

OTHER FACETS

NEWS AND VIEWS ON THE INTERNATIONAL EFFORT TO END CONFLICT DIAMONDS

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LIBERIA UPDATE

Diamond Sanctions to be Lifted?

Following the resignation and exile of warlord president **Charles Taylor** in August 2003, the UN Security Council approved a peacekeeping force for Liberia. The UN Mission in Liberia (UNMIL) has an authorized troop strength of up to 15,000 military personnel and a budget through the end of June 2004 of US\$564 million. When it reaches full troop strength, UNMIL will be the largest UN peacekeeping force in the world. By mid February 2004, UNMIL had 11,500 personnel on the ground, but had still not ventured into several parts of the country occupied by rebel LURD or MODEL troops. UNMIL tried unsuccessfully to launch a disarmament program in December, but suspended it when riots broke out and nine people were killed. One third of the population of Liberia remains displaced, and there are 300,000 Liberian refugees in neighbouring countries. The entire education and health systems have broken down and food security is almost non-existent.

On March 12, the United Nations Security Council ordered all governments to freeze the assets of former Liberian leader Charles Taylor and his immediate family. It is likely that the UN Security Council will soon address the sanctions that were placed on the export of Liberian diamonds and timber during the Taylor regime. The diamond embargo requires that a certification system be in place before it can be lifted. This may place pressure on the Kimberley Process to move more quickly than is feasible under the circumstances. Large parts of Lofa County where Liberian diamonds are mined remain under rebel control. In addition, it will be essential for any system legitimizing Liberian diamond exports to ensure that the country does not again become the centre for massive diamond fraud. During the 1990s, hundreds of millions of dollars worth of diamonds were imported into Belgium and passed off as Liberian. And for more than half a century, Liberia was the favoured transit point for diamonds smuggled out of Sierra Leone. Many observers say that if Liberia is to be admitted to the Kimberley Process, its diamond exports must be capped at known production capacity, which is about US\$10 million per annum in low-quality goods.

MARRIOTT TACKLES ILLICIT DIAMONDS

In a paper written for diamond industry insiders, long-time diamond industry executive **Martyn Marriott** has argued for a strengthening of the Kimberley Process in order to deal with the illicit diamond trade. Many have argued that the KP should stay away from the issue of illicit diamonds, and focus only on diamonds associated with conflict. "This seems to me to be a curious position to adopt," Marriott says, "when in practice the successful implementation of the KPCS has created a situation in which the only outlet for conflict diamonds is the illicit diamond trade. Prior to the KPCS, conflict diamonds found relatively easy access to the market in diamond cutting centers (Antwerp in particular)." Now that access is denied and Marriott says the diamonds must be traded clandestinely. "There is no denying," he says, "that an illicit market exists and that is where conflict diamonds will be traded in future."

Although smuggling has always bedeviled the diamond trade, to ignore it, Marriott says, is defeatist. "With the KPCS in place as a result of greater cooperation between all sectors of the industry, there is now an opportunity for global action against the illicit diamond trade that first and foremost will reduce the possibility of it being the end market for conflict diamonds now and in the future, but will also reduce theft and smuggling from producing countries." Marriott says that the KPCS should create an intelligence-based mechanism to stop the illicit trade. Without such a mechanism, he says, "the KPCS risks becoming an emperor without any clothes."

FIRST DIAMOND INDUSTRY ANNUAL REVIEW

SIERRA LEONE IN 2004

In March, **Partnership Africa Canada** and the **Network Movement for Justice and Development** co-published the first *Diamond Industry Annual Review* for Sierra Leone. The report covers recent events in the country's diamond industry, provides useful information on the size of the trade, and descriptions of the major players – the miners, the dealers, the exporters and the government. It covers labour and environmental issues, Kimberley Process compliance, and it examines the extent to which diamonds can contribute to the country's recovery and growth.

The *Annual Review* describes the diamond industry as it is today – warts and all – and outlines the challenges ahead in converting diamonds from a liability to a tool for development. The report is critical of the way Sierra Leone's diamonds are currently being managed – on a variety of fronts. But great progress has been made, and the report's purpose, its authors say, is not to drive potential buyers or investors away from Sierra Leone. On the contrary, it aims to encourage a legitimate trade in diamonds and an industry that is open, fair and clean. The report says that the people and companies that buy Sierra Leone's diamonds can contribute to this process by encouraging transparency, by paying fair prices and legitimate taxes, and by adding volume to the voice of Sierra Leoneans who are working to ensure that diamonds really are a force for development. Hard copies of the report can be obtained from Partnership Africa Canada in Ottawa, or from NMJD in Freetown. It is also available on line at www.pacweb.org.

Reports

Canadian Taxes Spur Illicit Sales

A recent study of the Quebec diamond market has found that Canada's high excise tax on jewellery has driven 75 per cent of all diamond sales underground through a parallel network of jewellers. A 10 per cent excise tax on top of provincial and federal sales taxes adds 25 per cent to the cost of a diamond ring in Canada, while in the United States the add-on is only 6 per cent. This has the effect of making diamonds significantly cheaper in the US than in Canada. As a result, some jewellers have taken to selling their diamonds through an underground market, the report says.

The **Canadian Jewellers Association**, which has lobbied for an end to the 10 per cent excise tax, disputes the 75 per cent figure, but acknowledges the problem. **Stephen Ben-Oliel**, President of Sirius Diamonds, the company that cuts and polishes Canadian 'polar bear' diamonds, told the *Globe and Mail* that underground sales probably account for about half of all stones over half a carat. The Quebec report also found that some jewellery stores mark up the price of diamonds by as much as 70 per cent and then offer steep discounts. And some stores reportedly 'certify' their diamonds using certificates signed by 'gemologists' who are actually shop employees. The Canadian diamond retail market represents approximately \$1.3 billion.

IMF: So What Else is New?

An International Monetary Fund Working Paper entitled 'Diamond Smuggling and Taxation in Sub-Saharan Africa' has examined different tax rates for diamond mining with a view to developing policies that might increase revenue, productivity and investment. The 23 page paper describes the differences between alluvial and kimberlite mining, and contains algebraic equations which express, for example, the average proportion of 'honest' diamond sellers as $y = f(x) = (1 + \exp\{\beta x\})^{-1}$. After eleven more equations, the paper 'suggests that the appropriate tax regime for a diamond-exporting country depends to an important extent on the nature of its diamond deposits. Countries with kimberlite deposits... tend to have a large share of corporate diamond mining, and therefore can have tax regimes that rely largely on corporate income taxes... In countries with alluvial deposits... export-based tariffs are preferred over income-based taxes, but fiscal revenue remains low due to

strong incentives for tax evasion... Finally, the recent establishment of self-regulatory procedures under the Kimberley Process, if implemented properly, could significantly reduce tax evasion.'

(www.imf.org/external/pubs/ft/wp/2003/wp03167.pdf)

GAO: KP Has 'Critical Shortcomings'

The US General Accounting Office (GAO) has produced a new report on terrorist financing, concluding that terrorists move funds through 'nontransparent mechanisms such as charities, informal banking systems, and commodities such as precious stones and metals'. The report includes some of the well known details about the illicit diamond trade. It discusses the absence of reliable data on the international diamond trade and repeats its earlier criticism of the Kimberley Process: 'While a recent international initiative to curb trade in illicit diamonds, known as the Kimberley Process, incorporates some elements of increased transparency, critical shortcomings exist with regard to controls and monitoring.'

www.gao.gov/new.items/d04163.pdf.

Diamond Trade Vulnerable to Money Laundering

A report issued in March by the US State Department's **Bureau for International Narcotics and Law Enforcement Affairs** says that the diamond trade is vulnerable to money laundering. The Bureau's International Narcotics Control Strategy Report for 2003 lists several countries as being "vulnerable" to money laundering through the diamond trade. Among them are **DRC, Guinea, India, Liberia, Israel, Sierra Leone** and the **United Arab Emirates**. The report says that "the laundering of funds derived from pervasive corruption is a concern, as is the illegal trade in diamonds and the usage of diamonds as a conduit for money laundering schemes." It says that "Indian involvement in the underworld of the international diamond trade should be examined," and notes that the UAE government has admitted the need for better regulation of "near cash" items such as gold, jewellery and gemstones. The report cites the Kimberley Process as a useful tool against money laundering. The report is available at www.state.gov/g/inl/rls/nrcrpt/2003/index.htm

DiamondWorks in the News

DiamondWorks, once known for its connection with the mercenary company, **Executive Outcomes** and the war in Sierra Leone, has concluded the first sale of diamonds from its re-established kimberlite mine in Koidu, Sierra Leone. January production was reported to be more than 8,000 carats, at a very good average per carat price of US\$223. In February the company, whose shares are traded on the Toronto Stock Exchange, announced that it was selling C\$28 million of equity in private placements with several institutional investors.

Meanwhile, in Sierra Leone, a storm of protest arose around the start of the kimberlite mining. The **Campaign for Just Mining**, an NGO coalition, accused **Koidu Holdings Ltd.**, a subsidiary of DiamondWorks, of withholding a 2003 Environmental Impact Assessment and of failing to resettle 4,500 people who were dislocated by dynamite blasting at the commencement of mining activities.

MEEUS ATTACKS CANADA

Sees KPCS as Commercial Subterfuge

Peter Meeus, Managing Director of Belgium's **Diamond High Council** and a vocal proponent of the view that conflict diamonds barely exist any more, has often suggested that the whole issue is little more than a Canadian plot to damage the Belgian diamond industry. Now he suspects Canadians of planning to damage Africa. 'I would regret it if the Kimberley Process and its review missions were used to make the diamond trade problematic in Africa where diamond revenue is needed for development,' he was quoted as saying recently in *Rapport News*. He did not say how review missions, which have yet to take place but which are to be carried out on a purely voluntary basis, might make the diamond trade 'problematic in Africa'. He added, however, 'I am afraid when I see especially Canadian sources pushing to investigate African Kimberley Process members, I cannot stop thinking that there might be commercial interests involved.' Meeus did not say which 'Canadian sources' he was referring to. 'I'm always scared when I see commercial interests posed as moral white knights,' he added.

No 'commercial interests' in Canada have pushed for review missions of any kind. The Canadian government, which is the current Chair of the Kimberley Process, endorsed the agreement on monitoring that was initiated by the European Commission and approved unanimously at the Sun City KP meeting in October 2003. Canadian NGOs such as **Partnership Africa Canada**, **Amnesty International** and **One Sky** are not generally regarded as 'commercial interests'. They have, however, argued vociferously for regular monitoring of *all* KPCS participants, without any special emphasis on Africa. Referring to Mr. Meeus's comments, **Ian Smillie**, Research Coordinator for Partnership Africa Canada said, 'I don't understand what he is talking about. The cost of the peacekeeping forces in Liberia, Sierra Leone and the DRC is \$1.7 billion dollars this year alone, so it is wrong to say that the conflict diamond issue is over. And it is odd that a well-informed industry executive would suggest that a call for regular KPCS monitoring – wherever it comes from – is somehow commercially motivated. If there was ever commercial interest dressed up as a white knight, this is it.'

MAJOR INCREASE IN LEGAL DIAMOND EXPORTS

Record Levels in Sierra Leone and DRC

Both Sierra Leone and the Democratic Republic of the Congo logged major increases in their rough diamond exports in 2003. Sierra Leone recorded its largest export level in more than two decades, at US\$76 million in total. This was an 85 per cent increase over 2002 and triple what was officially exported in 2001. **Femi Kamara**, Sierra Leone's assistant mines director, credited the Kimberley Process as a reason for much of the success.

Meanwhile, the DRC exported an all-time record of \$642 million in rough diamonds, a 62 per cent increase over the previous year. Some of the increase was the result of higher valuations by the country's new diamond valuator, **SIDC**, but there was a significant increase in the volume of exports as well. A joint statement by the government of the DRC and SIDC said that 'the record figure was due to diamond exports being assessed at correct international open market prices... as well as the DRC's strict adherence to the terms of the Kimberley Process.'

BOOKS

Janine Roberts, *Glitter & Greed: The Secret World of the Diamond Cartel*, The Disinformation Company Ltd., New York, 2003, 374 pages, US\$22.95.

When Global Witness, Partnership Africa Canada and others started to expose the world to 'Blood Diamonds', Janine Roberts had been investigating the industry for over 20 years. Roberts has been relentless in her work. In addition to *Glitter & Greed*, she has led numerous newspaper investigations and produced several documentary films, including *The Diamond Empire*, which led to an invitation to testify before the United States Congress.

Roberts describes her book as 'an indictment of a corrupt world of glitter', and that it is. From India to Canada, from the United States to South Africa and from Russia to Israel, Roberts spins a tale of intrigue. She writes of the thousands killed over conflict diamonds, child labour, African miners who dig for a pittance under dangerous conditions and an industry characterized by conspiracy and greed.

The villain of the piece is **De Beers**. The following gives a flavour of the book: 'I knew that De Beers ran off with the fantastically rich state diamond stockpile of South Africa just before **Nelson Mandela** came to power – and refused to return it. I knew how and where it hid its superfluous diamond deposits so no others would gain access. I knew of its techniques to make flawless diamonds from methane gas – while they sold identical gems as the 'one in a million'. I knew that **Tempelman**, a diamond merchant they supplied, was a key supporter of the dictator **Mobutu Sese Seko** from just after the murder of **Patrice Lumumba**, the elected Prime Minister of the Congo. And I knew the secret trading routes used by De Beers that now made the trade in blood diamonds so difficult to prevent.'

In her single-minded effort to pillory De Beers, Roberts makes mistakes of fact and emphasis. She devotes four pages to an incident in the 1950s when De Beers allegedly cheated another international mining firm in Sierra Leone, but devotes only one page to the ten year civil war in Sierra Leone, committing several factual and spelling errors in the process.

Much of *Glitter & Greed* was written prior to the conflict diamond debate and the advent of the Kimberley Process, but Roberts has integrated these subjects into her book. Her treatment of 'clean' diamonds goes beyond the Kimberley Process and in doing this she makes a useful contribution. She argues for a 'Kimberley Two'. 'Currently,' she writes, 'there is utterly no guarantee that a certified "Kimberley Process" stone will not have been cut illegally by a child working in dangerous conditions, or mined by a miner breathing asbestos dust, or come from land from which indigenous people have been unjustly evicted. In other words, the intentions of the legislators will have been violated. The diamonds sold in our shops may have Kimberley Certificates, but they will not have been guaranteed clean.'

R.H.

ARREST CHARLES TAYLOR

Amnesty International Demands Justice

Irene Khan, Secretary General of **Amnesty International**, has asked Nigerian President **Olusegun Obasanjo** to arrest former Liberian President **Charles Taylor** and hand him over to the UN-backed **Special Court** in Sierra Leone. In a letter sent to President Obasanjo in January, Khan reminded him that an international arrest warrant had been issued for Taylor in June 2003. Taylor was given asylum in Nigeria as a means of persuading him to step down and leave Liberia peacefully. Khan said that the deal should not be 'at the expense of ending impunity and abiding by international law.' She argued that there could be no durable peace until those who have committed serious violations of international law are brought to justice.

The Amnesty letter said that Taylor had been indicted by the Special Court, which begins trials this month, for 'bearing the greatest responsibility' for crimes against humanity, war crimes and other serious violations of international law falling within the Special Court's jurisdiction. These crimes include killings, mutilations, rape and other forms of sexual violence, sexual slavery, conscription of children, abduction and forced labour perpetrated by the **Revolutionary United Front** which Taylor mentored and actively supported.

WARRANT FOR ANGOLAN 'DIPLOMAT'

Pierre Falcone, a French businessman who is also Angola's envoy to the UN cultural organization, **UNESCO**, is the subject of a global arrest warrant issued in January by the government of France. France has accused Falcone of selling helicopters, jets and weapons to the government of Angola during the 1990s, in contravention of a UN arms embargo. The shipments from eastern Europe are said to have totaled US\$500 million. Falcone's lawyer claimed diplomatic immunity for his client because of his appointment to UNESCO in June 2003.

INDIA: COMPLIANCE AND COMPULSION

Implications of Patriot Act

The Indian diamond industry was rocked in February by the murder in Angola of **Ashwani Puri**, a prominent Mumbai diamond trader, and by the disappearance of a million dollars worth of diamonds in his possession. Meanwhile, *Asia Times Online* reports that India's **Directorate of Revenue Intelligence**, the income tax department and the **Research and Analysis Wing** have started investigations into allegations about the over-invoicing of diamonds. At the centre of the story is a Dubai-based syndicate, suspected of laundering \$20 million. The report alleges that Indian traders exported rough diamonds to Dubai and Hong Kong, re-importing them at inflated prices. Arrests have been made.

Earlier, a seminar in Mumbai, organized by the **Gem and Jewelry Export Promotion Council** (GJPEC) was warned in January about the threat of terrorist organizations and the need to conform with the US government's Patriot Act. The Patriot Act requires companies and individuals trading with the United States to ensure that their vendors and customers do not trade in goods that are used to launder money for terrorism. **Ben Kinzler**, Executive Director of the Diamond Manufacturers and Importers Association of America said 'If we do not address the association of terrorism and diamonds, it will seriously undermine consumer confidence in this industry.'

Martin Rapaport, who also spoke at the seminar, said 'The US Patriot Act is about taking responsibility for the goods you buy and the goods you sell.' He also warned that an unintended consequence of the Act and the Kimberley Process would be the advancement of larger companies at the expense of generic diamonds and the free market on which smaller traders thrive. The preamble to the Patriot Act states that "Although [gemstone and jewellery] dealers do not perform the same functions as banking institutions, the industry presents identifiable money laundering risks.'

Campaigns 'NO DIRTY GOLD'

Two American NGOs, **Earthworks** (formerly the Mineral Policy Center) and **Oxfam America**, have launched a consumer-targeted campaign focused on gold. The campaign attempts to educate (primarily Northern) consumers and retailers of gold jewellery, electronics, and other products that contain gold about the problems associated with modern mining, and the need for reform in the sector.

As part of the education effort, Earthworks released a report, *Dirty Metals: Mining, Communities, and the Environment*, which describes the enormous cost of metals mining on people and ecosystems. It contains case studies of communities affected by mining, information about human rights violations, water and air pollution and the impacts of specific consumer goods such as jewellery, cell phones and computers.

The report as well as the campaign website, www.nodirtygold.org, was launched on February 11. The release was tied to Valentine's Day, a major gold and jewelry-buying day in the U.S. and elsewhere. The campaign distributed leaflets outside jewelry stores in three major cities in the U.S. – mock Valentine cards which asked shoppers not to tarnish their love with dirty gold. The strategies mirror some used by organizations acting against conflict diamonds.

Individuals and organizations are encouraged to sign the 'Dirty Gold Pledge'. The pledge states that signatories support the campaign to end destructive gold mining practices and calls on retailers and manufacturers to ensure that the gold in their products is not produced at the expense of local communities, workers, and the environment. The pledge can be found on the 'dirty gold' website. Further information can be found at www.mineralpolicy.org and www.earthworksaction.org.

OTHER FACETS

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