

OTHER FACETS

NEWS AND VIEWS ON THE INTERNATIONAL EFFORT TO END CONFLICT DIAMONDS

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DIAMOND DEVELOPMENT INITIATIVE BEGINS

New Approach to Africa's Diamond Problems

The founders of the Diamond Development Initiative (DDI), who comprise a cross section of industry, NGOs and the donor community, in August released the mission statement and the objectives of the initiative. The DDI aims to address the problems faced by more than a million artisanal African diamond diggers, their governments and the diamond industry. The founders also announced a plan to hold a first convening meeting of the DDI in Accra at the end of October. The meeting will be open to all governments, companies, NGOs and development agencies interested in furthering the objectives of the DDI.

The Challenge

During the 1990s and into the current decade, rebel armies in Angola, Sierra Leone and the Democratic Republic of the Congo exploited the alluvial diamond fields of these countries to finance their wars. "Conflict diamonds" spread their tentacles into other conflicts as well – Liberia, Guinea, the Republic of Congo and elsewhere. Hundreds of thousands of people died as a direct result of these wars, and many more died of indirect causes.

The issue of conflict diamonds was brought to public attention by NGOs and the United Nations in 1998 and 1999, and in May 2000 the Government of South Africa convened a meeting, bringing together industry, governments and civil society in an attempt to find a solution to the problem.

In a remarkably short time, the Kimberley Process was able to articulate a system for managing and certifying the internal and international trade in rough diamonds. The Kimberley Process Certification Scheme (KPCS) came into effect on January 1, 2003, and required all participating governments – more than 40, plus those represented by the European Commission – to enact new diamond laws and regulations.

The KPCS remains a work in progress. It has been credited, however, with huge increases in official diamond exports from Sierra Leone and the DRC, and with the ending of all official diamond trade with many countries accused of involvement in conflict diamonds. Participants in the KPCS ascribe its success to the willingness of a wide range of governments, civil society and the diamond industry (represented by the mining, trading, manufacturing and retail sectors through the World Diamond Council) to give each other space and respect, and to work together.

The Diamond Development Initiative

The Diamond Development Initiative emerges from a recognition that the underlying problems of Africa's alluvial diamond operations and its estimated one million artisanal miners lie beyond the KPCS, and have not yet been addressed. This is a development problem and one with several security dimensions – human, local, national and international. A pooling of stakeholder efforts holds the potential for achieving real change, change that could bring artisanal alluvial diamond mining into the formal sector, with major benefits for miners and governments alike, and the diamond industry at large.

The focus of the DDI will be the creation of a multilateral partnership framework that will allow interested parties to pool their resources, experience and knowledge, and to integrate various initiatives that are being developed in this field.

DDI Mission Statement

To gather all interested parties into a process that will address, in a comprehensive way, the political, social and economic challenges facing the artisanal diamond mining sector in order to optimize the beneficial development impact of artisanal diamond mining to miners, their communities and their governments.

Objectives

To gather and disseminate information on artisanal diamond mining.

To promote better understanding of, and possible solutions for:

- Government regulation and mining regulation;
- Distribution and marketing channels;
- Organizational aspects of artisanal production;
- Legitimate and transparent distribution channels;
- Organization among artisanal miners;
- Free and open markets for artisanally mined diamonds.

To promote wide participation in the process, including governments, donors, industry and NGOs.

Initiators of the DDI include De Beers, Global Witness, Partnership Africa Canada, Jeffrey Davidson of the Communities and Small Mining Program at the World Bank, The Rapaport Group of Companies and Chaim Even-Zohar of Tracy Ltd.

Further information about the challenges the DDI expects to address can be found in two background papers at www.pacweb.org

Kimberley Corner

So far in 2005, Kimberley Process peer review visits have been made to **Guinea, Sierra Leone, Russia** and the **United States**, bringing to 18 the number of participating countries that have now had review visits. The others are **United Arab Emirates, Botswana, South Africa, Israel, Lesotho, Mauritius, Zimbabwe, the European Union, Switzerland, Sri Lanka, India, the Democratic Republic of the Congo, and Canada**. In addition, special review missions have taken place in the **Central African Republic** and the **Republic of Congo** (Brazzaville), and ad hoc review visits have been made to **Liberia** in February and to **Lebanon** in May. Upcoming visits in 2005 include **Brazil, Angola** and **Namibia**.

An "intersessional" Kimberley Process meeting was held in Moscow in June, where the most difficult issue was a planned evaluation of the overall Kimberley Process Certification Scheme. When the KPCS was formalized at Interlaken at the end of 2002, it was agreed that an evaluation would be undertaken within three years.

PAC UNCOVERS MILLION DOLLAR BRAZILIAN DIAMOND SMUGGLING FRAUD

A US\$ 1 million fraudulent export of Brazilian conflict diamonds is one of the stories of fraud and illicit behaviour in the Brazilian diamond industry exposed by a new report released in May 2005 by Partnership Africa Canada (PAC). PAC's report, *The Failure Of Good Intentions: Fraud, Theft And Murder In The Brazilian Diamond Industry* demonstrates in detail how attempts by the Brazilian government to regulate the industry and to comply with worldwide efforts to halt the flow of "blood diamonds" have only served to criminalize the mining operations of tens of thousands of low-income diggers. Brazil's new laws, the report said, have actually made it even harder to track the origin of diamonds exported from Brazil, and to put a brake on the violence in Brazil's diamond fields.

One of the world's oldest diamond exporters, Brazil remains a country rich in diamond deposits, nearly all of them shallow, alluvial, and difficult to control. Production is mostly in the hands of unlicensed, unregistered *garimpeiros* or hand miners. Faced with the task of bringing order to chaos, and with the prospect of suspension from the worldwide Kimberley Process Certification Scheme (KPCS) for rough diamonds, Brazil passed new diamond laws in August, 2003.

On paper, the system looks rigorous, systematic and comprehensive. "In practice," says Ian Smillie, PAC's Research Coordinator, "it is anything but. It is a system fraught with systematic leaks and failures in oversight, a system that encourages smuggling and contraband. Despite the government's good intentions, it actually hides the source of Brazil's diamonds." The real effect of the system, the report says, is not to track Brazil's diamonds from their source, but to provide Brazil's diamond exports with the legal covering of a piece of paper.

The Failure of Good Intentions examines the Brazilian diamond mining industry from top to bottom. In a particularly egregious case, PAC uncovered how one diamond trader managed to illegally export nearly US\$1 million worth of rough

diamonds using faked mining claims. The report contains a meticulous paper trail, documenting this fraud from the diamonds' supposed source to their eventual destination in Dubai. PAC investigators also traveled to the diamond mining towns of Juina, Coromandel and Diamantina, meeting with illegal diggers, illegal sellers, and with exporters using completely false documentation. "The report is a detective story," says Smillie. "It is about fraud, theft and murder, and good intentions gone wrong."

The most explosive diamond situation in Brazil remains the Roosevelt Indian Reserve, where 29 miners were massacred in 2004, allegedly by warriors from the Cinta Larga Indian tribe. *The Failure of Good Intentions* shows that the situation in this remote Amazon region has returned to what it was in 2004, just before the massacre. The Cinta Larga Indians are selling stones to international diamond smugglers, while hundreds of unemployed hand miners (*garimpeiros*) watch enviously from the fringes of the reserve.

The report recommends tougher controls in Brazil and in the international Kimberley system, and makes specific recommendations that would legalize *garimpeiro* mining and mining on the Roosevelt Reserve in ways that benefit both small miners and their communities.

After it was published, the report was attacked by the Brazilian government, which said that PAC had "distorted information", had intruded into Brazil's constitutional process, and that the report represented "external interference in Brazilian mineral policies". None of the specific charges in the PAC report was addressed by the government. In July 2005, two months after the publication of PAC's report, the newspaper *O Estado de Sao Paulo* reported that an Israeli national had just been arrested in an attempt to smuggle \$1 million worth of diamonds out of the country, hidden in a Torah.

The PAC report is available at www.pacweb.org

Liberia Diamond Sanctions Extended

The UN Security Council, meeting in New York in June, extended the global embargo on diamonds exported from Liberia for a further six months. The Security Council urged the transition government in Liberia to intensify its efforts to gain control over the diamond areas in the country, and to work towards a certificate of origin system that is transparent and internationally viable. The decision followed a visit to Liberia by an ad hoc team of experts from the Kimberley Process, which examined Liberia's readiness for membership. It also came on the heels of a revelation that Liberian government officials had made a deal with a company called the West Africa Mining Corporation (WAMCO), giving it a de facto monopoly over much of Liberia's diamond production for the next ten years.

WAMCO, financed by the London International Bank, has no mining experience and was only formed in May 2004. Analysts said that the arrangement, which had been agreed by Liberian officials from several different political factions, would only encourage official corruption. The transitional government cancelled the deal in May. Liberia will hold presidential and parliamentary election on October 11. When applications closed in August, 27 candidates had registered for the presidential elections.

MEDIAWATCH

In June, an editorial in the *International Herald Tribune* said there would be no peace in West Africa until former Liberian president **Charles Taylor** was behind bars: "Charles Taylor has done for West Africa what **Slobodan Milosevic** did for the former Yugoslavia. Yet while Milosevic is on trial in The Hague on charges including genocide, Liberia's former president is enjoying the lush life in a Nigerian government guesthouse."

On July 17, the prestigious *NBC Dateline* aired a segment on Taylor, adding more details to the story about the warlord president's sale of diamonds to Al Qaeda operatives, saying that the CIA and the FBI had not properly investigated the connection. *Dateline* interviewed Mike Shanklin, former CIA chief in Monrovia, who said, "Al Qaeda, Bah, Taylor, they were all there. There is no question in my mind these people were there. They were there during the period in question. And clearly they were involved in some sort of a diamond business. That's a fact." The NBC report ended with details of Taylor's indictment for war crimes by the **Sierra Leone Special Court**, saying, "There is new evidence that Charles Taylor may be meddling in his former nation's coming election, and thus violating the terms of his exile agreement. With that in mind, the United States has joined the chorus of nations requesting that Taylor be turned over to the U.N. War Crimes Tribunal. Taylor's host, the Nigerian president, still refuses to cooperate."

At a press conference later in July, **Louise Arbour**, UN High Commissioner for Human Rights said that "justice screams to be done both in Liberia and Sierra Leone... This man has been indicted by a mixed international and national court and, in my view, whether or not there is satisfactory evidence that he is breaching the terms of his exile, the time has come for him to stand trial, and the international community should say so with no ambivalence." Also in July the **FBI** announced that it plans to open branch offices in Dakar and Freetown. According to **Reuters**, "South American drug cartels, diamond smugglers and Islamic extremists" are all thought to be operating in the region.

The British edition of *Vanity Fair* published a major jewelry supplement in June. Although mostly advertising, it featured an article on British jeweler, **Luke Marriott**, son of Kimberley Process regular, **Martyn Marriott**. Over the past four years, *Marriott fils* has spent \$100,000 to help build a school for an Angolan NGO – **Kandegues Unidos** – working with street children.

DIAMOND UNDER-VALUATION IN DUBAI

Officials Concerned – KP Silent

In recent years, Dubai has become a major hub for diamond traders, but industry insiders are concerned that the emirate is being used for money-laundering purposes. According to a report in *Thamina*, values recorded on Kimberley Process certificates from **Tanzania, Angola, the Republic of Congo, the Democratic Republic of the Congo and India** have been significantly under-reported. Gem quality diamonds are often represented as industrials, and when diamonds are re-exported they mysteriously double in value. According to *Diamond Intelligence Briefs*, Dubai imported 28.2 million carats in 2004 and exported roughly the same volume, 28.6 million carats.

Despite the almost 100% flow-through, the import value of \$883 million almost doubled on export to \$1.7 billion.

The **Dubai Metals and Commodity Centre (DMCC)**, which implements the Kimberley Process Certification System throughout the United Arab Emirates, raised the issue with a Kimberley Process review team that visited in March 2004, but nothing was done. The Team, led by the EC's **Florika Fink-Hooijer**, noted the problem but said that under-valuation, money-laundering, tax evasion and illicit diamond trading were beyond its mandate, which was limited to a review of procedures for catching only conflict diamonds. The Republic of Congo was later dropped from the KPCS following a KP review of that country's control system, and a discovery of grossly undervalued diamond shipments with no verifiable provenance.

"The Dubai Kimberley authorities, when confronted with an undervalued parcel, contact the exporting authority in the country of origin – and in many cases, these authorities confirm the value and state that they stand behind their [grossly erroneous] figures," says **Chaim Even-Zohar** in *Diamond Intelligence Briefs*. "In other instances the exporting authority will simply confirm that the goods involved are of industrial nature, when they are clearly not." According to DIB, the DMCC has written to KP Chairman **Vyacheslav Shtyrov**, saying that the issue of valuation remains problematic. "This issue is becoming of concern to us, and we would appreciate your advice on the matter."

Dozens of international diamond companies have purchased office space in a planned DMCC Diamond Tower, but the apparent laundering of diamonds, and possibly money, is seen as a threat to the company's plan to establish a long-term rough diamond trading centre in Dubai. According to Even-Zohar, Dubai has informed the relevant anti-money laundering authorities, underscoring the DMCC's concern about reputational threats to the country's rough diamond trade.

UN Peacekeepers Set to Leave Sierra Leone

The United Nations peacekeeping mission in Sierra Leone, UNAMSIL, will wind down and depart from the country by the end of the year. UN Secretary General Kofi Annan announced in May that the country is now stable enough to stand on its own, and that currently, "no major external threats" exist. The force, which arrived in Sierra Leone in 1999, had more than 17,000 peacekeepers at its peak. By mid 2005 the number had been reduced to 3,400. The pullout, which began in August, is expected to be completed by December 31. The last infantry battalion and air assets will remain operational until the results of the October elections in Liberia have become clear.

Despite the UNAMSIL pullout, Annan said that Sierra Leone would need continued international assistance and a strong UN agency presence. "Despite progress made in consolidating peace in Sierra Leone," he said, "the overall situation remains fragile. Widespread poverty, illiteracy, discrimination against women, corruption, lack of accountability and high levels of youth unemployment continue to cause serious concern."

Partnership Africa Canada CALL FOR PAPERS

Partnership Africa Canada (PAC) has been involved in what has become a global effort to end the trade in conflict diamonds. It is a founding and continuing member of the Kimberley Process and the Diamond Development Initiative (DDI). Since 2000, PAC has produced a series of high-quality annual reviews and occasional papers on all aspects of the diamond industry that relate to the issue of conflict diamonds (see <http://www.pacweb.org/e/>). The new Diamond Development Initiative, described in this issue of *Other Facets* and in greater detail on the PAC website, will address a wider range of issues dealing with problems and opportunities related to artisanal alluvial diamond mining.

PAC is interested in receiving original papers in English or French from scholars, journalists, development practitioners and individuals in the diamond industry, relating to the issue of conflict diamonds, and papers which may be helpful to the DDI. Topics of interest include, but are not limited to:

- Trafficking in illicit diamonds: reasons, incentives, players, routes;
- The life and work of artisanal diamond miners; human and physical security;
- Prices received by miners, middlemen and exporters in relation to Antwerp market prices; possibilities for better prices for diggers;
- Problems and possibilities for organizing artisanal miners – including lessons from other mineral sectors;
- Barriers to, and possibilities for, participation by artisanal miners in the formal economy;
- The social and environmental impact of artisanal mining; prospects for improvement;
- Problems and possibilities in cadastre systems;
- Policies and regulatory frameworks that work for both governments and diggers;
- Addressing corruption in the regulatory systems of poor countries;
- The replicability of the KPCS, or elements of the KPCS, to other commodities.

Submissions should not substantially duplicate work that authors have already published or submitted in parallel for publication elsewhere. Original contributions of 2000 – 4000 words are invited, although longer papers will be considered on submission of an outline. Papers will be judged by a panel of readers on the basis of their originality, significance and clarity. The authors of papers accepted for posting on the PAC website or for publication will receive an honorarium of C\$1000.

For further guidance, please review documents currently posted on the PAC website. Address any queries to Josée Létourneau at jletourneau@pacweb.org.

NGO NEWS

In June, **Global Witness** released a report on Liberia, timed to coincide with a UN Security Council meeting to discuss sanctions on diamonds and timber. The report is entitled “Tinker, Taylor, Soldier, Spy: How Liberia’s Uncontrolled Resource Exploitation, Charles Taylor’s Manipulation and the Re-recruitment of Ex-combatants are Threatening Regional Peace”. The report details illicit diamond mining and reports on Taylor’s continued meddling in Liberian affairs. It recommends a continuation of the UN sanctions and calls for Taylor to be handed over to the Special Court for Sierra Leone, where he faces 17 charges of war crimes and crimes against humanity. The report is available at <http://www.globalwitness.org/reports/show.php/en.00075.html>.

Fatal Transactions, which is supported by six European NGOs, has introduced a new international newsletter. Based in the Netherlands, Fatal Transactions has been a leader in the conflict diamond campaign. The first newsletter in July featured articles on oil in the Sudan, the need for greater transparency in extractive industries in the DRC and arms trafficking in the great lakes region of Africa. Fatal transactions website: www.fataltransactions.org/.

A Russian NGO, the **Civil Research Council**, has recently published a number of papers discussing criminality in the Russian diamond industry, lack of transparency and the threat of penetration by criminal and terrorist elements. Two of

its recent reports, available in English, are “Russia in the Kimberley Process: The Leader’s Responsibility”, and “The Caucasian Diamond Traffic: The Price of [a] Chechen ‘Stinger’.” The Civil Research Council describes itself as an “independent non-commercial and non-governmental organization.” Its areas of research include “questions of public safety and counteraction to terrorist threat.” The Council’s web site is <http://www.civilresearch.org/>

Music Review

Kanye West, “Diamonds from Sierra Leone”, *Late Registration* (2005) US\$13.98

Kanye West, one of the best known rappers in the United States, released his new album, *Late Registration*, at the end of August, including the already-released hit single, “Diamonds from Sierra Leone”. Although it has been praised by *The Guardian* and the *New York Times* for its socially conscious message, “Diamonds” has the diamond industry up in arms. The video accompanying the song shows African children working in underground mines, and blood spreading over the hand of a woman who has just received a ring. The industry rightly says that the war in Sierra Leone is over, and could have pointed out as well that there are no underground diamond mines in Sierra Leone. But these are quibbles. The odd thing about the song is that the original lyrics had nothing at all to do with Sierra Leone or blood diamonds until West caught up with the story and partially rewrote them. Bolted onto the Shirley Bassey standard, “Diamonds are Forever”, the song is mostly all about Kanye West, his annoyance at not winning a Grammy, a stripper named Porcha and about how he is hip-hop’s biggest new star. The Shirley Bassey bits are the best part of it.

OTHER FACETS

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Supporters include: the Canadian International Development Agency, the British Department for International Development, Development and Peace, the International Development Research Centre, Foreign Affairs Canada, Development Cooperation Ireland, the Canadian Autoworkers Social Justice Fund and others.

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