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GAO

Report to Congressional Requesters

June 2002

INTERNATIONAL TRADE

Critical Issues Remain in Deterring Conflict Diamond Trade

GAO-02-678

GAO
Accountability★Integrity★Reliability
Highlights

INTERNATIONAL TRADE
Critical Issues Remain in Deterring Conflict Diamond Trade

Highlights of GAO-02-678, a report to Congressional Requesters.

Why GAO Did This Study

Conflict diamonds are used by rebel movements to finance their military activities, including attempts to undermine or overthrow legitimate governments. These conflicts have created severe humanitarian crises in a number of African countries (see map below). An international effort called the Kimberley Process, in which the United States participates, aims to develop a diamond certification scheme to deter the flow of conflict diamonds. GAO was asked to assess the challenges associated with deterring trade in conflict diamonds.

What GAO Recommends

GAO recommends that the Secretary of State, in consultation with relevant government agencies, work with Kimberley Process participants toward incorporating better controls in the certification scheme, including a reasonable control environment, risk assessment, internal controls, information sharing, and monitoring.

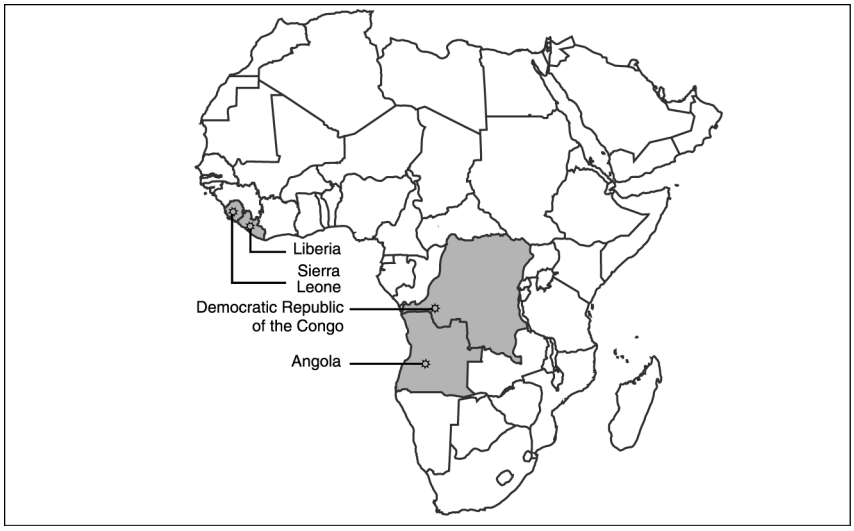
State commented that GAO focused on accountability measures rather than on the political achievements gained. State recognized the need for improvements, but did not see these as possible before launching the certification scheme.

What GAO Found

The nature of diamonds and the international diamond industry's operations create opportunities for illicit trade, including trade in conflict diamonds. Diamonds are a high-value commodity easily concealed and transported, are mined in remote areas worldwide, and are virtually untraceable to their original sources. These factors allow diamonds to be used in lieu of currency in arms deals, money laundering, and other crime. Further, there is limited information publicly available about diamond industry operations.

The United States cannot detect diamonds that might come from conflict sources because the current diamond import control system does not require certification of the country of extraction. At present, there is also no international system to certify the source of extraction. While the United States bans diamonds coming from Angola, Sierra Leone, and Liberia that are subject to U.N. and U.S. sanctions, in the absence of an international certification system, this does not prevent conflict diamonds shipped to an intermediary country from being mixed into U.S.-destined shipments.

GAO's assessment of the Kimberley Process's proposal for an international diamond certification scheme found it did not contain the controls necessary to ensure that it will be effective in stemming the flow of conflict diamonds. We evaluated the proposal using established criteria for assessing accountability and found that its heavy reliance on voluntary participation and lack of attention to potential high-risk areas suggest that participants may face major challenges in implementing an effective scheme to deter trade in conflict diamonds.



Primary countries associated with conflict diamonds.

This is a test for developing Highlights for a GAO report. The full report, including GAO's objectives, scope, methodology, and analysis is available at www.gao.gov/cgi-bin/getrpt?GAO-02-678. For additional information about the report, contact Loren Yager at 202-512-4128. To provide comments on this test Highlights, contact Keith Fultz (202-512-3200) or e-mail HighlightsTest@gao.gov.

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Abbreviations

DRC	Democratic Republic of the Congo
DTC	Diamond Trading Company
RUF	Revolutionary United Front
U.N.	United Nations
UNITA	The National Union for the Total Independence of Angola

G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

June 14, 2002

The Honorable Frank R. Wolf
Chairman
Subcommittee on Commerce, Justice, State & Judiciary
Committee on Appropriations
House of Representatives

The Honorable Judd Gregg
Ranking Minority Member
Subcommittee on Commerce, Justice, State & Judiciary
Committee on Appropriations
United States Senate

The Honorable Cynthia A. McKinney
Ranking Minority Member
Subcommittee on International Operations and Human Rights
Committee on International Relations
House of Representatives

The Honorable Tony P. Hall
Ranking Minority Member
Subcommittee on Technology and the House
Committee on Rules
House of Representatives

The United Nations (U.N.) General Assembly defines conflict diamonds as rough diamonds used by rebel movements to finance their military activities, including attempts to undermine or overthrow legitimate governments.[1] These conflicts have created severe humanitarian crises in countries such as Sierra Leone, Angola, and Democratic Republic of the Congo (DRC). The United States and much of the international community are trying to sever the link between conflict and diamonds while ensuring that no harm is done to the legitimate diamond industry, which is economically important in many countries. The principal international effort to address these objectives, known as the Kimberley Process, aims to develop and implement an international diamond certification scheme that will deter conflict diamonds from entering the legitimate market. The Kimberley participants, including government, diamond industry, and

[1]U.N. General Assembly Resolution 55/56 (Jan. 29, 2001).

nongovernmental organization officials, reported back to the U.N. General Assembly with a proposal they believe provides a good basis for the envisaged scheme.[2] Consistent with the Kimberley Process, the U.S. Congress has legislation pending that would require countries exporting diamonds to the United States to have a system of controls to keep conflict diamonds from entering their stream of commerce.

You requested that we review the conflict diamond trade and aspects of U.S. and international efforts to deter this trade. In response, we determined (1) whether the nature of diamonds and industry operations are conducive to illicit trade, (2) whether U.S. government controls over diamond imports enable detection of conflict diamonds, and (3) the extent to which the Kimberley Process international diamond certification scheme has the necessary elements to deter trade in conflict diamonds. As discussed with your offices, our scope was limited by the lack of timely and full access to State Department documentation and, as a result, our work on the illicit trade and related crime was restricted. (See app. I for our scope and methodology.) This report expands upon and updates information provided in our February 2002 testimony before the U.S. Senate Committee on Governmental Affairs Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia.[3]

Results in Brief

The nature of diamonds and the operations of the international diamond industry create opportunities for illicit trade, including trade in conflict diamonds. Diamonds are mined in remote areas around the world and are virtually untraceable back to their original source once mixed or polished—factors that make monitoring diamond flows difficult. Diamonds are also a high-value commodity that is easily concealed and transported. These conditions allow diamonds to be used in lieu of currency in illicit arms deals, money laundering, and other crime. Lack of transparency in industry operations also facilitates illegal activity. Specifically, the movement of diamonds from mine to consumer has no set patterns,

[2]The proposal was presented in the form of a Kimberley Process Working Document titled *Essential Elements of an International Scheme of Certification for Rough Diamonds, With a View to Breaking the Link Between Armed Conflict and the Trade in Rough Diamonds* (Nov. 29, 2001). Kimberley Process participants made a few technical modifications to the proposal in March 2002.

[3]U.S. General Accounting Office, *International Trade: Significant Challenges Remain in Deterring Trade in Conflict Diamonds*, GAO-02-425T (Washington, D.C.: Feb. 13, 2002).

diamonds can change hands numerous times, and industry participants often operate on the basis of trust, with relatively limited documentation. All of these practices reduce information about diamond transactions. The lack of industry information is exacerbated by poor data reporting at the country level, where import, export, and production statistics often contain glaring inconsistencies.

The United States cannot detect diamonds that might come from conflict sources because the current diamond import control system does not require certification of the country of extraction. At present, there is no international system to certify the source of extraction. Currently, conflict diamonds are associated with four countries—Angola, Democratic Republic of the Congo, Liberia, and Sierra Leone. Rough diamond imports from Angola and Sierra Leone not bearing the official government certificate of origin as well as all rough diamonds from Liberia are banned from the United States.[4] U.S. Customs requires that all shipments from Angola and Sierra Leone have a certificate of origin or other documentation that demonstrates to Customs authorities that the diamonds were legally imported with the approval of the exporting country's government.[5] However, without an effective international system that can trace the original source of rough diamonds, U.S. Customs cannot ensure that conflict diamonds do not enter the United States through an intermediary country.

The Kimberley Process proposal for an international diamond certification scheme does not contain the elements necessary to provide reasonable assurance that the scheme will be effective in deterring the flow of conflict diamonds. We evaluated the scheme using aspects of established criteria for accountability—control environment, risk assessment, control

[4]The U.N. Security Council has imposed international sanctions on rough diamond imports from Angola and Sierra Leone not bearing an official government certificate of origin as well as all rough diamonds from Liberia.

[5]There are no U.S. sanctions against diamonds traded from the Democratic Republic of the Congo. Executive Order 13213 dated May 22, 2001, banned all rough diamond shipments from Liberia. In accordance with section 202(d) of the National Emergency Act (50 U.S.C. 1622(d)), the President extended the ban through January 15, 2003.

activities, information and communications, and monitoring,[6] which provide insights into the proposed scheme's ability to deter trade in conflict diamonds. Our evaluation of the scheme showed that it incorporates some elements of accountability, such as requiring that Kimberley Process certificates designating country of origin for unmixed shipments accompany each shipment of rough diamond exports. However, some important elements are lacking, and others are listed only as optional or recommended. For example, the scheme primarily relies on voluntary participation and adherence, which is not conducive to an adequate control environment. Further, it is not based on a risk assessment in that some activities that are important to a successful scheme, such as the flow of diamonds from the mine or field to the first export are subject only to "recommended" elements. Additionally, the period after rough diamonds enter a foreign port to the point of sale within that country or to export to another country will be covered by an industry system in which participation is voluntary and monitoring and enforcement are self-regulated. Although the Kimberley Process participants have achieved significant cooperation among industry, nongovernmental organizations, and governments to address trade in conflict diamonds, our work suggests that participants face considerable challenges in establishing a system that will effectively deter this trade.

Without a realistic view of the diamond industry operations and efforts to address the trade in these diamonds, the international community and the U.S. government's ability to deter trade in conflict diamonds will continue to be hampered. We make a recommendation in this report to the Secretary of State to work toward incorporating better controls in the Kimberley Process international diamond certification scheme.

Background

Currently, conflict diamonds are primarily associated with four countries: Sierra Leone, Liberia, Angola, and the DRC. In all four countries, the production and/or trade of diamonds have played a role in fueling domestic conflict, or, as is the case with Liberia, fueling conflict in neighboring Sierra Leone through the Revolutionary United Front (RUF). U.N. and U.S.

[6]The U.S. government, industry, and international entities such as the World Bank accept these internal control standards applied to organizations. See *Standards for Internal Control in the Federal Government*, (GAO/AIMD-00-21.3.1, Nov. 12, 1999) and *Internal Control—Integrated Framework* (1985) published by the Committee of Sponsoring Organizations of the Treadway Commission and used by the World Bank.

sanctions have been targeted at rough diamond exports from the RUF in Sierra Leone; Liberia; and the National Union for the Total Independence of Angola (UNITA) in Angola, but not on the rebel diamond trade in the DRC. Also, the governments of Sierra Leone and Angola have instituted national diamond certification schemes in which certificates of origin are issued and accompany rough diamonds from export to import into a foreign country. (See app. II for situations in Angola, the DRC, Liberia, and Sierra Leone.)

Adjacent countries, such as Congo-Brazzaville, Guinea, Cote d'Ivoire, and the Gambia, have all been listed in U.N. reports as countries through which conflict diamonds are smuggled. People named in U.N. reports for their involvement in trading conflict diamonds have been citizens of the Middle East, Europe, and the United States. Also, media reports have focused on the possible use of diamonds by terrorists to fund their activities or store their assets.

International Diamond Industry

The diamond industry involves over 100 countries across the globe and contributes to the economic well being of a number of countries that mine or cut and polish diamonds. In Botswana, for example, diamond sales account for more than one-third of its gross domestic product. According to *The Mining Journal*, the supply of rough diamonds mined worldwide was valued at $7.86 billion in 2000.[7] Once manufactured into jewelry, industry experts value the polished diamond content in jewelry retail sales at about $13.7 billion.

The international diamond industry includes three structural components for rough diamonds: mining, trading and sorting, and cutting and polishing. This industry is composed of both large and well-organized operations as well as small, widely dispersed, unstructured ones. For example, due to the substantial capital required for deep mining, just four companies mine 76 percent of the world supply of rough diamonds.[8] Yet, across Africa, countless individual diggers mine widely scattered alluvial fields for diamonds. Similarly, while De Beers markets a large percentage of diamond shipments to key trading centers, U.N. data suggest that more than 100

[7]See *Diamond Annual Review (2000)*, published by The Mining Journal, Ltd.

[8]These four companies are De Beers Consolidated Mines Ltd., Alrosa Ltd., Rio Tinto, and BHP Billiton. See *Diamond Annual Review (2000)*, published by The Mining Journal Ltd.

countries worldwide participate in rough diamond exporting. In terms of cutting and polishing, markets have largely evolved to reflect labor costs, with 9 out of 10 rough diamonds cut and polished in India. However, mining countries such as Russia, South Africa, Botswana, and Namibia are trying to expand their cutting and polishing activities to supplement mining revenues. (See app. III for additional information on the structure of the international diamond industry and the economic importance of this resource.)

Kimberley Process

In May 2000, African diamond-producing countries initiated the Kimberley Process in Kimberley, South Africa, to address the conflict diamond trade. Participants now include the European Union and about 37 countries[9] involved in the production, export, and import of rough diamonds; as well as representatives from the diamond industry, notably the World Diamond Council,[10] and nongovernmental organizations. The goal is to create and implement an international certification scheme for rough diamonds, based primarily on national certification schemes and internationally agreed minimum standards. The scheme's objectives are to (1) stem the flow of rough diamonds used by rebels to finance armed conflict aimed at overthrowing legitimate governments; and (2) protect the legitimate diamond industry, upon which some countries depend for their economic and social development.

The Kimberley Process participants submitted a progress report to the U.N. General Assembly accompanied by a proposal, dated November 28, 2001, that provided a basis for the envisaged international certification scheme.[11] The officials of participating countries recommended that the U.N. General Assembly support implementation of the proposed scheme for rough diamonds and extended the Kimberley Process mandate to the end of 2002 to allow time for resolution of remaining implementation issues. On March 13, 2002, the General Assembly adopted Resolution 56/263, which encouraged Kimberley Process participants to resolve outstanding issues;

[9]The U.S. Department of State leads an interagency working group that provides input and representation at the Kimberley Process meetings.

[10]The World Diamond Council is an industry association composed of the World Federation of Diamond Bourses and the International Diamond Manufacturers Association, which formed this body expressly to address conflict diamonds.

[11]This document was superceded by a slightly amended document on November 29, 2001.

urged finalization and implementation of the international certification scheme; urged member states to actively participate in the proposed scheme; and requested that the Kimberley Process participants issue a progress report no later than the end of the 2002 session.

Subsequently, Kimberley Process participants met in March 2002 to resolve outstanding technical issues[12] and modified the November 2001 proposal accordingly.[13] Participants agreed that they would concentrate their efforts on implementing the international certification scheme at the national level. Those in a position to issue the Kimberley Process Certificate were asked to do so immediately. All others were encouraged to do so by June 1, 2002. Participants plan to hold the next plenary meeting in Switzerland in November 2002 to prepare for the simultaneous launch of the full certification scheme by the end of the year.[14]

Nature of Diamonds and Nontransparent Industry Operations Create Opportunities for Illicit Trade

The illicit diamond trade, including that in conflict diamonds, is facilitated by the nature of diamonds and the lack of transparency in industry operations. Although industry and nongovernmental organizations have made estimates of both the illicit and conflict diamond trades, the criminal nature of the activity precludes determination of the actual extent of the problem. Conflict diamond estimates vary from about 3 to 15 percent of the rough diamond trade in value terms and are often based on historical production capacities for rebel-held areas. Some industry experts dispute the larger percentage, believing it includes nonconflict related smuggling.

[12]The issues included compatibility of the international certification scheme with international trade law obligations such as those under the World Trade Organization; the scope, nature, and publishing of statistics; the nature and scope of monitoring and implementation (referred to as participant measures); and the nature and scope of administrative support services required for the optimal functioning of the scheme.

[13]The proposal remains in the form of a Kimberley Process Working Document titled *Essential Elements of an International Scheme of Certification for Rough Diamonds, With a View to Breaking the Link Between Armed Conflict and the Trade in Rough Diamonds*, as prepared by Kimberley Process participants (March 20, 2002).

[14]In the interim, the South African chair of the process plans to identify a group to address technical issues and remaining concerns about definitions.

Nature of Diamonds Facilitates Illegal Trade

The nature of diamonds makes them attractive to criminal elements. Diamonds are found in remote areas of the world and can be extracted both through capital-intensive deep mining techniques as well as from alluvial sources using rudimentary technology. Individual diggers across west and central Africa mine alluvial fields that are widely scattered and difficult to monitor, a problem made worse by porous borders and corruption. Diamonds are easy to conceal and smuggle across borders, and smuggling routes for rough diamonds are well established by those who have done so for decades to evade taxes or move stolen diamonds. Though experts may be able to identify the source of an unmixed parcel of rough diamonds, once diamonds from various sources are mixed, they become virtually untraceable. Identifying the origin of alluvial diamonds is complicated by the fact that the river systems depositing those diamonds run across government- and rebel-held areas as well as national borders. Although rough diamonds can be marked, once they are cut and polished, any form of identification is erased. All of these factors, combined with inadequate customs and policing worldwide, make diamonds attractive to criminal elements who may use them to pay for arms, support insurgencies, and plausibly engage in terrorism. Likewise, diamonds can be used as a means of currency in connection with drug deals, money laundering, and other crimes. They may also be used as a store of wealth for those wishing to hide assets outside the banking sector where assets could be detected and seized.

Industry's Lack of Transparency Also Facilitates Illicit Trade

The industry's lack of transparency is exhibited in the complex and variable way in which diamonds flow from mine to consumer and the existence of significant insufficiencies and inconsistencies in industry data. The current trend to expand cutting and polishing activities within mining countries may further limit transparency in international diamond trade flows.

The flow of diamonds from mine to consumer, referred to as the "diamond pipeline," has no set patterns. Diamonds can change hands numerous times as shown by the fact that the value of world rough diamond exports is three times as large as the value of world rough diamond production. According to industry experts, diamonds are sold back and forth and mixed and remixed, making tracking a particular shipment through the pipeline and across borders an arduous if not impossible task. Diamonds can be traded in smaller markets and diverted through alternative routes either to disguise origin or in response to lower taxes and less burdensome regulations. Thus, the threat that the industry will move to another country

has also acted as a disincentive for individual governments to implement stricter controls.

Limited transparency in diamond flows is also reflected in insufficient and inconsistent data, not only for African countries but for industrial countries and other trading nations as well. As shown in table 1, a comparison of mining data with U.N. trade data suggest that the value of estimated rough diamond exports in 2000 (calculated from global import data) for a number of African countries differ significantly from the value of those countries' production. For example, Liberia's production was estimated as worth only about $27 million in 2000 and its estimated rough diamond exports totaled about $102 million.

Table 1: Differences between Mining and Estimated Rough Diamond Exports in Selected African Countries, 2000

Dollars in thousands (U.S.)

	Estimated mining value	Estimated export value[a]	Difference between mining and estimated exports
Angola	$739,662	$633,265	($106,397)
Central African Republic	72,000	168,515	96,515
Democratic Republic of the Congo (DRC)	585,000	728,975	143,975
Guinea	103,500	163,166	59,666
Liberia	27,200	101,861	74,661
Namibia	419,120	709,000	289,880
Sierra Leone	87,500	14,114	(73,386)
Tanzania	45,965	30,294	(15,671)

[a]Estimated exports are derived using the sum of world imports from each country.

Note: None of these countries reported any rough diamond imports to the United Nations.

Source: Mining data are from The Mining Journal, Ltd. Trade data are from the United Nations., except for Namibia, which did not report its diamond trade statistics to the United Nations. Trade data for Namibia are from the World Bank.

Table 2 shows that the United Nations reports rough diamond exports from a number of countries that neither had mining potential in 2000 nor reported any rough diamond imports. For example, estimated rough diamond exports from Congo-Brazzaville, the Gambia, Aruba, the Netherlands Antilles, and the United Arab Emirates each exceeded $10 million in 2000. However, for most African nonmining countries, rough

diamond exports have decreased in 2000. (For additional information on estimated rough diamond exports from African countries for 1990 through 2000, see app. IV.)

Table 2: Estimated Rough Diamond Exports for Selected Nonmining Countries, 1996, 1998, and 2000

Dollars in thousands (U.S.)

	1996	1998	2000
African countries			
Cameroon	n/a	$5,367	$884
Congo-Brazzaville	647,880	80,858	39,153
Gambia	129,237	101,503	18,396
Mali	8,573	2,043	5,476
Togo	2,865	1,108	214
Uganda	n/a	1,364	13
Non-African countries			
Aruba	n/a	29,932	19,717
Cayman Islands	21,738	5,981	5,240
Lebanon	2,102	2,428	356
Netherlands Antilles	124,834	28,553	22,892
Ukraine	1,371	129	641
United Arab Emirates	3,861	9,576	177,424

Note: n/a means not available. None of these countries reported any rough diamond imports to the United Nations. Estimated exports are derived using the sum of world imports from each country.

Source: U.N. data.

For countries that report rough diamonds imports, U.N. data also reveals large discrepancies between export and import values in 2000. For example, as shown in table 3, Belgium reported exporting about $355 million worth of rough diamonds to the United States while the United States reported importing only about $192 million worth of rough diamonds from Belgium.

Table 3: Rough Diamond Export and Import Values for Selected Countries, 2000

Dollars in thousands (U.S.)

Exporter	Export value of diamonds	Importer	Import value of diamonds
Belgium	$355,330	United States	$191,849
Canada	107,477	United Kingdom	347,191
China	56,174	Hong Kong	3,345
Hong Kong	77,611	Belgium	174,554
	7,044	United States	43,491
Israel	681	Armenia	17,361
	24,165	Switzerland	44
	112,053	United States	21,163
Switzerland[a]	5,918	Belgium	65,398
	105	United Kingdom	3,137,088
United Kingdom	437,523	Switzerland	1,206,817
	289,626	United States	197,381
United States	15,796	Hong Kong	1,267

[a]In Switzerland, a large share of diamonds traded are actually internal transfers for De Beers, which uses the area for security and insurance reasons.

Source: U.N. data.

The data inconsistencies in tables 1 through 3 can be attributed to a wide variety of factors including:

- differences in the value exporters and importers assign to shipments;
- differences in interpretation of commodity codes so that recorded trade data is internally inconsistent and inconsistent with production data;[15]
- industry practices such as selling goods on consignment, physical inspections requiring movements of shipments across borders, or

[15]For example, according to the U.S. Department of Commerce, 2001 exports of diamonds that should have been classified as polished diamonds with a World Customs Organization Harmonized System code of 7102.39 were actually classified as unsorted rough diamonds with a code of 7102.10.

unloading stockpiles so that trade data differ from production capacities;

- false declarations by importers on where they obtained their shipment, leading to data indicating a country's exports exceed its production; or

- smuggling.

Unfortunately, diamond trade data limitations have been difficult to rectify given that the industry has historically avoided close scrutiny. According to industry experts and government officials, U.S. and international diamond firms do not share trade information freely and business may be conducted on the basis of a handshake, with limited documentation. Furthermore, information problems resulting from industry's lack of transparency are made worse by poor data reporting from many mining and trading nations. Stockpiles may not be reported, country of last export is recorded instead of country of origin or extraction,[16] and some countries do not publish rough statistics if the data could reveal commercially sensitive information about a particular company. Most importantly, comprehensive international data is not available in volume terms (carats), even though volume data are a better indicator of true trade flows.

In addition to poor data, another factor with the potential to limit transparency in the international diamond industry is the current trend toward merging mining with cutting and polishing activities at the country level. In response to reduced demand and declining rough diamond prices, a number of mining countries are encouraging domestic cutting and polishing. In mining countries, diamonds from other origins could be mixed with domestically mined diamonds, cut and polished, and exported without detection.

[16]In particular, for countries like Congo-Brazzaville that do not report rough diamond imports, a country like Belgium or the United States could record rough diamond purchases as originating from Congo-Brazzaville when in effect they are originating from another country. This is because data reflects country of last export, rather than country of origin.

United States Cannot Detect Conflict Diamonds with Present Import Controls

Under its current import control system, the United States cannot determine the true origin of diamond imports nor ensure that conflict diamonds do not enter the country. The nature of the commodity and industry makes verification of origin difficult. In 1998, as a result of Executive Orders, the United States began to enhance controls to prevent conflict diamonds from entering the country from U.N.-sanctioned sources. Since 1998, the United States has conducted eight diamond-related investigations. However, as of yet, no federal prosecutions relating to diamond smuggling have been undertaken. Without an effective international system to identify the origin of rough diamonds, the United States cannot detect diamonds from conflict sources sent to second countries and then shipped to the United States.

Diamond Imports Subject to General Import Controls; Limited Controls Added to Implement U.N. and U.S. Sanctions

Diamond imports are subject to the same import controls used for most commodities. Documentation accompanying diamond shipments entering the United States must include a commercial invoice, country of last export, total weight, and value. However, the regulations do not require exporters to certify the country of extraction, with the exception of rough diamonds directly from Angola and Sierra Leone. For example, rough diamonds could be mined in one country and traded several times before reaching their final destination. The ability to determine the true source of origin is further impeded because U.S. import shipments can contain diamonds mixed together from numerous countries.

Until 1998, the United States did not consider conflict diamonds a commodity of focus. Since 1998, the United States put into place import controls to target diamonds from UNITA in Angola, RUF in Sierra Leone, and Liberia—all of which are also targets of U.N. sanctions. Rough diamonds from Liberia have been banned from the United States. U.S. Customs requires that all shipments from Angola and Sierra Leone have a national certificate of origin or other documentation that demonstrates to authorities that the diamonds were legally imported with the approval of the exporting country's government. However, the controls cannot prevent diamonds from these conflict sources from being shipped to a second country and mixed within shipments destined for the United States. Customs officials stated that determining the original source of rough diamonds based on physical inspection is virtually impossible; thus, U.S. Customs officials must rely on the accuracy of the source cited in accompanying import documentation.

The U.S. ability to detect and deter conflict diamonds is further complicated by inaccuracies in its diamond trade data. In fiscal year 2000, U.S. Census data reported that about $816 million worth of rough diamonds from 53 countries officially entered the United States through 21 different ports of entry. However, based on irregularities found during our analysis of the U.S. Census import and export data, the validity of this data is questionable. A February 2002 review of U.S. import and export data by the U.S. Census Bureau found that some of the irregularities were due to misclassification of the diamonds. They noted that this problem resulted from the lack of understanding by importers and exporters of the definition of "unsorted" diamonds. For example, in 2001, diamonds that should have been classified as polished diamonds with a World Customs Organization Harmonized System code of 7102.39 were actually classified as unsorted rough diamonds with a code of 7102.10. According to U.S. Census officials, they have notified U.S. Customs of the problem and both agencies are taking steps to correct these errors by educating importers and exporters on the correct way to classify diamonds. Census will revise its 2001 published statistics, but will not make this process retroactive to include prior year's statistics.[17]

Limited Number of Diamond Inspections and Seizures Yield No U.S. Confirmed Cases of Conflict Diamond Imports

Since the United States put into place import controls to target diamonds from UNITA in Angola, RUF in Sierra Leone, and Liberia, there have been a limited number of diamond inspections and seizures. Under U.S. Customs regulations, importers of diamonds from Sierra Leone and Angola must present appropriate documentation to U.S. Customs upon demand and are responsible for keeping certificates of origin on file for 5 years after importation. If any intelligence is developed indicating that certain importers are importing conflict diamonds, U.S. Customs can seize shipments or develop leads by initiating formal investigations.

According to U.S. Customs officials, as a part of its regular compliance inspections, 35 physical inspections of rough diamond mixed shipments have been performed since 1998. Of these, six cases were found to have minor discrepancies primarily because of incorrect documentation or

[17]It should also be noted that similar data inconsistencies have been found in the Canadian import and export statistics. See *Fire in the Ice: Benefits, Protection and Regulation in the Canadian Diamond Industry* (Jan. 2002) published by the Diamonds and Human Security Project.

because the diamonds were misdelivered.[18] However, U.S. Customs told us that it recently seized diamonds from two individuals based on the failure to present proper export certificates. Both incidents involved passengers arriving at the Baltimore-Washington International Airport on Air Ghana flights who had also traveled to Sierra Leone.

- On December 31, 2001, U.S. Customs inspectors at Baltimore-Washington International Airport searched a passenger's luggage and found documents that led the officers to believe the passenger might have been carrying diamonds. When the officers asked if he was carrying diamonds, the passenger removed a package from his pocket and the diamonds were detained for formal U.S. Customs entry. The entry was filed, but there was no accompanying certificate from the Republic of Sierra Leone and 37 diamonds were seized. The diamonds remain in U.S. Customs' custody, and the importer has petitioned for return of the diamonds.

- On February 4, 2002, an arriving passenger declared $12,350 in diamonds to U.S. Customs officers at Baltimore-Washington International Airport. Upon review of the certificate of origin, the U.S. Customs inspectors noticed several inconsistencies that led them to believe the certificate was fraudulent. The stones detained have been released to the importer. The stones were determined not to be diamonds; however, the fraudulent certificate has been seized. The U.S. Customs Office of Investigations is reviewing this incident and further details are unavailable.

Kimberley Certification Scheme Lacks Key Aspects of Accountability

The Kimberley Process proposal describing the essential elements of an international diamond certification scheme does not contain the controls necessary to provide reasonable assurance that the scheme will be effective in deterring the flow of conflict diamonds. Without effective accountability, the certification scheme may provide the appearance of control while still allowing conflict diamonds to enter the legitimate diamond trade and, as a result, continue to fuel conflict.

[18]According to U.S. Customs officials, these compliance inspections were suspended after September 11, 2001, because the agency's primary focus has shifted to security and antiterrorism efforts. According to the Treasury Department, these compliance examinations resumed on May 1, 2002.

The Kimberley scheme primarily provides a description of what participants should do as well as "recommendations" and "options." The March 20, 2002, document describing the scheme is divided into sections covering definitions, the Kimberley Process Certificate, undertakings concerning international trade in rough diamonds, internal controls at the national government and industry levels, cooperation and transparency, and administrative matters. Elements of internal controls are addressed throughout the document, including the requirement that the Kimberley Process certificates, designating the country of origin for unmixed parcels, accompany each shipment of rough diamonds and that the certificates be readily accessible for a period of no less than 3 years. However, the scheme lacks key aspects of effective controls, and some "controls" are considered "recommended" or "optional."

To assess the scheme, we looked at evaluations of other international certification schemes and other sources for relevant, applicable criteria. We believe the best criteria available are based on published standards for internal control that have been developed for organizations.[19] The Kimberley Process participants recognize the importance of internal controls,[20] and the U.S. government, industry, and international entities such as the World Bank have accepted these standards. While the Kimberley Process is not an organization and we do not expect the Kimberley Process scheme to completely address all aspects of accountability, the criteria provide useful insights into the Kimberley Process scheme's ability to achieve basic objectives of accountability and transparency.

The guidelines include five control elements—control environment, risk assessment, control activities, information and communications, and monitoring. A review of the Kimberley Process scheme using these five control elements reveals significant challenges despite the gains reached by bringing together industry, nongovernmental organizations, and governments to address this serious humanitarian issue.

[19]See *Standards for Internal Control in the Federal Government*, (GAO/AIMD-00-21.3.1, Nov. 12, 1999), and *Internal Control—Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.

[20]According to the November 2001 Kimberley Ministerial statement, "an internal certification scheme will only be credible if all participants have established effective internal systems of control designed to eliminate the presence of conflict diamonds in the chain of producing, exporting, and importing rough diamonds within their territories…"

Control Environment: A control environment is one with a structure, discipline, and climate conducive to sound controls and conscientious management. The Kimberley certification scheme faces serious challenges in achieving these elements.

- The Kimberley Process scheme primarily relies on voluntary participation and adherence making support and implementation of the scheme highly dependent on varying levels of political will and industry commitment. The scheme lacks an international authority or mandate. There is no authorizing mandate in U.N. Security Council Resolutions, U.N. General Assembly resolutions, or treaty status at this time. The form the final document will take (an agreement, memorandum of understanding, guidance, or some other form) has not yet been determined. Despite efforts to recruit more members, some key diamond trading countries have not participated in the Kimberley Process. Moreover, some participants continue to disagree with the definitions of conflict diamonds,[21] participant, and observer within the Kimberley Process scheme and it remains unclear what impact this could have on their future support and participation.

- While Kimberley participants identified some possible administrative support functions[22] and made some preliminary decisions regarding who may carry out the functions, they have not concluded their analysis and have made no commitments to staffing or funding.[23] At the March 2002 Kimberley Process plenary meeting, some participants expressed concern that without this information it will be difficult, if not

[21]Under the Kimberley scheme, conflict diamonds means rough diamonds used by rebel movements or their allies to finance conflict aimed at undermining legitimate governments, as described in relevant U.N. Security Council resolutions as they remain in effect, or in other similar Security Council resolutions which may be adopted in the future, and as understood and recognized in U.N. General Assembly Resolution 55/56, or in other similar General Assembly resolutions which may be adopted in future. Some participants stated that they could not agree in advance to what the U.N. may adopt in the future concerning conflict diamonds.

[22]According to the Kimberley Process proposal, administrative support functions could include serving as a channel of communications; and maintaining and making available a collection of laws, regulations; etc.

[23]Researchers reviewing multilateral environmental agreements have noted that institutional arrangements have come to be seen as crucial to such agreements' effectiveness, and that the lack of institutions limits the capacity to monitor states' implementation of and compliance with treaty requirements or to take action when noncompliance is ascertained.

impossible, to develop the national legislation needed to implement the scheme within the expected time frame.

- Individual participants are required to set up a system of national internal controls and effective enforcement and penalties. It is unclear how and when the capabilities of different participants to do so will be assessed and, where needed, assistance provided. If countries fail to comply with the essential elements of the scheme, then they can be excluded from trading with participants. However, whether national implementation of this provision will comply with trade agreements such as those under the World Trade Organization has been a point of contention since early in the process and remains under discussion.[24]

Risk Assessment: A risk assessment is a mechanism to identify, analyze, prioritize, and manage risks to meet objectives. The Kimberley Process does not include a formal risk assessment and thus participants cannot be assured that they have appropriately identified, prioritized, and addressed the risks. Three potential high-risk areas the Kimberley Process scheme does not adequately address include the following.

- Industry experts and Kimberley participants agree that unless the segment of the diamond pipeline from when the diamond is first discovered in the alluvial field or mine to the point it is first exported is subject to controls, conflict diamonds may enter the legitimate trade. The scheme does little to address this issue, offering only recommendations encouraging participants to license diamond miners and maintain effective security.

- Industry and others hold stockpiles of diamonds with undocumented sources, and the number of diamonds held in stockpiles may be considerable. Since the Kimberley scheme requires information on origin, it is unclear how these diamonds will be addressed. Apparently,

[24]Under the Kimberley scheme, participants are to ensure that no shipment of rough diamonds is imported from or exported to a nonparticipant. However, article XI of the General Agreement on Tariffs and Trade (GATT), 1994, obligates countries to refrain from imposing quantitative restrictions or similar measures (as opposed to duties, taxes or other charges) on the importation of products from other countries. Two exemptions contained within the GATT may justify a violation of Article XI. Article XXI (b) allows a country to impose trade restrictions it considers necessary for the protection of its essential security interests. Article XX contains an exception for measures designed to protect human life or health.

any conflict diamond could be claimed as a stockpiled diamond at the scheme's initiation.

- The period after rough diamonds enter a foreign port until their point of sale as rough diamonds, polished diamonds, or jewelry or until exported to another country will be covered by an industry system called a chain of warranties in which participation is voluntary and monitoring and enforcement are self-regulated.[25] As rough diamonds are exported from subsequent countries or the European Union, governments will issue a new Kimberley certificate to accompany each shipment, yet it is unclear how governments can rely on the voluntary industry system to ensure that the shipments are free from conflict diamonds.

Control Activities: Control activities consist of policies, procedures, techniques, and mechanisms that ensure that management directives are carried out in an effective and efficient manner to achieve control objectives. The Kimberley scheme's inconsistent attention to control activities raises concerns, such as the following:

- While some internal controls are delineated, others are recommended or considered optional without clear justification, and many controls are to be developed at the national level where capabilities and political will differ.

- The industry chain of warranties is based on voluntary participation and self-regulation. Although the scheme requires that all sales invoices of participating industry be inspected by independent auditors to ensure that the diamonds come from nonconflict sources, an audit trail is problematic in an industry where diamonds are sorted and mixed many times.

Information and Communications: An information and communication mechanism is needed for recording and communicating relevant and

[25]According to industry officials, the World Diamond Council will strongly recommend that its member organizations require their individual members to make the following statement on all invoices for the sale of rough diamonds, polished diamonds, and jewelry containing diamonds. "The diamonds herein invoiced have been purchased from legitimate sources not involved in funding conflict and in compliance with United Nations resolutions. The seller hereby guarantees that these diamonds are conflict free, based on personal knowledge and/or written guarantees provided by the supplier of these diamonds." Membership in the World Diamond Council and its membership organizations is voluntary.

reliable information to those who need it in a form and time frame that enable them to carry out their internal control responsibilities. Although the Kimberley Process has made progress in identifying information to be communicated among participants, concerns regarding the Kimberley Process scheme's mechanism for information and communication remain.

- The Kimberley Process participants recently made progress identifying statistics to be shared (production, import, and export data) and in setting reporting time frames. However, the statistics are to be made available to an "intergovernmental body" or another "appropriate mechanism" for compilation and then to be made available for analysis by "interested parties" and by the Kimberley Process participants, individually or collectively. Thus, participants have not yet reached agreement on who will compile the statistics, how this will be done, and at what cost, as well as specifically who will analyze the data, how they will analyze it, and how and when they will report their results. This is of particular concern to some countries and industry that wish to protect what they consider sensitive information and, conversely, to others including nongovernmental organizations that want as much transparency as possible.

- Given the problems identified with international rough diamond trade data, it remains unclear what steps will be taken to improve and standardize country reporting. It is unclear whether all diamond-producing countries currently have the capacity to provide accurate data and what assistance, if any, will be needed or provided.

- The European Union will function as one trading organization under the Kimberley scheme. It remains unclear how its data will be compiled, reconciled, and shared in a timely manner. While the predominant diamond industry is found in Belgium and the United Kingdom, all 15 European Union countries have reported diamond flows to the United Nations.

Monitoring: A monitoring mechanism consists of continuous monitoring and evaluation to assess the quality of performance over time in achieving the objectives and ensuring that the findings of audits and other reviews are promptly resolved. Even acknowledging sovereignty and data sensitivity constraints, the Kimberley Process scheme's monitoring mechanisms still lack rigor, relying primarily on voluntary participation and self-assessment. For example,

- Monitoring is based on participants' reporting of other participants' transgressions to initiate a review mission. A participant can inform another participant through the chair if it believes the laws, regulations, rules, procedures, or practices of that other participant do not ensure the absence of conflict diamonds in the exports of that other participant.[26] Yet, there is no initial requirement that any one participant review another participant's compliance with the international certification scheme so as to raise the initial question about compliance with the chair or other participants. It appears that only the obvious cases will be addressed.

- Review missions and their size, composition, terms of reference, and time frame are to be conducted with the consent of the participant concerned. Terms are to be based on circumstances and established by the chair in consultation with the participants. Although sovereignty is a legitimate issue raised by some participants concerned about the extent of monitoring, the extent to which participants can use sovereignty and national laws to refuse terms of the review mission remains unclear.

- A report on the results of a review mission, as well as comments from the participant concerned, are to be posted to the restricted access section of an official certification scheme Web site no later than 3 weeks after completion of the mission and are to remain confidential. The scheme does not discuss a mechanism for ensuring that the findings of the review missions are promptly resolved and for disclosure of this information to anyone other than the participating countries.

- The scheme states that participants should exchange information, including self-assessments, to arrive at best practices; yet no guidelines were provided for self-assessment.

- Although the scheme states that the industry system of warranties will help facilitate tracing rough diamond transactions by government authorities, no government-monitoring plan for the system has been proposed.

[26]Such information may be reviewed at the annual plenary meetings at which time, participants can, upon the chair's recommendation, decide to implement verification measures such as requesting additional information and clarification from participants and conducting review missions when there are credible indications of significant noncompliance with the international certification scheme.

- The scheme has no provision for external audit of the scheme's administration.

Conclusion

Given the opportunities for illicit trade posed by the nature of diamonds and diamond industry operations and the varying levels of will and capacity to address the illicit trade, the challenges to deterring conflict diamonds are daunting. It is important to set realistic expectations and recognize that the Kimberley Process international diamond certification scheme is not expected to stop conflict on its own. There is the hope, however, that an international diamond certification scheme will make trade in conflict diamonds more difficult, resulting in less funding for conflict. But the scheme cannot accomplish this without reasonable participation and vigilance by diamond producing and trading countries and industry and inclusion of sound controls that meet basic accountability and transparency objectives. Without an effective international system that can trace the original source of rough diamonds, nations cannot ensure that conflict diamonds do not enter their countries and without accurate international trade data, nations cannot readily identify and rectify transgressions. The scheme as currently designed was achieved through considerable effort and negotiation, but additional improvements are needed to establish adequate controls to deter the conflict diamond trade. Unless the challenges we identified can be reasonably addressed, the scheme risks the appearance of control while still allowing conflict diamonds to enter the legitimate diamond trade and, as a result, continue to fuel conflict.

Recommendation for Executive Action

To help ensure that Kimberley Process participants, including the United States, achieve their goal to establish an international certification scheme for rough diamonds that will stem the flow of conflict diamonds while protecting the legitimate diamond industry, we recommend that the Secretary of State in consultation with the relevant government agencies work with Kimberley Process participants to develop better controls including a reasonable control environment, risk assessment, internal controls, information sharing, and monitoring.

Agency Comments

We received written comments from the Department of State and the Department of the Treasury. These comments are reprinted in appendixes

V and VI. In addition to their overall comments, Treasury provided technical comments, which we incorporated in the report as appropriate.

In response to GAO's recommendation, the Department of State commented that GAO had given insufficient weight to the political commitments achieved through the Kimberley Process in developing the international rough diamond certification scheme. The State Department commented that it would be more appropriate to focus on the Kimberley Process scheme as a dynamic effort to reconcile competing priorities rather than assess the scheme against a set of accountability measures. While State agreed that the international rough diamond certification scheme would need improvement and refinement as participants gain experience with its practical implementation, it did not believe that additional controls could be realistically negotiated prior to the scheme's launch.

While we recognize the inherently political and voluntary nature of international agreements, we believe that in order to attain the stated goals of the Kimberley Process—to stem the flow of conflict diamonds while protecting the legitimate trade--it is necessary to go beyond the political commitment with a view to a realistic assessment of what has been achieved and what remains to be done. We acknowledge that the scheme as currently designed was achieved through considerable effort and negotiation, but additional improvements are needed to establish adequate controls to deter the conflict diamond trade. We do not expect the Kimberley Process scheme to completely address all aspects of accountability, but the criteria we use to assess the scheme provides useful insights into the scheme's ability to achieve basic objectives of accountability and transparency. Despite the efforts gained through negotiation, without effective accountability, the certification scheme may provide the appearance of control while still allowing conflict diamonds to enter the legitimate diamond trade, and as a result, continue to fuel conflict. We agree with State that the international rough diamond certification scheme will need improvement and since the Kimberley Process remains a dynamic process in which any participant may propose modifications prior to plenary meetings, we continue to believe that the process can benefit by State working with Kimberley Process participants to improve controls.

The Department of State also expressed concern about our statement in the report describing a scope limitation: "Our report was limited by the lack of timely and full access to State Department documentation and as a result

our work on the illicit trade and related crime was restricted." We acknowledge the assistance provided by State during the review. However, our standards require that we report any methodological limitations.

The Department of the Treasury did not agree with our recommendation that the Secretary of State, in consultation with relevant government agencies, work with Kimberley Process participants to develop better controls. Treasury believes that such steps would be unlikely to increase enforcement and would substantially increase costs and divert enforcement resources. However, Treasury did not explain why improved controls would not add to effectiveness and how improvements would substantially increase costs or divert enforcement resources.

We are sending copies of this report to the Secretary of State, the Secretary of the Treasury, and interested congressional committees. We also will make copies available to other interested parties upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions regarding this report, please call me at (202) 512-4128. Other GAO contacts and staff acknowledgments are listed in appendix VII.

Loren Yager
Director, International Affairs and Trade

Scope and Methodology

To determine whether the nature and operations of the international diamond industry are conducive to illicit trade, we interviewed and reviewed documentation from cognizant representatives of the U.S. and foreign diamond industry, U.S. and foreign governments, the United Nations, Interpol, and nongovernmental organizations, as well as recognized industry experts. We acquired official international diamond production and trade data and reviewed industry journals and reports. For information on diamond mining, we analyzed data from the *Annual Review of Mining* published by The Mining Journal, Ltd.[27] For information on the international rough diamond trade, we analyzed data from the United Nations' Commodity Trade Statistics Database. Where possible, we supplemented and verified these data with information from the U.S. International Trade Commission, World Bank Country At a Glance Tables, International Monetary Fund Country Statistical Appendixes, and diamond company annual reports. To the extent possible we reviewed State Department documentation. However, our scope was limited by the lack of timely and full access to State Department cable traffic and thus could not be assured that we had reviewed all information concerning related crime including terrorism.

We note, however, several limitations in the existing data: diamond trade data can vary significantly depending upon the source, and the data are often incomplete. Given these data caveats, we found that the most comprehensive source for international data was the United Nations (U.N.).[28] However, when we examined the U.N. data, we found that the majority of countries with known diamond mining did not report their rough diamond export flows. Therefore, given that U.N. import data were relatively more comprehensive, we often inferred "estimated exports" of rough diamonds using world import flows.[29] Moreover, the data are only as

[27]According to the author, these mining data are based on official statistics from mining company reports, government data, and estimates of artisanal production from field observations.

[28]We used the following U.N. Harmonized System of Classification Codes (HTS) for our data on the rough diamond trade: 7102.10 for unsorted diamonds, 7102.21 for unworked industrial diamonds, and 7102.31 for unworked nonindustrial diamonds. According to the United Nations, its commodity trade data are compiled from information sent by the Customs department, the national statistical office, or the Central Bank of approximately 110 countries annually.

[29]Inferring exports from import data is a common analytical technique since exporters have an incentive to under-declare the value of shipments to pay fewer taxes.

good as what each country reports to the United Nations, as they are not validated by the United Nations.

To determine whether U.S. government controls over diamond imports enable detection of conflict diamonds, we examined U.S. Customs' procedures for importing, tracking, and monitoring U.S. diamond imports; applicable laws, executive orders, regulations, and implementing policies relating to diamond imports; and data on the value of U.S. rough diamond imports and the number of countries exporting them to United States, including the ports of entry. We met with officials at the U.S. Treasury Office of Foreign Asset Control, U.S. Customs, the Departments of Justice and Commerce, and the Federal Trade Commission to obtain their views on the effectiveness of U.S. import controls in deterring the trade of conflict diamonds.

To determine the extent to which the Kimberley Process international diamond certification scheme has the necessary elements to deter trade in conflict diamonds, we obtained the most current Kimberley Process documentation and assessed the scheme using criteria based on standards of control that have been developed for organizations. To determine the best available criteria for assessing the scheme, we reviewed international agreements and certification schemes for other commodities to find those most applicable to the diamond situation. In doing so, we reviewed studies and interviewed officials of the U.S. Trade Representative, State Department, U.S. Fish and Wildlife Service, United Nations, foreign governments, European Commission, nongovernmental organizations, and others about such schemes and their effectiveness. Our review revealed that agreed upon standards for internal controls that have been developed for organizations provided the best basis for sound criteria.[30] To ensure our understanding of the components of the Kimberley Process scheme and challenges to the development and implementation of the scheme, we interviewed and assessed documentation from Kimberley Process participants and others including representatives of U.S. and foreign governments, the diamond industry, nongovernmental organizations, and the United Nations. We also observed Kimberley Process negotiations in Brussels, Belgium; Moscow, Russia; London, United Kingdom; and Ottawa, Canada.

[30]See *Standards for Internal Control in the Federal Government*, (GAO/AIMD-00-21.3.1, Nov. 12, 1999), and *Internal Control—Integrated framework* (1985), published by the Committee of Sponsoring Organizations of the Treadway Commission.

We conducted fieldwork in Washington, D.C., and New York; Antwerp and Brussels, Belgium; Moscow, Russia; London, United Kingdom; and Ottawa, Canada. We also met with the government, industry, and nongovernmental officials of other Kimberley Process participant countries at the Kimberley Process meetings, the United Nations, their embassies in the United States, and at our offices in Washington, D.C., and San Francisco. We performed our work from March 2001 through March 2002 in accordance with generally accepted government auditing standards.

Situation in Countries Primarily Associated with Conflict Diamonds

Conflict diamonds are currently most closely associated with Angola, Sierra Leone, Liberia, and Democratic Republic of the Congo (DRC). Understanding both the major events over time and the diamond industry in these countries provides context for better understanding the conflict diamond issue and international as well as U.S. efforts to address this issue in these countries.

Conflict and Diamonds in Angola

Timeline of Major Events, 1991-2002

1991	Signing of Bicesse Accords ends long- running civil war between Popular Movement for the Liberation of Angola government and competing forces.
1992	President Jose Eduardo Dos Santos and the Popular Movement for the Liberation of Angola government win plurality in United Nations (U.N.)-monitored elections. The National Union for the Total Independence of Angola (UNITA), led by Jonas Savimbi, rejects the election results and resumes fighting.
1993	United Nations sanctions UNITA.
1994	Government and UNITA sign Lusaka Protocol in an effort to end fighting.
1995	United Nations authorizes peacekeeping mission. Various U.N. verification and peacekeeping missions have been in Angola since 1989.
1997	Angolan government and UNITA establish power sharing Government of National Unity and Reconciliation. United Nations approves establishment of U.N. Observer Mission in Angola to help consolidate peace.
1998	Fighting resumes again between government and Jonas Savimbi's faction of UNITA. UNITA's participation in government is suspended.

	U.N. Security Council imposes worldwide ban on purchases of unofficial Angolan diamonds and orders UNITA bank accounts and financial assets frozen.
1999	Mandate for U.N. Observer Mission in Angola expires and, due to continued failure of peace process, is not extended.
	The U.N. office in Angola is authorized and given a limited, mostly humanitarian, mandate.
	Angolan armed forces destroy conventional military capacity of UNITA and scatter rebels. UNITA regroups as a guerrilla force.
2000	Government creates Angola Selling Corporation to market all diamonds produced in Angola.
	Conflict continues with UNITA weaker but persistent as a guerrilla force.
2001	President Dos Santos announces he will not run in next elections. Next elections remain unscheduled.
2002	UNITA leader Jonas Savimbi is killed by government forces.
	UNITA and government sign cease-fire agreement, pledging to abide by terms of the 1994 peace accord.

Diamonds in Angola

Diamonds are found throughout the country, though most are in the northeast provinces of Lunda Norte and Lunda Sul. Approximately 10 to 15 percent of Angolan diamonds are industrial quality with an average value of $70 per carat, according to industry experts. The rest are high quality gem diamonds with an average value of $250 to $327 per carat. Artisanal diggers mine roughly two-thirds of Angolan diamonds. For a map of Angola, see figure 1.

Figure 1: Map of Angola

Source: CIA World Factbook 2001.

According to a U.N. Security Council report, diamonds have been a strategic resource for UNITA during its three wars.[31] Prior to the cease-fire agreement, a U.N. official reported that the rebels were still smuggling diamonds, and the extent of UNITA's stockpiles is unknown. However, after

[31] United Nations Security Council, *Final Report of the Monitoring Mechanism on Angola Sanctions*, S/2000/1225 (New York: Dec. 12, 2000).

UNITA lost ground in 1999, the government of Angola began restructuring the diamond industry and established the Angola Selling Corporation in February 2000 to be the sole legitimate buyer of Angolan diamonds. The Angola Selling Corporation comprises a 51 percent state interest, in the form of the Sociedade de Commercializacao de Diamantes, with the remaining 49 percent reportedly privately owned by Belgian interests and an Israeli diamond buyer with interests in the Russian diamond industry. The government of Angola also established a certificate of origin scheme and initiatives to register miners and traders in order to document the origin of diamonds and reduce informal markets. Angola Selling Corporation officials claim that rising government diamond revenues and a decrease in diamond territories held by UNITA as a result of battlefield losses indicate that trade in Angolan conflict diamonds is decreasing.

According to industry experts, Angolan diamond production is estimated at about $740 million in 2000 with the majority of official Angolan exports sold to Belgium.[32] Although the government of Angola is still struggling to control nonconflict illicit trade, U.N. and State Department officials have stated that UNITA became a less important force in the diamond trade as its mining areas were recaptured. Nonetheless, an October 2001 U.N. report theorized that UNITA might still be selling between 25 to 30 percent of illegal diamonds leaving Angola.[33]

[32]See *Diamond Annual Review (2000)* published by The Mining Journal Ltd.

[33]United Nations Security Council, *Supplementary Report of the Monitoring Mechanism on Sanctions Against UNITA*, S/2000/966 (New York: Oct. 12, 2001).

Conflict and Diamonds in the Democratic Republic of the Congo

Timeline of Major Events, 1994-2002

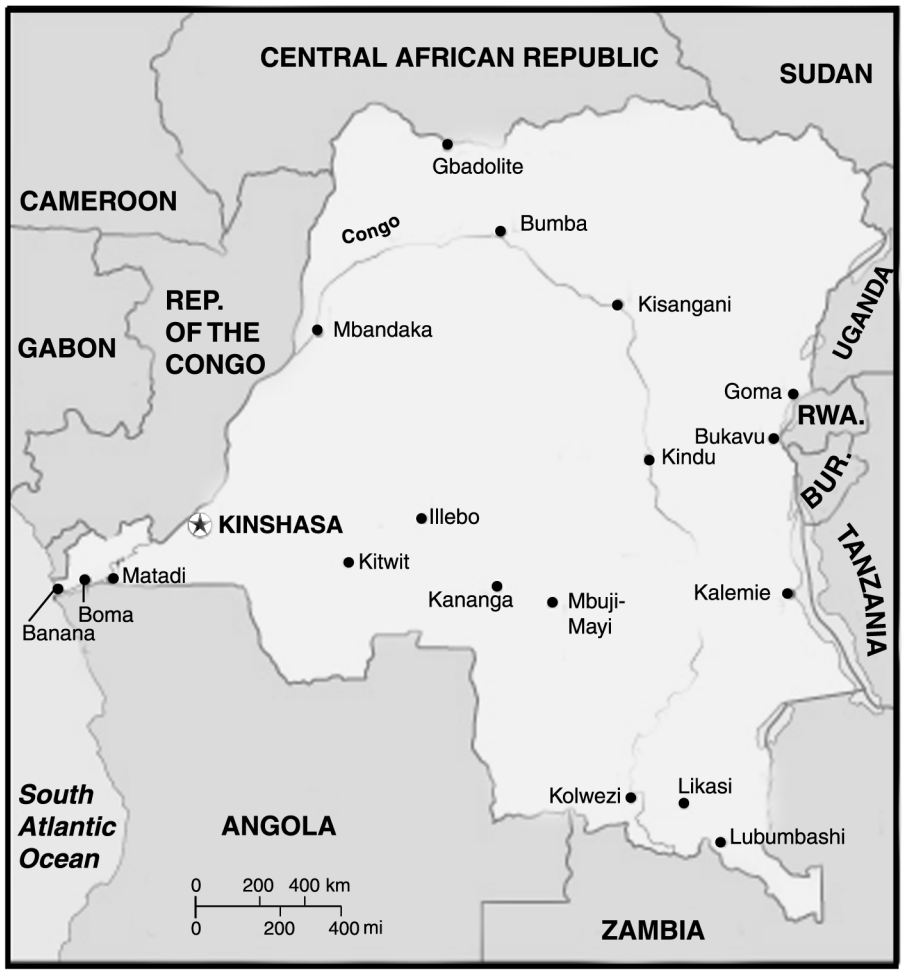
1994/95	Regional refugee crisis caused by war in neighboring Rwanda introduces large numbers of ethnic Hutu into the border region between Zaire and Rwanda.
1997	Alliance of Democratic Forces for the Liberation of Congo-Zaire, led by Laurent Kabila, overthrows regime of Mobutu Sese Seko by armed force, with the support of the Rwandan and Ugandan governments. Zaire is renamed Democratic Republic of the Congo.
1998	War breaks out between the DRC government and rebel forces when Kabila tries to expel Rwandan military forces that helped him overthrow Mobutu. Governments of Burundi, Rwanda, and Uganda depend on Rwandan military presence for protection from armed groups operating in the eastern DRC, and thus oppose expulsion of Rwandan presence.
1999	Lusaka Accords signed by the government of the DRC, Angola, Namibia, Rwanda, Uganda, Zimbabwe, and major rebel forces, calling for a cessation of hostilities by all forces in DRC. All parties violate cease-fire agreement. U.N. Security Council authorizes establishment of the U.N. Organization Mission in Democratic Republic of the Congo to assist in implementing the cease-fire.
2000	Despite U.N. efforts and diplomatic activity, little progress is made implementing the Lusaka Accords.
2001	President Kabila is assassinated and his son, Joseph, takes over. Under Joseph Kabila's leadership, progress is made toward establishing peace.

2002	Some skirmishes by nonstate forces continue. Inter-Congolese dialogue, as called for in the Lusaka Accords, results in a political agreement signed by most political parties and rebel groups in the DRC.

Diamonds in the DRC

Diamonds in the DRC are generally mined in the East and West Kasai Provinces around the towns of Tshikapa and Mbuji-Mayi with some mining around the city of Kisangani. Diamond production in the DRC is more than half artisanal, and more than 70 percent of DRC diamonds are industrial quality with an average value of only $35 per carat, according to industry experts. For a map of the DRC, see figure 2.

Figure 2: Map of the DRC



Source: CIA World Factbook 2001.

Societe Miniere de Bakwanga, a parastatal that formerly held a monopoly over DRC diamond production, is the DRC's largest mining company. In addition to Societe Miniere de Bakwanga, Cosleg, a company owned jointly by the Zimbabwean Defense Forces and the DRC army, was created in October 1999 to initiate mining operations in south-central DRC areas previously owned by Societe Miniere de Bakwanga and to purchase artisanal diamond production. However, in an attempt to regulate the diamond trade through a more controllable monopoly system, the Israeli

firm, International Diamond Industries, was given exclusive rights in July 2000 to buy and market diamonds from Societe Miniere de Bakwana and other trading firms in territories controlled by the DRC government. International Diamond Industries' tenure was contentious, however, and the original 18-month contract was repealed in April 2001. According to an official at the U.N. Development Program, a new mining code to liberalize trade has been developed in the DRC and is currently being prepared for implementation.

There is no sanctions regime against diamonds traded from the DRC. According to a U.N. report, however, the DRC plays a vital role as a smuggling route for diamonds from Angola and elsewhere, and thus those seeking to control conflict diamonds need to address the DRC's role in the conflict diamond trade. In addition, diamonds from artisanal mining have provided funding to rebels in the simmering conflict within the DRC.

Industry experts estimated that diamond production in the DRC was worth about $585 million in 2000. U.N. trade data suggest that exports of rough diamonds totaled about $729 million, with the majority being imported into Belgium but with South Africa and United States as important buyers in recent years.

Conflict and Diamonds in Liberia

Timeline of Major Events, 1989 - 2002

1989

National Patriotic Front of Liberia, led by Charles Taylor, begins rebellion against government.

1990

Economic Community of West African States sends the West African Economic Community Military Observer Group as a peacekeeping force.

Liberian President Samuel Doe is executed by splinter group of the National Patriotic Front of Liberia.

1996	Abuja Peace Accord signed. Implementation of Abuja Accord begins with disarmament program managed by the West African Economic Community Military Observer Group.
1997	Charles Taylor is elected president in elections declared free and fair by international observers.
2000	The United States imposes travel restrictions on Taylor government due to its ties with Sierra Leone's Revolutionary United Front (RUF).
2001	U.N. Security Council imposes sanctions on Liberia, including a ban on diamond exports because of Liberia's role in fomenting conflict in Western Africa.
	Armed incursions of Liberian rebels from Guinea take place in Liberia's Lofa county. Liberian and Guinean relations continue to deteriorate.
	Foreign Ministers of the Mano River Union countries (Liberia, Sierra Leone, and Guinea) meet in Monrovia to discuss a head of state summit among the three nations.
2002	President Charles Taylor declares a state of emergency as Lofa county fighting spreads towards Monrovia. Refugees from Lofa flow into refugee camps and neighboring countries.

Diamonds in Liberia

Liberian diamond production was estimated by industry experts to have been 160,000 carats worth approximately $27.2 million in 2000. All of Liberia's current production is alluvial. For a map of Liberia, see figure 3.

Figure 3: Map of Liberia

Source: CIA World Factbook 2001.

Liberia has been linked by the United Nations to the trade in conflict diamonds, particularly the trade in diamonds produced by Sierra Leone's RUF.[34] In March 2001, the U.N. Security Council imposed a series of

[34]United Nations Security Council, *Report of the Panel of Experts appointed pursuant to Security Council resolution 1306 (2000), paragraph 19, in relation to Sierra Leone, S/2000/1195* (New York: Dec. 20, 2000).

punitive sanctions on the Taylor regime, including a global prohibition on the direct or indirect import of rough diamonds from or through Liberia. Ironically, follow-up reports by the United Nations stated that Liberian diamonds are now being smuggled through Sierra Leone.

According to U.N. data, in both 1998 and 1999, more than $270 million worth of rough diamonds were imported worldwide from Liberia, most of which, according to the Congressional Research Service,[35] were attributed to diamonds smuggled from Sierra Leone and the transshipment and re-export of diamonds from Russia and elsewhere to avoid Belgian import tax payments. Year 2000 imports of rough diamonds from Liberia fell to about $102 million, according to U.N. data.

Conflict and Diamonds in Sierra Leone

Timeline of Major Events, 1991-2002

1991	RUF, led by Foday Sankoh, begins rebellion against government of Joseph Momoh.
1992	Sierra Leonean Army Captain Valentine Strasser assumes power after leading a coup to oust Momoh from office.
1994	RUF overruns diamond areas and begins to threaten Freetown.
1995	The government of Sierra Leone hires a private security force, Executive Outcomes, to fight the rebels. Executive Outcomes drives the RUF from Freetown and proceeds to retake many diamond areas.
1996	Ahmad Tejan Kabbah of the Sierra Leone People's Party wins presidential elections.

[35]Congressional Research Service, *Diamonds and Conflict: Policy Proposals and Background* (Dec. 5, 2001).

	Government of Sierra Leone and RUF negotiate Abidjan peace agreement, but it fails.
1997	RUF leader Sankoh is arrested in Nigeria.
	Members of Sierra Leone Army, calling themselves the Armed Forces Revolutionary Council, overthrow Kabbah government and join forces with the RUF.
1998	RUF/Armed Forces Revolutionary Council junta is driven out by West Africa's Economic Community Military Observer Group; Kabbah government is restored to power.
	U.N. Security Council establishes U.N. Observer Mission in Sierra Leone.
1999	Government and RUF sign power-sharing agreement, the Lome Accord.
	Foday Sankoh is released on pardon.
	U.N. replaces observer mission with larger mission, the U.N. Mission in Sierra Leone, to assist government in implementing Lome peace agreement.
	The disarmament and demobilization of combatants stall and fighting continues.
	U.S. Agency for International Development's Office of Transition Initiatives begins providing technical assistance to government of Sierra Leone to address conflict diamonds.
2000	RUF takes approximately 500 U.N. peacekeepers and military observers hostage. All are eventually released.
	RUF leader Sankoh is recaptured and imprisoned.
	All imports of diamonds from Sierra Leone are banned by U.N. Security Council Resolution 1306.
	Diamond exports resume when government of Sierra Leone presents elements of new export regime.

	RUF and government sign Abuja Agreement cease-fire, but RUF does not disarm and at end of year controls almost two-thirds of country.
2001	U.N. Mission in Sierra Leone increases in strength and deploys throughout the country. Disarmament, demobilization, and reintegration process gains speed.
	United Nations authorizes a Special Court for Sierra Leone and is working to develop a Truth and Reconciliation Commission for the country.
2002	The Joint Committee on Disarmament, Demobilization and Reintegration, composed of representatives of the government of Sierra Leone, the RUF and the U.N. Mission in Sierra Leone, declare the disarmament process complete.
	Presidential and parliamentary elections have been announced for May 2002.

Diamonds in Sierra Leone

Diamonds in Sierra Leone are principally found in the east and southeast portions of the country. Diamond deposits are primarily alluvial, with some kimberlite deposits. According to industry experts, Sierra Leone diamonds are of a high quality with an estimated average carat value of $250 in 2000. For a map of Sierra Leone, see figure 4.

Figure 4: Map of Sierra Leone

Source: CIA World Factbook 2001.

The Sierra Leone diamond market suffered from corruption and mismanagement throughout the 1970s and 1980s, causing a rise in smuggling. In the 1990s the RUF became involved in mining and trading diamonds to help fuel its rebellion against the government of Sierra Leone. Between 1997-1999, only 36,384 carats were officially exported, compared with roughly 2 million carats annually in the 1960s. According to a U.N. report, it has been estimated that, in 1999, the government of Sierra Leone lost approximately $68.8 million worth of diamond exports to criminal

activity.[36] The United Nations has also found that Liberia, Guinea, and Burkina Faso are important destinations for smuggled Sierra Leone diamonds.

The United Nations banned the import of all diamonds from Sierra Leone in July 2000, with the provision that rough diamonds controlled by the government of Sierra Leone through a fully operational diamond certification scheme would be exempted. By October 2000, the government of Sierra Leone was able to implement the called for diamond certification scheme developed with the help of the High Diamond Council of Belgium, and the governments of the United Kingdom, the United States, and Belgium, and was thus exempted from the ban. According to a government official from Sierra Leone, however, some RUF diamonds might simply be flowing through the legitimate system now. In addition, diamond mining by all parties has continued at a rapid pace since disarmament, according to U.S. State Department officials.

The United Nations reports official diamond imports in 2000 from Sierra Leone as about $14 million. Industry experts, however, report Sierra Leone production of rough diamonds at more than $87 million in 2000.

[36]United Nations Security Council, *Report of the Panel of Experts appointed pursuant to Security Council resolution 1306 (2000), paragraph 19, in relation to Sierra Leone*, S/2000/1195 (New York: Dec. 20, 2000).

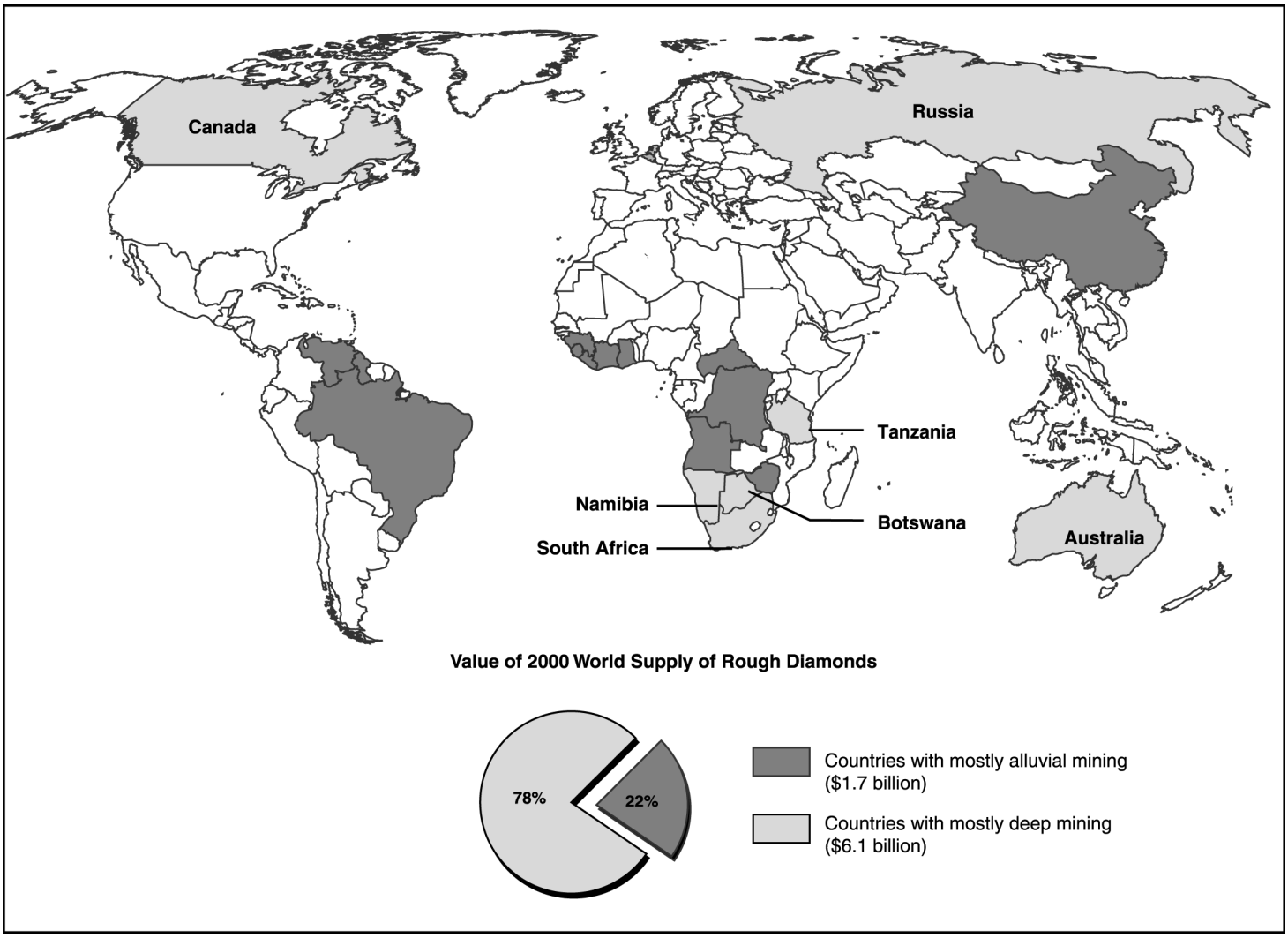
Structure and Economic Importance of the International Diamond Industry

Further understanding the diamond industry's structure and importance provides insights into the challenges faced by those attempting to address conflict diamonds. Diamond mining is characterized by large, contained, deep-mining operations and widely scattered alluvial surface mining operations, the former of which could be somewhat more easily subject to controls. While the majority of rough diamonds are traded through a small number of key countries, diamonds are traded around the world, contributing to the difficulty in tracking their origin. Though cutting and polishing is largely driven by labor costs and expertise, more mining countries are trying to encourage domestic cutting and polishing activities in order to supplement mining revenues. For a number of mining countries, revenues earned from the international diamond industry are economically significant.

Diamond Mining

Figure 5 shows that diamond mining occurs in approximately 20 different countries worldwide; however, the majority of rough diamonds are extracted in deep mines located in seven countries.

Figure 5: Countries That Mine Rough Diamonds, 2000



Source: The Mining Journal, Ltd.

Moreover, because of the substantial capitalization and sophisticated infrastructure required for deep mining, diamond mining in these seven countries is done primarily by one of four large companies (see table 4).

Table 4: Rough Diamond Mining, 2000

Currency in thousands of dollars (U.S.)

Mining company	Location of mining operations	Value of mined diamonds	Percent of world supply of diamonds
De Beers Consolidated Mines Ltd.	Botswana, Namibia, South Africa, and Tanzania	$3,541,720	45
Alrosa Ltd.	Russia	1,595,000	20
BHP Billiton	Canada	453,555	6
Rio Tinto	Australia	360,600	5
Other mining operations	Africa, China, and Latin America	1,906,120	24
Total		**$7,856,995**	**100**

Note: Companies listed are those that mine in countries characterized as having primarily deep mining operations.

Source: Mining Journal.

Although world diamond mining is highly concentrated, the share of rough diamonds mined in African countries by entities other than De Beers—22 percent—is nevertheless significant in terms of value: about $1.8 billion in production value and about $2 billion in exports in 2000. For these African countries, much of the rough diamond supply is found in surface alluvial fields. Alluvial diamonds are collected by individual artisanal diggers using a simple sieve or shovel, sold to local dealers, and eventually exported.

Rough Diamond Trading

As with mining, the majority of rough diamonds are traded through a few key markets, though a much larger number of countries engage in the trade. The De Beers Diamond Trading Company (DTC) markets approximately 65 percent of rough diamond production by value. This includes all diamonds from De Beers' mining operations and the operations of its partnerships in Namibia and Botswana and a portion purchased from Alrosa Ltd. and BHP Billiton. After purchase, the DTC sorts its rough diamonds at its London office and sells them to designated buyers called sight-holders at scheduled times throughout the year. About half of De Beers' sight-holders trade through their offices in Antwerp, Belgium, which is also the principal market for non-DTC diamonds. According to the Belgian Ministry of Economic Affairs, Antwerp is the largest trading center for rough diamonds with between 5 million and 10 million rough stones

checked daily at the Antwerp Diamond Office. As important cutting and polishing markets and hosts to a number of other De Beers' sight-holders, the United States, India, and Israel are also large diamond trading centers.

Though trading of rough diamonds is dominated by the DTC, United Nations (U.N.) data suggest that more than 100 countries worldwide export rough diamonds. Figure 6 shows that 77 percent of total rough diamond exports in 2000 came from either a mining country or one of five main trading centers. The remaining, 23 percent of rough diamond exports, worth approximately $5.4 billion, came from 77 other countries around the world.

Figure 6: Countries That Export Rough Diamonds, 2000

[a]The five largest reported trading centers are Belgium, India, Israel, the United States, and the United Kingdom.

Source: U.N. data except for Botswana, Namibia, and South Africa, which did not report their diamond trade statistics to the United Nations. Data for Botswana and Namibia are from the World Bank, and data for South Africa are from the South African Revenue Service.

Rough Diamond Cutting and Polishing

There are a number of established centers for cutting and polishing of rough diamonds, as well as emerging markets. Currently, India is the world's largest cutting and polishing center with around $6.5 billion of polished diamond exports in both 1999 and 2000. Driven partially by low labor costs, 9 out of 10 rough diamonds are cut and polished in India by a workforce of approximately 700,000. Israel, Belgium, and China are also large cutting and polishing centers, and the United States is an important center for polishing of high quality gems.

Despite the existence of established cutting and polishing centers, some countries that mine rough diamonds are trying to expand cutting and polishing activities to capture the value added revenues and expand employment.[37] According to industry experts, though mining countries currently supply less than 10 percent of the polished market, they expect a larger share of this activity to be diverted from traditional centers to mining countries due to political and economic pressure on those governments to create opportunities for increased mineral wealth. For example, both Namibia and South Africa have legislation mandating some domestic cutting and polishing.

Economic Importance of the Diamond Industry

The international diamond industry provides substantial economic benefits to a number of countries, though direct economic contributions vary depending on the extent of conflict or nonconflict related smuggling, the way diamonds are mined, the presence of activities such as cutting and polishing, and the government tax system.[38]

Table 5 lists estimates of the economic importance of diamond mining in a few select countries and suggests that diamond sales can account for a significant portion of total merchandise exports and gross domestic product. For example, in countries with mostly alluvial mining, diamond

[37]Though profit margins in cutting and polishing are relatively smaller than in mining, cutting and polishing is a labor-intensive activity and generates employment. Industry experts estimate that in Botswana, for example, 23 jobs are created for every $2 million of capital employed in mining while 170 jobs are created for every $2 million of capital employed in cutting and polishing.

[38]Potential direct economic contributions may include diamond sales revenues, foreign exchange generated from diamond exports, government revenues, wages for employees, and industry investments. Indirect benefits may include payments for support services such as transportation or insurance and/or social investments made by large diamond companies.

exports in 2000 accounted for 74 percent of total merchandise exports in the Central African Republic and 21 percent of total merchandise exports in Guinea. In countries with mostly deep mining, this share was 79 percent for Botswana and 48 percent for Namibia.

Table 5: Estimates of the Economic Importance of Diamond Mining for Selected Countries, 2000

Currency in dollars (U.S.)

	Rough diamond exports as% of total merchandise exports	Value of diamond mining as% of gross domestic product	Government revenues from diamond industry	Current employment in diamond industry
Countries with alluvial mining				
Angola	8.1	8.4	$66,000,000	unknown[a]
Central African Republic	74.2	7.4	not available	unknown
Guinea	21.3	3.3	not available	unknown
Sierra Leone	18.6	13.7	423,418 [b]	unknown
Countries with primarily deep mining				
Botswana	78.7	40.1	1,197,800,000	6,000
Namibia	47.9	12.0	48,000,000	2,000
South Africa	5.0	0.9	53,043,478	15,200

[a]In countries with alluvial mining done by artisanal operators, the number of diggers is often unknown due to the absence of a legal framework requiring registration.

[b]According to the U.S. Agency for International Development, the Sierra Leone government started charging a 3 percent tax on rough diamond exports in 2000. This estimate includes possible export tax revenues but does not include possible revenues from diamond licenses.

Source: Trade data is from the U.N., except for Botswana and Namibia whose trade data is from the World Bank. Mining values are from The Mining Journal, Ltd; Gross domestic product figures are from the World Bank; and employment estimates are from the U.S. State Department. Estimates of government revenues are from the following: Angola's is from the diamond mining company Ascorp, Botswana's and Namibia's are from De Beers, with supporting data from the World Bank, South Africa's is from the U.S. State Department, with an exchange rate provided by the World Bank, and Sierra Leone's is from the United Nations.

In addition to exports, economic contributions are most visible in Botswana, where diamond sales account for more than one-third of its gross domestic product and provide over $1 billion in government revenues (worth half of total government earnings) and 6,000 jobs. Debswana, a joint venture mining company between De Beers and the government, is the second largest employer in the country and returns more than 70 percent of

its profits to Botswana in the form of taxes, royalties, dividends, and activities such as cutting and polishing. According to the International Monetary Fund, the diamond industry has allowed Botswana to earn foreign exchange reserves, create government budget surpluses, and become a growing economy in Africa.

Though somewhat less prominent, the diamond industry is also visibly important in Namibia and South Africa. In Namibia, diamond earnings account for 12 percent of its gross domestic product and the industry employs up to 2,000 people. Namdeb, a joint venture company between De Beers and the government, is also the largest taxpayer. In South Africa, the diamond industry makes up a smaller share of the economy given the greater level of economic diversification. Nonetheless, more than 15,000 people are employed in the South African diamond industry and, according to the U.S. Department of State, an estimated three to six jobs in support service industries are generated for each job in mining.

Historical Data on African Diamond Exports

According to official United Nations (U.N.) data, estimated exports of rough diamonds from nonmining African countries decreased in 2000. As shown in table 6, the total value of rough diamonds reportedly exported from these countries went from about $293 million in 1990 to about $793 million in 1996 to only about $64 million in 2000. Accounting for a large part of this trend, rough diamond exports went from about $648 million in 1996 to about $39 million in 2000 for Congo-Brazzaville and from about $129 million in 1996 to about $18 million in 2000 for the Gambia.

Table 6: Value of Estimated Rough Diamond Exports[a] from Africa, 1990-2000

Currency in thousands of dollars (U.S.)

	1990	1991	1992
Producing countries			
Angola	$260,546	$48,677	$182,784
Botswana	1,412,000	1,455,000	1,374,000
Central African Republic	75,178	78,539	76,337
Democratic Republic of the Congo	289,020	473,436	384,883
Ghana	140,470	105,360	112,924
Guinea	82,835	91,254	102,032
Ivory Coast	101,322	112,073	110,932
Kenya	89	27	1,036
Liberia	390,833	136,313	312,739
Namibia	328,000	n/a	n/a
Sierra Leone	84,342	131,793	210,271
South Africa	516,417	329,813	154,830
Tanzania	7,964	146	360
Zimbabwe	n/a	114	505
Total: Producing countries	**$3,689,017**	**$2,962,543**	**$3,023,635**
Nonproducing countries			
Benin	1,162	n/a	n/a
Cameroon	205	175	29
Congo-Brazzaville	122,167	167,683	335,170
Gambia	77,956	102,058	130,973
Guinea Bissau	n/a	68	n/a
Mali	11,305	36,655	34,983
Nigeria	73,391	53,471	647
Rwanda	n/a	n/a	213
Senegal	326	9,415	698
Togo	5,642	3,648	3,596
Uganda	n/a	n/a	n/a
Zambia	1,320	3	8
Total: Nonproducing countries	**$293,473**	**$373,175**	**$506,316**
Total	**$3,982,489**	**$3,335,717**	**$3,529,950**

1993	1994	1995	1996	1997	1998	1999	2000
$143,464	$123,535	$161,510	$253,636	$322,969	$352,725	$551,131	$633,265
1,379,000	1,384,000	1,437,000	1,721,000	2,095,000	1,477,000	2,132,000	2,164,000
84,959	62,076	90,093	112,655	106,374	160,415	156,031	168,515
471,625	750,674	824,525	856,020	722,098	677,269	833,510	728,975
204,130	264,885	212,316	225,678	202,859	133,568	206,784	58,952
191,622	113,854	101,856	85,348	115,690	125,087	143,275	163,166
106,259	71,326	129,043	210,533	116,723	44,469	52,219	61,244
306	42	18	n/a	1	46	59	0
291,745	318,212	766,156	556,313	328,923	277,458	290,243	101,861
n/a	n/a	n/a	n/a	n/a	n/a	459,000	709,000
92,629	104,288	108,805	113,825	129,009	73,941	34,393	14,114
167,215	146,493	194,136	515,000	860,385	851,454	1,297,676	1,390,456
222	5,974	215	1,682	6,579	5,518	8,144	30,294
1,658	3,802	5,613	9,762	7,888	1,235	1,557	1,976
$3,134,833	**$3,349,161**	**$4,031,286**	**$4,661,453**	**$5,014,499**	**$4,180,187**	**$6,166,022**	**$6,225,819**
n/a	n/a	3,419	1,343	1,061	421	103	21
3	4	348	n/a	2,565	5,367	5,812	884
327,590	260,429	430,506	647,880	503,555	80,858	64,194	39,153
64,594	59,144	122,394	129,237	132,716	101,503	54,650	18,396
69	32	n/a	n/a	n/a	n/a	1,289	n/a
15,268	13,985	14,510	8,573	3,350	2,043	4,734	5,476
449	3,252	4	20	n/a	4	n/a	n/a
n/a	29	442	n/a	712	16	236	n/a
3	875	505	1,985	3,174	256	58	n/a
4,800	18,139	22,758	2,865	3,453	1,107	15,646	214
n/a	n/a	n/a	n/a	203	1,364	1,170	13
63	36	688	597	381	25	15	39
$412,840	**$355,924**	**$595,573**	**$792,500**	**$651,171**	**$192,965**	**$147,907**	**$64,197**
$3,547,673	**$3,705,085**	**$4,626,859**	**$5,453,953**	**$5,665,670**	**$4,373,152**	**$6,313,929**	**$6,290,016**

[a]Estimated exports are derived using the sum of world imports from each country.

Note: n/a means not available.

Source: U.N. data except for Botswana, Namibia, and South Africa, which did not report their diamond trade statistics to the United Nations. Data for Botswana and Namibia are from the World Bank. Data for South Africa are from the South African Revenue Service.

Comments from the Department of State

United States Department of State

Washington, D.C. 20520

MAY 23 2002

Dear Ms. Westin:

We appreciate the opportunity to review your draft report, "INTERNATIONAL TRADE: Critical Issues Remain in Deterring Conflict Diamond Trade," GAO-02-678, GAO Job Code 320027.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Alan Eastham, Special Negotiator, Office of Energy, Sanctions, & Commodities, Bureau of Economic and Business Affairs, at (202) 647-1625.

Sincerely,

Christopher B. Burnham
Assistant Secretary and
Chief Financial Officer

Enclosure:

As stated.

cc: GAO/IAT - Mr. Phil Thomas
State/OIG - Mr. Berman
State/EB - Mr. Alan Eastham

Ms. Susan S. Westin,
Managing Director,
International Affairs and Trade,
U.S. General Accounting Office.

Department of State Comments on GAO Draft Report
INTERNATIONAL TRADE: Critical Issues Remain in Deterring Conflict Diamonds
(GAO report 02-678, Job Code 320027)

We appreciate the opportunity to review GAO's draft report on Conflict Diamonds.

In response to the report's sole recommendation, we believe that GAO has given insufficient weight to the significant political commitments made by all major diamond producing and trading countries, as reflected in the Kimberley Process document.

These commitments offer unprecedented, highly significant, and tangible areas of international cooperation in order to combat trade in conflict diamonds, including:

- Documenting the trade in rough diamonds in detail,
- Exchanging detailed statistics,
- Cooperating to investigate trade anomalies, and
- Accepting monitoring and assistance missions from other partners in the process.

Rather than recognizing these breakthrough commitments, the GAO report under review focuses its attention on accountability measures, using as its yardstick a set of standards developed for use in government systems under the control of a single governmental authority. In our view, it would be more appropriate to recognize that the Kimberley Process scheme, as developed in a lengthy international discussion, is a dynamic effort to reconcile competing priorities among nearly 40 governments, several international and intergovernmental organizations, and the industry that will be affected.

As such, the Kimberley Process is subject to adjustment during its implementation phase, and all participants in the Kimberley Process recognize that adjustments will be required. We agree that international certification scheme for the trade in rough diamonds will need improvement and refinement as participants gain experience with its practical implementation. However, to reopen substantive discussion of a virtually completed document as the system is close to its launch, with a view to negotiating

additional controls, is not a realistic option. Such a step would not be politically sound and might undo much of the progress reached thus far.

We note the voluntary nature of the system, which the report criticizes, reflects a desire on the part of present participants to begin implementation as soon as possible and to maximize participation by others. Launching the scheme early on a voluntary basis would not preclude future legally binding actions. However, legally binding agreements take significantly longer time to develop and bring into effect.

We welcomed the cordial and effective cooperation between the GAO team and the Department of State during GAO's investigation. This included, from the Department of State and other agencies of the Executive Branch, numerous meetings and telephone contacts, support to GAO employees to facilitate their attendance at meetings of the Kimberley Process, and access provided by the State Department to approximately 175 documents. In addition, U.S. embassies in Brussels, Moscow and London, and the U.S. Mission to the U.N. in New York, spent many hours assisting the GAO with additional appointments and travel arrangements. We were therefore concerned that the only mention of cooperation by the Department of State in the draft report cites us critically with respect to documents provided. We hope that based on discussions held during the comment period on this report that the final report will reflect more adequately the extent of State Department assistance to GAO during this investigation.

Thank you again for the opportunity to comment on this report.

Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON
JUN 05 2002

Ms. Susan S. Westin
Managing Director
International Affairs and Trade
U.S. General Accounting Office

Dear Ms. Westin:

We appreciate the opportunity to review your draft report, "INTERNATIONAL TRADE: Critical Issues Remain in Deterring Conflict Diamond Trade," GAO-02-678.

The enclosed Treasury Department comments are provided for incorporation with this letter as an appendix to the final report. Also attached are some more technical comments that have previously shared with your staff.

If you have any questions concerning this response, please contact me at (202) 622-0220.

Sincerely,

Timothy Skud
Deputy Assistant Secretary
Regulatory, Tariff, and Trade Enforcement

Enclosure

Treasury Department Comments on GAO Draft Report
INTERNATIONAL TRADE:
Critical Issues Remain in Deterring Conflict Diamond Trade GAO Report 02-678

We appreciate the opportunity to review the draft GAO report entitled "International Trade: Critical Issues Remain in Deterring Conflict Diamond Trade."

We have carefully reviewed the draft you provided and find that, while we agree with the description of difficulties in monitoring and controlling diamond trade, we do not agree with the Recommendation for Executive Action concerning the Kimberley Process. We do not believe that the difficulties you document can be overcome by a system of government controls more extensive than those envisioned by the Kimberley Process. In our view, such steps are unlikely to increase the effectiveness of enforcement, but would substantially increase compliance costs for legitimate traders and for government administrators, and would divert enforcement resources from more effective means of interdicting conflict diamonds.

We believe that it is important to adhere to the stated purpose of the Kimberley Process, which is to "break the link between armed conflict and the trade in rough diamonds through a simple and workable international certification scheme."

GAO Contacts and Staff Acknowledgments

GAO Contacts

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Acknowledgments

In addition to those individuals named above, Zina Merritt, Kendall Schaefer, Sharla Draemel, Mark Dowling, and Janey Cohen made key contributions to this report.

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