sup> According to the MVD of Tatarstan, the seized diamonds were the smuggler's fifth delivery smuggled to Russia from



Armenia which were made possible by bribing Armenian customs officers with US\$200.<sup>170</sup> Tatarstan's State Prosecutor's Office confirmed this information for Global Witness.<sup>171</sup> The smuggler was found guilty of the illicit sale of precious stones in November 2005.<sup>172</sup>

While diamond smuggling will never be fully eradicated, these cases illustrate the need for enhanced regulation and oversight of the diamond cutting and polishing sector. Full registration of all diamond polishing factories in Armenia and audits of factories would reduce the risk of this kind of illicit trade. Authorities such as Botswana, who strictly monitor the trade in rough and polished diamonds and require companies to submit their records, offer an example of best practice that should be adopted by other cutting and polishing centres.

## NAGORNO-KARABAKH: OUTSIDE OVERSIGHT?

In correspondence sent to Global Witness the GJD denied that Armenia traded rough diamonds with Nagorno-Karabakh. However the only access from the outside world to Nagorno-Karabakh (which has no airport) is by land via Armenia.<sup>173</sup> An investigation by Global Witness has found that rough diamonds were sent to a cutting and polishing factory in Nagorno-Karabakh in 2003. Further information obtained by Global Witness indicates that the trade continues.<sup>174</sup> The findings warrant further investigation because it is unclear whether the diamond trade with Nagorno-Karabakh comes under Kimberley Process oversight.

Nagorno-Karabakh is described in a recent report by the International Crisis Group as a territory which is “internationally recognised as part of Azerbaijan yet it functions largely as an independent entity whose military and economic security is guaranteed by Armenia.”<sup>175</sup> The GJD stated in writing to Global Witness in November 2005: “Armenia is not trading [in rough diamonds] with Nagorno-Karabakh which is not included in the list of KP participant [sic].”<sup>176</sup>

Global Witness has learned of an operational diamond polishing factory in Nagorno-Karabakh called Andranik-Dashk.<sup>177</sup> In October 2005 Global Witness interviewed the owner of the factory by telephone who said the factory is active and cutting between 500-1000 carats of diamonds per month. The factory employs 50 people, has been operating since 1997 and provides a cutting and polishing service.<sup>178</sup> According to the owner, the factory receives rough diamonds from the Belgian diamond

company Backes & Strauss, with which it has an “established relationship”.<sup>179</sup>

Global Witness contacted the CEO of Backes & Strauss who confirmed his company had supplied between 4000-4500 carats of rough diamonds to Andranik-Dashk in 2003.<sup>180</sup> However, the CEO informed Global Witness that Backes & Strauss’s last shipment to Andranik-Dashk was in September 2003 and since then the company had not shipped any rough diamonds to Nagorno-Karabakh.<sup>181</sup> The CEO further informed Global Witness that the polished diamonds from Andranik-Dashk were imported into Belgium as if they came from Armenia.<sup>182</sup>

This trade in rough diamonds to Andranik-Dashk is further confirmed by data provided for 2003 by the GJD. These data detail the imports and exports of rough diamonds to and from Armenia in 2003. From March to September 2003, Andranik-Dashk received just over 4000 carats in rough diamonds worth US\$1 million from Backes & Strauss in Belgium.<sup>183</sup>

In a second telephone interview with the owner of Andranik-Dashk in November, Global Witness was informed that the factory had “stopped working with [Backes & Strauss] a long time ago”.<sup>184</sup> The owner would not give Global Witness further details.<sup>185</sup>

However, Andranik-Dashk is not the only diamond polishing factory in Nagorno-Karabakh. Global Witness was told by representatives of another diamond cutting and polishing factory in Nagorno-Karabakh, MicroCut Diamonds, that

it had been set up a few months ago.<sup>186</sup> The head of the company told Global Witness that the factory is not yet fully operational, and is currently training its workforce. The factory wishes to sub-contract diamonds coming from Belgium and Israel, via Armenia.<sup>187</sup>

Global Witness has obtained further evidence that rough diamonds are currently going to factories in Nagorno-Karabakh. The President of the National Statistics Service of Nagorno-Karabakh confirmed in a telephone interview with Global Witness that Andranik-Dashk was the main diamond cutting and polishing factory in the territory.<sup>188</sup> He went on to say that several other cutting and polishing factories exist in Nagorno-Karabakh, although few of those are actually operational. He stated that the industry currently has an annual turnover of approximately 10,000 carats, but has the potential to process ten times that amount.<sup>189</sup> The President informed Global Witness that Nagorno-Karabakh's major trading partners for diamonds are Armenia, Belgium and Russia. He stated: "There is only one channel to the outside world from Nagorno-Karabakh, via a road through Yerevan. There is no other way to transport things to Nagorno-Karabakh."<sup>190</sup>

The existence of cutting and polishing factories in Nagorno-Karabakh is not the problem. However, factories located in the territory need a supply of rough diamonds which could currently move outside Kimberley Process oversight. Information gathered by Global Witness has confirmed that rough diamonds were sent to cutting and polishing factories in Nagorno-Karabakh during 2003. Further interviews conducted with officials and

diamond factory owners in Nagorno-Karabakh strongly suggest that rough diamonds continue to be sent to the territory via Armenia.<sup>191</sup>

It is unclear whether rough diamonds moving to Nagorno-Karabakh are traded outside of the Kimberley Process. The Kimberley Process should make clear that rough diamonds sent to factories that provide a cutting and polishing service must be under Kimberley Process oversight, even if the diamonds are not bought or sold. A Kimberley Process review visit is due to go to Armenia in December 2005. Both the review visit and the Kimberley Process Chair should investigate the situation and request that Armenia clarify the nature of this trade with Nagorno-Karabakh.

## The importance of valuation

Accurate valuation is of great importance to the Kimberley Process. Valuation can detect illicit trade and is one of two parameters used by the Kimberley Process in compiling and analysing statistics; the other is carat weight. Accurate statistics are a vital tool for detecting anomalies in trade, such as discrepancies in export and import figures between trading partners, which could indicate the movement of conflict diamonds.

The importance of physically inspecting diamond parcels to verify the value of the contents was emphasised by the Kimberley Process review visit team to Botswana in June 2004. At the time of the visit, Botswanan authorities only checked weight and parcel count for imports and exports. The review visit team recommended that in order to deter illicit trade, “imports should be subject to a regime of physical inspection, including valuation”.<sup>192</sup>

Global Witness observed an import of rough diamonds and the subsequent check of a parcel with the GJD representatives and Armenian customs officials. It is clear from these observations and subsequent discussions with Armenian authorities that both the GJD and customs representatives do not have adequate diamond expertise necessary to verify the value of the diamonds they were checking.<sup>193</sup>

## THE 4CS OF VALUING A DIAMOND

A rough diamond is valued according to several characteristics. Experts estimate the value of a diamond after considering the 4Cs: colour, clarity, cut and carats. These, as well as the number of imperfections or objects in the stone known as inclusions, are all important in deciding value. For example: although extremely hard to generalise, a rough diamond weighing 1 carat, with an octahedron shape, clear white in colour and with no inclusions or cracks was worth around US\$750 in 2005. A stone of the same carat weight, but of a less than perfect shape (known as a make-able), with some flaws was worth around US\$350.<sup>194</sup>

## ESTABLISHING ORIGIN

Establishing the origin of rough diamonds is difficult. Experts can give an informed opinion as to the origin of diamonds if they are given a selection of stones from the same area known as a ‘run of mine’. Aspects such as colour, natural chemical coatings, shape and marks on the outside of a stone can all assist in identifying the origin of a diamond. However, the stated origin of an unmixed parcel can be crosschecked against the rough diamonds inside, if officials know what they are looking for.<sup>195</sup>

According to the GJD, every parcel entering Armenia is checked.<sup>196</sup> Imported diamond parcels are checked on a risk analysis basis, with officials examining a selection of stones from the parcel to verify that the diamonds correspond exactly with the information recorded on the Kimberley Process certificate. While this method is used in many countries due to the volume of imports, in Armenia's case the diamonds in a parcel are only weighed, and no valuation is carried out. The weight of a particular stone or parcel is the only parameter to be checked against documentation.<sup>197</sup>

New legislation passed in February 2005 requires that the "representative of the authorized [Kimberley Process] body should be present in the customs clearance process of importing and/or exporting of rough diamonds".<sup>198</sup> Despite this, Global Witness was told by one factory that the Kimberley Process representative does not come to the factory to inspect the import of rough diamonds, only customs officials are present.<sup>199</sup>

This information is consistent with observations that Global Witness made in Armenia. At one factory that Global Witness visited with the GJD, it was apparent that the GJD representative had never been in the rough diamond valuation room where parcels were unpacked and checked.<sup>200</sup> At another check of a rough diamond import, officials unpacked a selection of stones, weighed the stones and checked the weight against the information written on the package. However, it was not clear that the GJD representative was certain of how to handle stones or how to weigh them. In this instance, the factory manager was so concerned that he took over the weighing of the stones himself. After checking the weight of the diamonds against documentation, GJD and customs authorities stamped and signed the certificates.<sup>201</sup>

The head of customs at Zvartnots International Airport, the only official import point for diamonds into Armenia, told Global Witness that customs' lack of expertise in being able to ascertain value is a problem that he recognised.<sup>202</sup> The GJD also acknowledged the problem and told Global Witness that it hopes to address the issue as soon as possible with additional training.<sup>203</sup> Armenia's problem is one faced by many participants of the Kimberley Process, particularly developing countries, which lack the capacity to train staff in valuation. The Kimberley Process should address this issue as soon as possible by identifying countries with training needs and facilitating the exchange of technical knowledge.

### **A closer look at Armenia's diamond data**

An examination of Armenia's rough and polished diamond trade data raises questions about imports and exports.<sup>204</sup> Unless comparisons are made between rough diamonds entering factories, and polished diamonds leaving, these anomalies would not be found. A lack of adequate expertise at the GJD and customs also prevents the authorities being able to study and question rough and polished diamond imports and exports with sufficient proficiency. Cutting and polishing centres should have regulations in place which allow them to review and reconcile the trade in both rough and polished diamonds, thereby reducing their vulnerability to the trade in conflict diamonds.

**Table 1 Armenia: Diamond Imports and Exports 2000-2004**

	Imports of Rough Diamond	Exports of Polished Diamonds	Exports of Rough Diamonds	Rough Diamond Exports as % of Rough Diamond Imports	Imports of Polished Diamonds	Imported Rough Diamonds - Exported Rough Diamonds	Polished Yield on Rough Diamonds (Minus Rough Diamond Exports)
2000	266,578	107,599	1,289	0.5%	9,156	265,289	41%
2001	684,893	124,958	52,554	8%	78,433	632,339	20%
2002	1,007,218	237,762	62,138	6%	72,553	945,080	25%
2003	1,688,490	141,700	1,016,328	60%	31,253	672,162	21%
2004	807,640	312,993	207,995	26%	148,709	599,645	52%

Source: Ministry of Trade and Economic Development, Armenia and National Statistical Service of the Republic of Armenia

## Rough Returns

Armenia has no diamond mines, but does re-export rough diamonds. The GJD informed Global Witness that rough diamond exports are diamonds of low quality unsuitable for processing in Armenia, which typically processes diamonds of high quality.<sup>205</sup>

However, statistics provided by the GJD reveal a high volume of re-exported rough diamonds from Armenia, which is highly unusual.<sup>206</sup> Factories in a processing centre like Armenia are contracted to cut and polish diamonds. Rough diamonds destined to be polished are pre-sorted before export to ensure that the diamonds are suitable for cutting and polishing. A normal ratio of unsuitable diamonds that are returned is more likely to be under 5%.<sup>207</sup>

Yet, in 2003, Armenia imported 1.7 million carats of rough diamonds and the same year re-exported 1 million carats of rough, 60% of the amount imported. In 2004, 26% of the rough diamonds

that Armenia imported were re-exported.<sup>208</sup> See Table 1.

An example of this trade is with one of Armenia's top two trading partners, Belgium. According to official figures reported in the Global Trade Atlas, in 2004 Belgium exported 289,365 carats of rough diamonds to Armenia, at an average value of US\$328 per carat. It received back from Armenia 102,258 carats of polished diamonds, at an average value of US\$952 per carat, indicating high value gem quality stones. However it also received 111,687 carats in rough diamonds returned from Armenia, 39% by weight of the quantity it sent over in the first place. These diamonds were worth US\$58 per carat.<sup>209</sup>

One explanation for this high volume of re-exports is that Armenia may be exporting diamonds that had been imported in previous years. Another explanation is that Armenia could be re-exporting rough diamonds that have been imported from Russia. However, Russia's rough diamond exports



## Armenia: Rough Diamond Import and Export Values 2000-2005

Armenia: Rough Diamond Import and Export Values 2000-2005				
	Import		Exports	
	US\$	US\$/carat	US\$	US\$/carat
2000	\$92,219,279	\$346	\$338,872	\$263
2001	\$68,667,552	\$100	\$15,685,215	\$298
2002	\$171,846,750	\$171	\$15,156,872	\$244
2003	\$251,702,737	\$149	\$46,855,089	\$46
2004	\$195,158,018	\$242	\$11,129,701	\$54
2005 (Q1-Q3)	\$153,996,176	\$279	\$15,402,140	\$75

Source: Ministry of Trade and Economic Development, Armenia and National Statistical Service of the Republic of Armenia

to Armenia in 2003 were only 133,684 carats, worth US\$11.5 million, less than a tenth of the volume of rough exports from Armenia that year.<sup>210</sup> Additionally, Armenia's agreement with Russia disallowed re-exports as part of its agreement to provide rough diamonds to Armenia.<sup>211</sup>

A high volume of re-exports can also be an indication of submarining. This is when diamonds of one value are exchanged for diamonds of a completely different value. The exchanged stones are then sold off the books. Global Witness found no evidence of stone swapping during its investigation. But given the lack of diamond valuing expertise in the GJD, Armenia's major trading partners Belgium, Israel and Russia, should carry out further checks on the rough imports coming from Armenia.

### Yield

Yield is a term used within the industry to denote the percentage of a diamond that remains after it

is cut and polished. The section *Controls in Polishing Factories* briefly discussed the yield that factories Global Witness visited in Armenia were trying to achieve (above 45%). While yield can be anywhere between 20-65%, a 'ball park figure' of between 40-50% can be used as a rough average.<sup>212</sup>

Table 1 shows Armenian imports and exports of both rough and polished diamonds. While figures for 2004 broadly fit within the average, figures for 2003 are unusually low. Even after rough diamond exports are taken into account, yield is only 22%. This figure can be legitimately questioned in a processing centre that sells its services on the basis of its high quality cutters and polishers and should be further explained by Armenian authorities.

Proper valuation checks are one important tool to detect discrepancies that could indicate the trade in conflict diamonds. Kimberley Process participants without sufficient expertise to value

diamonds are vulnerable to being exploited by illicit traders. Armenia's case illustrates how the lack of proper valuation can undermine the credibility of a diamond control system, a problem that may be particularly relevant to countries with limited resources and capacity constraints. It also shows how important it is for authorities to examine and reconcile the trade in both rough and polished diamonds. Kimberley Process participants should ensure that expertise is available to regularly check parcels entering their territory. The Kimberley Process as a whole should work to provide assistance that may be needed to help countries have effective valuation procedures.

### **A closer look at cutting and polishing centres is needed**

This section has shown some of the ways in which diamond cutting and polishing centres can be vulnerable to the trade in conflict diamonds. The vulnerabilities in Armenia include a lack of government diamond expertise, inadequate government monitoring of both rough and polished diamonds, and little regulation at all of cutting and polishing factories in Armenia. These potential problems apply to other cutting and polishing centres, particularly those with limited capacity, and become even more pressing with the growth of cutting and polishing sectors in diamond producing countries in Africa.

Kimberley Process participants with polishing or cutting factories should closely examine their polishing factories and tally the imports of rough diamonds with exports of polished diamonds. Authorities that have oversight of cutting and polishing factories should also require monthly records of imports and exports of both rough and polished diamonds, as is the case in Botswana.

Data on both rough and polished diamonds could easily be provided to authorities on a monthly basis by the diamond industry, particularly as

many factories already calculate the loss of each stone and consolidate the monthly results for business purposes. Diamond cutting and polishing factories should carry out third-party audits of their imports and exports and submit these books to the appropriate authority for annual review.

Kimberley Process and customs authorities must also have the expertise to be able to properly value the diamonds that are entering their territories. Currently, cutting and polishing centres, as well as the diamond industry, view the Kimberley Process Certificate as a stamp that absolves the diamonds they receive of all problems. Yet, as this report has shown, conflict diamonds are finding their way into the international trade, and gaps in oversight of cutting and polishing factories can enable conflict diamonds to enter. Both imports from trading countries, as well as imports directly from areas vulnerable to conflict diamonds should be carefully examined. Basic checks, such as the examination of a parcel of stones to check value, should be carried out by Kimberley Process authorities.

Based on the findings in Armenia and West Africa, as well as information garnered from several review visits, Global Witness is calling for the Kimberley Process to look further at potential problems in cutting and polishing centres which could be exploited by conflict diamond traders. The Kimberley Process should develop a set of best practices for government controls over cutting and polishing centres and urge relevant participants to implement them.

# Conclusion

Despite the Kimberley Process, conflict diamonds still exist and are entering the legitimate diamond trade. The Kimberley Process has not developed an adequate response mechanism to deal with conflict diamond trading identified both inside and outside of the Kimberley Process. Furthermore, weak government controls provide little deterrent to some parts of the diamond industry that continue to buy diamonds regardless of their origin. Diamonds from Cote D'Ivoire, mined in rebel-held areas, are being smuggled to Mali, a country that is not a member of the Kimberley Process, where they are bought and exported by nationals from countries participating in the Kimberley Process. Liberian diamonds, defined as conflict diamonds under UN sanction, are being smuggled into neighbouring countries due to poor border controls, inadequate oversight of diamond traders and corruption. Once there, they are Kimberley Process certified and exported as part of the legitimate diamond trade.

The problem does not only rest with artisanal mining countries. Conflict diamonds can be illicitly smuggled directly into trading centres and polishing centres and enter the legitimate trade where they can then be sold as diamond jewellery to consumers across the globe. The Kimberley Process has given little attention to the fact that cutting and polishing centres are vulnerable to the laundering of conflict or illicit diamonds due to inadequate controls. As the section on Armenia shows, insufficient supervision over this sector means that conflict or illicit diamonds can be laundered through factories and mixed with legitimate trade. In addition, the lack of diamond expertise amongst customs and Kimberley Process authorities means they are largely unable to identify possible conflict diamonds or to adequately value the diamonds that are imported. Global Witness believes that more investigation is needed into the cutting and polishing sector to identify vulnerabilities within systems of controls and develop ways to solve these problems.

The findings from these investigations and other studies carried out on the Kimberley Process all have a common thread: inadequate government regulation and oversight of the diamond trade is allowing the continued smuggling of conflict and illicit diamonds. Global Witness would like to challenge the commonly held belief that illicit smuggling is outside the mandate of the Kimberley Process. Any type of diamond smuggling highlights holes in a system where conflict diamonds can potentially infiltrate. Smuggling is a violation of both national laws and Kimberley Process controls. While it is impossible to completely eliminate all smuggling, the Kimberley Process, in cooperation with other global initiatives, can and must do better to ensure that the systems of internal controls put in place by participants are strong enough to prevent trading in conflict and illicit diamonds.

While some sectors of the diamond industry have stepped up to the challenges of conflict diamonds and support the Kimberley Process, there is still a flourishing illicit trade for which the diamond industry as a whole must take responsibility. Yet, some in the diamond industry continue to pay lip service to the issue of conflict diamonds and the Kimberley Process. The priority for many is profit, regardless of where the diamonds they buy originate. The diamond industry has not adequately dealt with those members of its sector who continue to buy conflict diamonds and launder them through the legitimate systems of Kimberley Process participants.

## Towards a solution

Global Witness is calling for the effective implementation of the Kimberley Process in all participants' territories to strengthen their systems of internal control. These problems should be addressed at the upcoming November 2005 Plenary Meeting as well as the three-year review of the Kimberley Process that will be carried out in 2006. As the Kimberley Process is increasingly hailed as a success and the problem of conflict diamonds is perceived to be solved, there is a real threat that complacency and lack of political will seriously undermine the effectiveness and credibility of the agreement and fail to stop the trade in conflict diamonds.

Most importantly, both government authorities and the diamond industry must take responsibility for conflict diamonds at all points along the pipeline. The Kimberley Process must investigate the trade in conflict diamonds and take urgent action to stop the trade. Furthermore, internal controls and oversight, both by authorities and industry, must be robust and effectively enforced all along the diamond pipeline. All too often the enforcement is hollow - what is written on paper is not carried out in practice. Authorities should carry out periodic audits of diamond companies to verify Kimberley Process compliance and maintain adequate border controls to combat smuggling. The Kimberley Process should require specific controls for artisanal diamond producing and trading participants. The scheme should further ensure that these controls are implemented by all relevant participants and verify the proper implementations of these through the peer review mechanism.

The legitimate sectors of the industry need to work more proactively with law enforcement units and Kimberley Process authorities to provide information on dealers who trade in conflict and illicit diamonds. Many illicit traders are known, but

the diamond trade is still largely secretive and unwilling to tackle this problem head on. While some players in the diamond trade are trying to help clean up the industry, there are still significant elements that have not fully recognised these problems and are not working to deal with them. This inaction threatens to make a mockery of the scheme. Diamond industry bodies, including the WDC, WFDB and IDMA should lead efforts to tackle these problems, given the commitments they have made to the self-regulation supporting the Kimberley Process. A new initiative, the Council for Responsible Jewellery Practices, must be at the forefront of these efforts in order to show it is serious about achieving real changes within this industry. Until these problems have been dealt with effectively throughout the diamond industry as a whole, diamonds will continue to fuel conflict and consumers will not have adequate confidence that the diamonds they buy are conflict-free.

The Kimberley Process alone will not be able to solve all of these problems. The Kimberley Process should work closely with other related initiatives to combat the trade in conflict diamonds, bring more transparency and accountability to the diamond trade and work to ensure that diamonds are promoting economic development in countries rather than fuelling conflict and corruption. Anti-money laundering initiatives such as the Financial Action Task Force (FATF) represent another important way to tackle illicit trade and help prevent diamonds from financing terrorism and being used for money-laundering purposes. The Extractive Industries Transparency Initiative (EITI) complements the work of the Kimberley Process by promoting the disclosure of revenues from natural resource extraction, both to help combat corruption and to ensure that these revenues are used for sustainable development and poverty alleviation. The Diamond Development Initiative (DDI) is looking more broadly at problems in the alluvial mining sector; its work is important for

combating instability, impoverishment and other conditions in this sector that feed conflict and corruption.

Some progress has been made since the late 1990s when diamonds were fuelling several brutal civil wars in Africa. But the Kimberley Process is far from achieving its goal of preventing the trade in conflict diamonds. Given how easily diamonds can be used for conflict, it is crucial that governments, the diamond industry and the international community deliver on commitments made to create a system that is truly robust and effective so that diamonds never again fuel conflict and civil war.

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