

Transparency in the international diamond trade

By Nicholas Shaxson

Introduction

It is now widely known that so-called ‘blood diamonds’ have allowed brutal rebel movements such as Sierra Leone’s Revolutionary United Front (RUF) and Jonas Savimbi’s National Union for the Total Independence of Angola (UNITA) to buy arms, sustain protracted conflicts and terrorise millions of the world’s poorest civilians. Diamonds have also fuelled recent conflicts in the Democratic Republic of Congo (DRC) and Liberia.

Dealers in these gems have hidden networks that reach deep into an underworld of arms merchants and international organised crime, with links to government officials and, sometimes, presidents. These corrupt, diamond-funded patronage networks have corrosive effects on the political economies of diamond-producing countries and raise serious issues of industry and consumer ethics.

The diamond industry initially dismissed a challenge by activists to curb

the trade in goods that are so easy to smuggle. But a new set of initiatives is now having a tangible effect on both rebel finances and industry transparency. These changes are testimony to the ways in which industry can be pushed to greater accountability by civil society protest.

Diamond output (US \$ million)		
	1999	2000
Angola	600	750
Of which: UNITA	150	75
South Africa	800	900
Namibia	400	500
Botswana	1,800	2,200
Russia	1,600	1,600
Canada	400	400
Australia	400	300
Other	800	900
Of which: RUF	70	70 (estimates range from 35–100)
DRC rebels (Kisangani)	35	35
World total	6,800	7,500

Table 1: World diamond output

Source: De Beers

Note: Diamond statistics vary enormously. For both 1999 and 2000, the De Beers estimates for UNITA output are roughly half that suggested by the UN (see table 2).

Diamonds, conflict and corruption

Diamonds are usually found in two types of place. Primary kimberlite deposits cover compact locations and can be defended and monitored relatively easily. But rivers running over these deposits for millions of years have carried diamonds across huge swathes of land that are ideal for exploitation by dispersed rebel groups. Dug with buckets and spades, these more accessible gems not only fund rebel armies, but lie close to the very causes of armed rebellion.

'It is the feasibility of predation which determines the risk of conflict,' said a recent World Bank report that analysed links between resources and conflicts worldwide.¹ Corruption in the management of diamond resources sows the seeds of the socio-economic decay that can lead to conflict and, once conflict has begun, fuels it with an income that has financed some of Africa's most destructive wars.

In Angola, diamond areas have for years been part of a complex patchwork of shifting fiefdoms, in which official companies often mined next to UNITA, or other illegal diggers, under local non-aggression pacts. Different groups make money not only from diamond sales, but from access to a comprehensive, diamond-based economy in the production areas. The involvement of government security forces in mining influences the military dynamic and has undoubtedly helped UNITA. 'Diamonds have resulted in the fragmentation and criminalisation of the conflict as military units shifted their activities from politico-military objectives to economic ones,' according to author Philippe Le Billon.²

Commenting on the conflict in Sierra Leone, a January 2000 report by the Canadian NGO Partnership Africa Canada (PAC) concluded: 'The point of the war may not actually have been to win it, but to engage in profitable crime under cover of warfare. Only the economic opportunity presented by a breakdown in law and order could sustain violence at the levels that have plagued Sierra Leone.'³ State weakness encouraged Sierra Leone rebel leader Foday Sankoh's insurgency, which started in 1991 and flourished as his forces pushed into the diamond fields near Kono, providing a new financial platform for its spectacularly brutal campaigns. Under severe threat, the government of the time made Faustian bargains with foreign private security companies, which offered military help in exchange for diamond concessions.⁴

'Diamond vice' is not constrained by national borders. Sierra Leone's conflict was fanned by President Charles Taylor of neighbouring Liberia, at the helm of what many consider to be a diamond and timber-based criminal state. Taylor not only armed Sierra Leone's RUF, he used his office to shield its illegal diamond activities. 'By the end of the 1990s, Liberia had become a major centre of diamond-related, criminal activity, with connections to guns, drugs and money laundering,' according to PAC.

Author William Reno explains that, in countries like Liberia, the regime's survival depends upon its leader's ability to let officials exploit opportunities in diamond or drug trafficking and money laundering. 'It points to a basic dilemma: What can reformers do if a government has a vested financial interest in shielding illicit transactions?'⁵ A shift in officials' interest away from public service and toward personal profit damages governments' ability to provide services, erodes states' structure and legitimacy, and has a critical impact on democracy.

In the DRC, foreign armies, including Zimbabwe's, acted as private security companies, providing military support in exchange for mining concessions. Zimbabwe's President Robert Mugabe used the lure of personal gain in the DRC to consolidate control over his own domestic governance structures. Angola, Namibia, Rwanda and Uganda found similar inducements in the DRC conflict, though they had vital strategic concerns to pursue as well. Senior government officials in Togo and Burkina Faso also benefited from the illicit trade in UNITA and RUF diamonds, according to UN and NGO reports.

The networks extend beyond Africa, with arms dealers in Bulgaria, Lebanon, Ukraine and other countries exploiting lax international controls to seal covert arms transactions, often directly bartered for diamonds. Significant amounts of money are also laundered through the diamond trade by organised criminal groups, according to one expert.⁶

Amid this chaos, otherwise reputable companies have for years sent dealers to African war zones to buy stones – hiding behind international and local apathy and an attitude that, by not inquiring too deeply, they would not be incriminated by the stones' illegality. Lack of transparency in the diamond industry and corrupt management of resources in the countries of origin fed on each other in this lucrative trade.

The world starts to notice

A 'conflict diamonds' campaign, initially launched in December 1998 by the London-based NGO Global Witness, highlighted the complicity of the world's diamond trade in flouting UN sanctions against UNITA, and the links between the diamond industry and the Angolan conflict.⁷ 'There is dangerous acceptance among the international community that the mechanics of the trade in diamonds, particularly from UNITA-held areas, are beyond any real controls,' its report said. It criticised the complacency at the summit of the industry, notably at De Beers and at the Diamond High Council (HRD) in Antwerp. Belgium has long played a key role in the diamond trade and 50 per cent of world production still passes through Antwerp.⁸

Advocacy in the case of conflict diamonds

In the wake of Global Witness's efforts to draw international attention to corruption in Cambodia's logging industry, the UK Environmental Investigation Agency commissioned the NGO to carry out preliminary research in 1996 into diamond mining in Angola and its links to conflict and human rights abuses.

The research was aimed primarily at documenting De Beers' diamond trading relationship with the UNITA rebel movement – which maintains a stranglehold on the country's most diamond-rich territories – and assessing the role of the diamond trade in financing a military conflict that, despite the peace process, continues today. De Beers held nearly 80 per cent of the world diamond market at the time and was shown to have openly bought smuggled diamonds from rebels. Investigations also proved that foreign governments had flouted the UN Security Council embargo on unofficial Angolan diamonds.

A report published in December 1998 on the findings, 'A Rough Trade: The Role of Companies and Governments in Angola's Civil War,' criticised the UN and governments with significant diamond interests – notably Belgium, Israel, the UK and the US – in addition to De Beers and other key players in the Angolan industry. 'A Rough Trade' was followed in May 2000 by a second report, 'Conflict Diamonds: Possibilities for the Identification and Certification and Control of Diamonds,' which detailed how an international system of certification could be applied to the trade in conflict diamonds.

Global Witness also sought to raise consumer awareness through a campaign called 'Fatal Transactions', in collaboration with the Netherlands Institute for Southern Africa (NIZA), the Netherlands Organisation for International Development (NOVIB) and Medico International in Germany. Fatal Transactions is an educational campaign that highlights the role played by natural resource exploitation in funding conflicts. The cam-

paign focused initially on conflict diamonds, but intends to move to other primary resources such as oil, timber and coltan, a mineral compound commonly used in the manufacture of cell phones. The fact that many natural resources that fuel conflicts end up as consumables makes such consumer initiatives crucial aspects of international campaigns aimed at stemming their illicit trade.

Fatal Transactions did not call for a general boycott, since the bulk of the diamond trade in Australia, Botswana, Canada, Namibia, Russia and South Africa is 'clean'. However, given the impact of the campaign at the multilateral and consumer levels, diamond companies quickly recognised that a failure to take action was untenable and that self-regulation was unavoidable. The diamond industry conducted several polls to discover whether consumer buying patterns had been affected. Marketing and research group MVI Marketing found that, although consumers were largely unaware of the issue of conflict diamonds (9 per cent in a May 2000 survey), 73 per cent said they would not buy a diamond if they knew it came from a conflict source.

Taken at face value, the industry has implemented some far-reaching changes in response to the campaign but, in the view of Global Witness, these fall far short of true self-regulation. One indication of the industry's ambivalence toward greater transparency is that, while it continues to hold information on who deals in conflict diamonds, it will not divulge any names.

Despite these and other continuing problems, the conflict diamonds campaign showed that civil society groups can achieve a remarkable amount in a very short space of time with a minimum of resources. To tackle issues of natural resource exploitation, conflict, corruption and human rights abuses, Global Witness is now committed to a strategy of state and industry-level lobbying, backed by more intensive, consumer awareness-raising efforts.

Global Witness

Industry players, reassured that this had always been the way to do business in Africa and believing it was the UN's job to enforce its own embargo, scorned the activists at first. One Belgian diamond official described Global Witness as 'a bunch of well-intentioned hooligans'. He pointed out that a high-profile consumer campaign threatened poor but peaceful producer nations, such as Botswana, Namibia and South Africa, as well as India, where the cutting industry employs hundreds of thousands of people.⁹ Since rebel-mined stones formed only a small fraction of the US \$7.5 billion annual trade in rough diamonds, many argued it was impossible to prevent them being smuggled or to work out where they were mined, especially if different parcels were mixed.

Contempt turned to fear as the term 'blood diamonds' crept into Western consumers' consciousness, threatening the carefully manicured image of the diamond itself, a prospect that shook the industry to its foundations. To the industry's standard quality criteria, known as the 'Four Cs' – carat, colour, clarity and cut – another was being added: conflict. (A sixth 'C', standing for the corruption in the trade, might also be noted.) Campaigners suggested that the diamond industry's reputation, and its relationship with consumers, could soon go the way of the fur trade.

The 'conflict diamonds' campaign coincided with a new and bloody phase in Angola's long conflict that helped focus international attention. UNITA had used the 1994 Lusaka peace accords with the Movement for the Popular Liberation of Angola (MPLA) government as a shield behind which to hide and re-arm, mining over US \$2.5 billion worth of diamonds before war erupted again in December 1998.¹⁰ It quickly captured huge swathes of territory, shelling the islands of government control to which terrified civilians were fleeing, and threatening US, French and other interests in Angola's fast-growing oil industry (now running at 750,000 barrels per day). A strong coalition of Western governments and international organisations joined the effort to curb UNITA diamonds, which now

accounted for a large proportion of Angola's diamond output. A parallel campaign on Sierra Leone, led by PAC and reinforced by new UN sanctions, added to the pressure for change.

Diamond output (US \$ million)		
	1999	2000
Ascorp (Angolan state monopoly) total	650	746
<i>Official mines</i>	330	398
<i>Unofficial output</i>	320	348
Non-UNITA smuggled	n/a	250+
UNITA smuggled	300+*	100+
Angola total	n/a	1,100+

Table 2: Angola's diamond output

Source: *UN Security Council addendum, 18 April 2001.

Other figures are government or unofficial estimates.

Note: '+' means 'at least'

Diamond industry response

The multinational De Beers saw the threat early and in October 1999 said it would stop buying Angolan diamonds except for those under contract from a single, official mine. In February 2000, it then announced that it would no longer sell African gems originating in zones controlled by forces rebelling against legitimate governments.¹¹ These were the first moves in an attempt to forge a new regulatory architecture for the world diamond trade.

At the heart of today's efforts is the government-initiated Kimberley Process, launched in May 2000 with South Africa taking the lead, but including about 20 other countries. It aims to create a workable global tracking system of export certification and import verification, based on national certification schemes. A parallel initiative by the diamond industry, the World Diamond Council (WDC), pledged to help implement this system and favours legislation that ensures diamonds will only be imported from countries with certified import and export controls.¹² These measures are aimed principally at rough diamonds, though elements of the polished trade may later be affected. It is proposed that rough diamonds traded internationally will be in sealed, tamper-proof containers accompanied by documents certifying their origin. Transactions will be recorded in a unified, government-operated system with credible registration controls.

A 'chain of warranties', yielding a verifiable audit trail linking every diamond back to its mine of origin, underpins the system promoted by the Kimberley Process and the WDC. A stone moving from one stage of the chain to the next will require a 'conflict-free' warranty, which may be given legal force, making it a criminal offence to falsify a diamond's origin. 'If reputable dealers on the open market take the view this is not a business they want to be involved in, we think that will make a difference,' said De Beers director Tim Capon.¹³

The controls also seek to close the loophole whereby national laws make no distinction between the country of a diamond's origin and its country of provenance – the place from where it was shipped. In recent years, Belgium has recorded imports from Liberia far in excess of its mining capacity, with much of the balance assumed to have originated from areas mined by Sierra Leone's RUF.¹⁴ Such circumstantial evidence will be crucial to monitoring compliance in the event that an international certification system is put in place, and it played an important role in the UN's decision to impose sanctions on Liberia, which is now also accused of fomenting conflict in neighbouring Guinea.¹⁵

The first legally binding national controls have been implemented in Angola and Sierra Leone, both of which developed 'certificate of origin' schemes with Belgian help. In April 2001, Belgium also agreed a bilateral certification scheme with the DRC. In the US, which accounts for around half of world diamond sales,¹⁶

efforts to control imports with a chain of warranties system were initiated by Congressman Tony Hall. A Clean Diamonds bill was later proposed to the Senate in June 2001. Other countries are working to see how domestic legislation meshes with the proposed changes. Officials at a recent Kimberley Process meeting said they hoped to agree on minimum common rules for certification by November 2001 before presenting them to the UN.

Implications and limitations of the conflict diamonds campaign

The campaign still faces many hurdles – not least the need to find political solutions to the conflicts in question. But the moves to mitigate the diamond trade's contribution to conflicts, which have also been shaped by the corrupt and unaccountable management of resources at a national level, are testimony to the private sector's ability to respond when confronted with a sufficiently robust challenge from consumers.

The speed with which the campaign changed the world's diamond trade suggests possible ramifications elsewhere. 'I cannot think of any industry that has gone through this kind of process, and at such a speed,' a diamond industry official said. 'You could translate this to other industries ... the fact it can be done is the exciting bit.'¹⁷ The 'chain of warranties' idea, in fact, is already being applied in more limited forms in the timber industry, enabling consumers in some Western countries to choose to buy wood only from sustainable sources. Comparable coalitions of interests have started to tackle changes in other fields, for instance with regard to labour conditions in the production of primary commodities, notably coffee and cocoa, as well as in some manufacturing sectors.

The broader corruption issues surrounding the diamond trade, however, are generally not addressed by the campaign, which focuses on 'conflict diamonds' – those under UN sanctions – rather than the wider definition of 'illicit diamonds' that are mined and traded outside recognised official channels, though not necessarily under UN embargo. 'The industry would like not to have to address the bigger issue, but they are flip sides of the same coin,' said PAC's Ian Smillie.¹⁸ It is clear that in the affected countries rebel successes were partly the result of state failure, which reflects diamond-related and other forms of corruption. Sanctions and the conflict diamonds campaign do little to address these root causes.

Despite a shake-up in Angola's diamond industry in early 2000, through licensing informal diggers and creating a single-channel buying monopoly, the government has not convincingly demonstrated that it has eliminated UNITA gems from certified official channels. 'The President and his retainers used the

international outcry against dirty diamonds to restructure Angola's diamond economy to suit their needs,' said expert Christian Dietrich, adding that the shake-up was primarily aimed at bringing parts of the informal economy into the Luanda patronage network.¹⁹ 'Ascorp [the state marketing monopoly] was not established to spurn diamonds, but to push licensed competitors out.'

By pushing down overall prices in the diamond areas to boost its own profitability, the state monopoly may have cut into UNITA's finances – thereby meeting one objective of the conflict diamonds campaign – but the problem of state corruption has been avoided.

If official diamonds are not 'clean' in spite of certificate of origin schemes, there arise serious doubts about the evolving international architecture for the diamond trade. Unscrupulous dealers could launder dirty diamonds by smuggling them across poorly controlled African borders and inserting them into the output streams of mines in peaceful countries. Participants in the Kimberley Process appear to be playing down the importance of controls in this regard, perhaps because 'clean' producer governments are afraid that the origins of their diamonds will be called into question.

The solution to both issues lies in more openness, with publication of clear and verifiable production data by mines and companies, checkable against exports. The chain of warranties concept will go some way to help. If the source of diamonds is questionable, despite official certification, the audit trail could form part of a 'branding' process whereby consumers may express their preference for diamonds from specific companies or countries. There is no sign yet that 'guaranteed' diamonds command any retail price premium, though there is evidence that rebels are suffering discounts on their stones. This may be due to the UN sanctions, as some claim – but it could be a result of the more opaque operations now conducted by bodies such as Ascorp.²⁰

Outlook

Even if a new architecture emerges soon, controls will have to be ratified in a number of countries, a process littered with obstacles. And, after an initial period of rapid action, there are signs of apathy, particularly at government level. 'The whole Kimberley Process is in danger of unravelling,' said a group of NGOs after meeting in Brussels in April 2001.²¹ 'Despite strong South African and Belgian leadership, many government representatives said they had come to the meeting with no mandate to agree to anything.' Russia and the US were singled out for particular criticism.

Tackling the problem needs the long-term commitment of governments,

NGOs, companies, journalists and others to investigate and publish abuses and to promote consumer awareness of the issue. The role that wealthier societies can play in contributing to the problems of conflict and corruption in Africa is still insufficiently acknowledged. The highly corrosive effects of the illicit trade in diamonds – and the international criminal networks it nourishes – must also be addressed more forcefully if efforts to tackle these are to have lasting results.

- 1 Paul Collier, 'Economic Causes of Civil Conflict and their Implications for Policy,' World Bank report, 1999: <<http://www.worldbank.org/research/conflict/papers/civilconflict.pdf>>.
- 2 Philippe Le Billon, *A Land Cursed by its Wealth? Angola's War Economy 1975–1999* (Helsinki: UNU/WIDER, 1999).
- 3 Ian Smillie, Lansana Gberie and Ralph Hazelton, 'The Heart of the Matter: Sierra Leone, Diamonds and Human Security,' Partnership Africa Canada, January 2000.
- 4 Ibid.
- 5 Correspondence with author. William Reno is author of *Corruption and State Politics in Sierra Leone* (Cambridge: Cambridge University Press, 1995) and *Warlord Politics and African States* (Boulder: Lynne Rienner Publishers, 1998).
- 6 Author's private correspondence with Christian Dietrich.
- 7 Global Witness, 'A Rough Trade – The Role of Companies and Governments in the Angolan Conflict,' 1998.
- 8 According to the HRD: <<http://www.diamond.be>>.
- 9 Interview with author.
- 10 Global Witness estimate.
- 11 De Beers press releases, February 2000.
- 12 World Diamond Council: <<http://www.worlddiamondcouncil.com>>.
- 13 Interview with author.
- 14 Ian Smillie et al. (2000).
- 15 The UN imposed an embargo on all Liberian diamonds from 7 May 2001.
- 16 *The Economist* (UK), 21 June 2001.
- 17 Interview with author.
- 18 Correspondence with author.
- 19 Christian Dietrich, 'Power Struggles in the Diamond Fields,' in Jakkie Cilliers and Christian Dietrich (eds.), *Angola's War Economy: The Role of Oil and Diamonds* (Pretoria: Institute for Security Studies, 2000).
- 20 Richard Ryan, chairman of the UN sanctions committee on Angola, quoted in UN Integrated Regional Information Network (IRIN), 2 April 2001.
- 21 'Kimberley process stalled? Concern at lack of progress towards a conflict diamond certification system,' press release, 27 April 2001, by a group of over 70 NGOs including PAC, Global Witness and Oxfam. The meeting in Brussels was followed by other Kimberley Process meetings in June 2001 in Moscow and planned for November 2001 in Botswana.