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Diamonds and Conflict: Policy Proposals and Background

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Summary

The mining and sales of diamonds by parties to armed conflicts, notably in Africa, are regarded as a significant factor fueling hostilities. Such diamonds, labeled “conflict diamonds,” make up an estimated 3.7 % to 15% of the value of the global diamond trade. In response to public pressure to halt the trade in conflict diamonds, and due to the persistence of diamond-related conflicts, governments and multi-lateral organizations have taken diplomatic action to combat the trade. Several international policy making forums have addressed the problem. Effective regulation is difficult, however. Diamonds are a highly fungible, concentrated form of wealth, and the legitimate global diamond industry is historically insular and self-regulating. Illicit diamond commerce exploits these factors. Many policy proposals to end this trade center on ensuring the legal identification of the origin of diamonds and requiring the registration, identification, and monitoring of international diamond shipments, as is common for other goods. Methods for achieving these ends include the cataloging of unique physical or “geo-chemical” diamond features; the “tagging” of diamonds with microscopic markings; and the creation of certification of origin laws aimed at generating documentation to establish the legal provenance of diamonds.

The Clinton Administration has worked to create an international diamond trade regime, likely employing certificates of origin, but seeks to ensure that legitimate diamond producers are not hurt by emerging policies. The Clinton Administration has encouraged marketing reform and regulatory capacity building in African diamond producing countries. It has consulted with the diamond industry, and has used U.S. membership on the U.N. Security Council to push for international sanctions banning the conflict diamond trade. The United States is participating in multi-lateral policy coordination initiatives and has sponsored and participated in a variety of policy making forums. Critics of the Clinton Administration have called for faster U.S. action to halt the conflict diamond trade.

Several hearings in the House and Senate have focused in part or exclusively on U.S. policy on conflict diamonds. In the 106th Congress, several conflict diamond-related bills were introduced. H.R. 4811, the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001 became P.L. 106-429. The Act prohibits U.S. funding assistance for any government credibly found to have aided in the illicit distribution or sale of diamonds mined in Sierra Leone. Legislation introduced that is conflict diamond-specific included H.R. 5564, Conflict Diamonds Elimination Act of 2000 and H.R. 5147, Consumer Access to a Responsible Accounting of Trade Act of 2000, both sponsored by Representative Tony Hall. The primary source countries of conflict diamonds, Angola, the Democratic Republic of the Congo, and Sierra Leone, have each undertaken efforts to regulate the marketing and export of diamonds. Their policies are described in an Appendix to this report.

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Diamonds and Conflict: Policy Proposals and Background

Conflict Diamonds: Background and Policy

Introduction: Key Issues

The mining and sales of diamonds by parties involved in armed conflicts, notably in Africa, are regarded as a significant factor fueling hostilities. Such diamonds have been labeled “conflict diamonds” or “blood diamonds” because they provide a source of funding for the purchase by belligerent forces of weapons and other resources. Trade in diamonds is a contributing factor to conflicts currently taking place in Angola, the Democratic Republic of Congo (DRC), and Sierra Leone. Diamonds have also contributed to the internationalization of these civil conflicts. The possibility of gaining access to diamond wealth appears to have motivated foreign actors—including governments, private security-cum-mining firms, and mercenaries—to become party to each of these conflicts, reportedly in exchange for diamond mining rights.

Although most observers view the causes of these conflicts as complex, reflecting a combination of political and socio-economic factors, analysts have increasingly focused on the connection between contested natural resources and political conflict. The World Bank, for instance, recently published a study on causal connections between natural resources, demographic characteristics, and the occurrence of conflict. The Bank paper portrays diamonds as a particularly concentrated example of what it terms “lootable commodities,” which its analysis indicates is an important factor driving conflict.¹

World Diamond Market

The world diamond market is large; world diamond production in 1999 is estimated at between \$6.857 and \$7.253 billion. While most diamond production is for industrial uses, gem diamond production is the foundation of a large diamond jewelry industry. Global diamond jewelry retail sales in 1999 are estimated to have been worth \$56 billion. U.S. diamond demand is the largest in the world. In 1998, the U.S. market for unset gem diamonds was estimated at \$8 billion, and in the same year, U.S. diamond trade with all countries and territories was worth approximately \$11.136 billion.

¹ See the World Bank project, headed by economist Paul Collier, titled *The Economics of Civil War, Crime, and Violence*, which is available online at [<http://www.worldbank.org/research/conflict/index.htm>].

Diamond Production Statistics: A Caveat. Estimates of annual diamond production and trade value in countries where conflict diamonds are mined vary widely because they rely on disparate methodologies and because detailed data are often lacking. Some estimates, for instance, take into account only official production figures, which ordinarily reflect official sales and production, and some do not include artisanal and unofficial production in their calculations.² As a sub-portion of unofficial trade and production, conflict diamond trade and production volumes are especially difficult to measure, but are believed to be significant. De Beers, a large diamond mining and marketing business group, has estimated that conflict diamonds comprised approximately 3.7% of world diamond production in 1999. Other estimates range as high as 15% of the world trade in recent years. Some analysts, however, believe that the latter figure includes illicitly traded diamonds that do not have an origin in conflict. Due to the illicit nature of conflict diamonds it is extremely difficult to differentiate them from other illicit stones, according to many observers, because both varieties are traded in a similarly illegal fashion.³

Controlling Conflict Diamonds

Background

Non-governmental organizations (NGOs) working on such issues as natural resource exploitation, human rights, and conflict resolution, have undertaken international advocacy campaigns aimed at halting the conflict diamond trade. A number of NGOs have formed a joint project called the *Fatal Transactions International Diamond Campaign*.⁴ As public knowledge of the problem has grown, and in response to the persistence of diamond-related conflicts, international governmental organizations (IGOs) and national governments have undertaken highly publicized legal, diplomatic, and military actions aimed at combating the trade in conflict diamonds. Among the IGOs that have acted to address the problem are the United Nations (U.N.), European Union (EU), Economic Community of West African States (ECOWAS), and Southern African Development Community (SADC). Several recent multi-lateral conferences held in South Africa have focused on solutions to the conflict diamond problem (see *The Kimberley Process*, below).

The release of the *Fowler Report*, which described the status of the implementation of U.N. sanctions against the Angolan rebel group, UNITA, including a ban on the export and sale of Angolan conflict diamonds, motivated widespread concern and recognition of the connection between conflict and the illicit diamond

² Some estimates, nevertheless, attempt to account for unofficial trade and production, using various proxy measurements, such as relative increases in exports from regions bordering production countries, field reports of artisanal production and small-scale trade, and confidential information from traders in international diamond processing centers.

³ See the *Report of the Panel of Experts appointed pursuant to Security Council resolution 1306 (2000), paragraph 19, in relation to Sierra Leone* [S/2000/1195], pages 27-28.

⁴ The *Fatal Transactions Campaign* is online at the Netherlands institute for Southern Africa web site [<http://www.niza.nl/uk/campaigns/diamonds/index.html>].

trade. *The Fowler Report* is the informal title of the March 2000 *Report of the Panel of Experts on Violations of Security Council Sanctions Against UNITA* (United Nations S/2000/203), and is named after the chairman of the sanctions committee, then-Canadian Ambassador to the U.N. Robert R. Fowler.⁵

Regulatory Challenges

Effective policing of the illicit diamond trade faces difficult challenges. Diamonds are a highly fungible and concentrated form of wealth, and the legitimate international diamond industry is historically insular, self-regulating, and lacks transparency. The trade in conflict diamonds takes advantage of these factors. The conflict diamond trade has also been linked to covert and sometimes violent business transactions. It is reportedly associated with international criminal activities, such as money laundering, smuggling, commercial fraud, and arms trafficking. Observers have concluded that conflict diamonds regularly enter the legitimate international market.⁶

Policy Proposals⁷

Most proposals for curtailing the trade in conflict diamonds center around implementing systems to identify the origin of diamonds to ensure that diamonds sold by illicit sellers do not enter legitimate international commerce.⁸ Such proposals provide the basis for laws and international actions, such as U.N. Security Council sanctions, that ban trade in conflict diamonds. Three primary approaches for determining the provenance of diamonds have been proposed

1. Physical or “geo-chemical” identification of diamonds. Research on geo-chemical methods for diamond identification focuses on the comparative analysis of trace elements and impurities within diamonds. Such information would be used to establish common characteristics of diamonds from similar areas or to pinpoint

⁵ See Appendix, below, for more details on the *Fowler Report* and diamonds in Angola.

⁶ Ian Smillie, Lansana Gberie and Ralph Hazleton describe and cite a range of illegal and gray-market operations associated with diamond trading. See *The Heart of the Matter: Sierra Leone, Diamonds and Human Security*, Partnership Africa Canada, January 2000, online at [<http://www.partnershipafricacanada.org/english/esierra.html>]. Multiple press accounts also describe illicit acts associated with diamond trading.

⁷ Comprehensive treatment of technical and policy issues related to conflict diamonds is contained in Global Witness, *Conflict Diamonds: Possibilities for the Identification, Certification and Control of Diamonds*, May 2000, which is also available online at [<http://www.oneworld.org/globalwitness/reports/conflict/cover.htm>]. Also see statement of William E. Boyajian, President, Gemological Institute of America, and on behalf of the World Diamond Council, *Testimony Before the Subcommittee on Trade of the House Committee on Ways and Means Hearing on Trade in African Diamonds*, September 13, 2000, Online at [<http://waysandmeans.house.gov/trade/106cong/9-13-00/9-13boya.htm>].

⁸ The *origin* of a diamond refers to its physical origin, or place where it was mined. A diamond's *provenance* refers to the place from where it was last shipped. In published accounts describing the diamond industry, the two terms have sometimes erroneously been conflated.

unique characteristics—in a manner analogous to fingerprinting—of individual diamonds. This research employs plasma mass spectrometry and related technologies.

A related approach is to identify and correlate the surface, crystal, and other structure-related characteristics of rough (unpolished) diamonds, with the aim of establishing unique identifying features of groups of diamonds from similar places of origin, and possibly of individual gems. Such identification would be based on visual assessments and on the use of spectral refraction methods or optical, laser, x-ray, and other scanning technologies.

Geo-chemical and automated physical characteristic identification technologies have not yet been perfected, according to many experts familiar with these research efforts, who also state that the technologies are likely, in the short to medium term, to remain prohibitively expensive. Another challenge faced is that when diamonds are cut or polished, certain physical characteristics upon which identification methods depend are permanently altered or destroyed. A third challenge is that alluvial (surface) diamonds are often carried far from their points of origin by water or movements of geologic elements. This means that some diamonds cannot be physically differentiated from those found in nearby countries, or within different regions—controlled by opposing parties—of a particular country.

2. Tagging of diamonds. This approach seeks to use laser and focused ion beam technologies to inscribe on individual diamonds identifying information, such as microscopic bar codes, which can then be used to register and track stones. Several firms market the requisite technology. Other firms offer technology that can be used to identify unique spectral features of individual cut diamonds using laser scanning technologies. The costs of tagging technology currently represent a barrier to their widespread use in diamond commerce, but expert opinion suggests that these prices may fall in the near to medium future. Critics point out that it may be possible to cut off or otherwise obliterate identifying marks that are cut onto the face of diamonds.

3. Certificate of origin laws. This approach seeks to create a legally-binding chain of warranties from the point of mining origin to the country of importation or—in some proposals—to the retail level. The objective is to create trade documentation that, based upon verification by the authorities of an exporting country, validates the legal origin of diamonds. It forms the basis for findings of legal fact in efforts to track and monitor the diamond trade, and in determining the legitimacy of commercial diamond transactions. The approach relies on effective administrative processes and law enforcement, and proper adherence to prescribed regulatory procedures. The certificate of origin approach is likely to form an integral part of any future international diamond trade regime.

Industry Policy Initiatives

Diamond High Council. The Diamond High Council (HRD) is a formal trade organization representing the Belgian diamond industry. Antwerp, Belgium, where the HRD is headquartered, is one of the leading international diamond cutting centers, and is a major destination for exports of rough diamonds from Africa. The HRD has close working ties with the Belgian government. HRD has taken uni-lateral and multi-lateral action to curtail the trade in conflict diamonds. Beginning in late 1999,

it assisted the Angolan government in designing a forgery-proof certificate of origin documentation system, and later entered into a joint export control regime and technical assistance agreement with the Angolan government. It has given the Sierra Leonean government similar certificate of origin advice, in coordination with donor governments, including the United States, and has stated that it will seek to establish a joint export control regime with Sierra Leone along the lines of the Angolan arrangement.

The HRD has stated that the Belgian Ministry of Economic Affairs, since February 2, 2000, has required that imports be licenced under the name of individual diamond dealers for all diamond imports from: Liberia; Ivory Coast; Uganda; Central African Republic; Ghana; Guinea; Namibia; Congo (Brazzaville); Mali; and Zambia. No government-verified certificate of origin system currently exists in these countries, according to the HRD. The HRD has stated that if probable cause exists indicating that diamonds imported to Belgium do not originate in the country of export, Belgian government officials will attempt to determine the source of such stones.

World Diamond Council. In July 2000, during the World Diamond Congress in Antwerp, Belgium, the two largest international diamond trade organizations, the World Federation of Diamond Bourses (WFDB) and the International Diamond Manufacturers Association (IDMA), jointly issued a resolution calling for:

- ! A uniform, global export certification system, underpinned by national legislation in participating countries, establishing a range of export control mechanisms aimed at ensuring the legitimate origin of internationally traded diamonds. Such legislation would require a system of seals and registration for the export of diamond parcels, controlled and maintained by national, internationally accredited export agencies; criminal penalties for illicit diamond trading; and a system for monitoring compliance with the system.
- ! The mandatory establishment by diamond trade organizations of ethical codes of business practice aimed at ensuring transparency and adherence to legal requirements in diamond commerce; and cooperation in monitoring compliance with such codes and germane trade law.

Acting under the Antwerp Resolution, which called for the creation of the World Diamond Council (WDC), the WFDB and IDMA chartered this organization. In Tel Aviv, Israel on September 7, 2000, the WDC held an inaugural policy planning meeting. According to testimony by Matthew A. Runci, President and Chief Executive Officer of the Jewelers of America, Inc., speaking on behalf of World Diamond Council before the House Committee on Ways and Means Subcommittee on Trade hearing on *Trade in African Diamonds*, September 13, 2000,⁹ the WDC plan includes the following elements:

⁹ Online at [<http://waysandmeans.house.gov/trade/106cong/9-13-00/9-13runc.htm>].

- ! Establishment of dedicated rough diamonds import/export offices that are closely supervised by individual government authorities;
- ! Adoption of a uniform international certification system requiring that all rough diamond parcels being traded internationally be sealed and authenticated prior to export;
- ! Monitoring of industry-wide compliance with proposed ethical codes of conduct that prohibit the trade in conflict diamonds;
- ! Obliging banks, insurance companies, shipping companies and other providers of auxiliary goods and services to cease business relations with any company or individual knowingly involved in dealing in conflict diamonds;
- ! The result of these steps will be to support a chain of assurance for traders of polished diamonds based on rough controls.

The WDC stated that these steps together will create support a chain of assured legitimacy of provenance for diamond traders. The WDC has also called upon governments of diamond exporting and importing countries to enact legislation that would support the WDC's goals. It offered its technical and marketing expertise to governments for the purpose of drafting appropriate legislation. In addition, it called for continued enforcement of international sanctions aimed at curtailing the arms trade, which it asserted is a key factor in perpetuating conflict in Africa. The WDC has reportedly hired a law and lobbying firm, Akin, Gump, Strauss, Hauer & Feld, to draft model legislation on behalf of the WDC.¹⁰

De Beers. As of March 27, 2000, under the trademark initials DTC (for the Diamond Trading Company Limited, the gem-quality diamond sales arm of the De Beers group of companies), De Beers has guaranteed that it does not purchase or sell diamonds from “any area in Africa controlled by forces rebelling against the legitimate and internationally recognized government of the relevant country.” De Beers asserts that it is no longer buying diamonds from Angola, Guinea, Congo, Sierra Leone, or Liberia.¹¹

DTC has also introduced formal rules for its 125 “sight” holders—or rough diamond wholesale buyers—replacing a reported system of informal, unwritten criteria with which sight holders were previously required to comply. The new system reportedly includes provisions requiring that sight buyers who are discovered to be purchasing diamonds not guaranteed as being “conflict-free” lose their right to purchase from De Beers, which reportedly controls sales of between 44 and 70% of

¹⁰ Judy Sarasohn, “\$2 Million Assist Costs University Nothing,” *Washington Post*, November 2, 2000, page A27; and Martin Rapaport, “WDC to Offer Model Statute to Curb Conflict Diamonds,” [<http://www.diamonds.net/news/newsitem.asp?num=4607&type=all&topic=all>].

¹¹ “De Beers Guarantees the Source of its Rough Diamonds,” February 29, 2000, online at [<http://www.debeers.ca/conflict/29feb0.html>]; and “Angolan Diamonds,” October 5, 1999, online at [<http://www.debeers.ca/conflict/angola.html>].

the world rough diamond market. A De Beers representative has reportedly stated that its efforts and those of the industry at large have caused an approximate 30% price drop for conflict stones.¹²

Some observers have raised doubts about De Beers' guarantee, pointing out that the company's large inventory may contain diamonds purchased from UNITA in past years, especially during the first half of the 1990s.¹³ In its December 2000 report on the trade in conflict diamonds, the U.N. Panel of Experts on Sierra Leone Diamonds and Arms stated that its investigations found that roughly 20% of the world diamond trade is commonly believed by diamond experts to be illicit. The panel continued with the following consideration:

... Official rough production in 1999 was approximately \$6.85 billion. About 65% of this was controlled in one way or another by De Beers, which maintains that its diamonds are clean. If it is assumed that no De Beers diamonds are 'illicit,' the illicit 20% of \$6.85 billion must be flowing through the part of the business that trades on 'outside [non-De Beers] markets.' This would mean that a surprising 57% of the outside market is comprised of illicit diamonds. Two other possibilities exist. The first is that the 20% figure is wrong. The second is that if the 20% figure is not wrong, De Beers, too, must accept some responsibility for the trade in illicit diamonds. ...¹⁴

U.S. Policy

The efforts of the Clinton Administration to combat the trade in conflict diamonds focus on the creation of a multi-lateral diamond trade regime backed by international sanctions aimed at curtailing such commerce. Such a regime would, in the view of the Clinton Administration, be based on a variety of formal working partnerships between legitimate diamond producing states; those that import, trade, and consume diamonds; the international diamond industry; and a range of non-governmental organizations. The Clinton Administration, however, also seeks to ensure that the industries of legitimate diamond producing African democratic states—particularly Namibia, Botswana, and South Africa—will not be harmed by efforts to curtail the trade in conflict diamonds.

International and Multi-lateral Policy. The Clinton Administration has sponsored conferences focusing on the war economies of conflict diamond-producing

¹² "WDC Outlines Action Plan," *The Mining Journal*, September 15, 2000, page 208; Sharad Mistry, "De Beers to Market Branded Diamonds as Competition Hots Up," *Financial Express*, May 29, 2000, which is also available online at [<http://www.financialexpress.com/fe/daily/20000529/fco29088.html>]; Francesco Guerrera and Andrew Parker, "De Beers Seeks Curbs on Rebel Diamonds," *Financial Times*, July 7, 2000, page 1; and Francesco Guerrera and Andrew Parker, "De Beers: All that Glitters is Not Sold," *Financial Times*, July 7, 2000, page 12.

¹³ See, inter alia, *Waiting on Empty Promises: The human cost of international inaction on Angolan sanctions*, by Action for Southern Africa, April 2000 [<http://www.anc.org.za/angola/actsareportv4.html>].

¹⁴ S/2000/1195, page 28. Also see footnote 3, above.

states, and has held unilateral policy dialogues with these and non-conflict producing states, such as Botswana. It has also consulted with members of the American diamond industry, and has repeatedly commended the actions of the De Beers group of companies in halting the purchase diamonds from African conflict zones.

The United States has used its membership on the U.N. Security Council to push for international sanctions banning the illicit trading of diamonds from Angola and Sierra Leone, and for the appointment of panels of experts to monitor compliance with these sanctions. The Security Council has also appointed a panel of experts to examine the illicit exploitation of natural resources in the Congo. (See Appendix below). The Clinton Administration has taken unilateral action to isolate and penalize governments that abet the trade in conflict diamonds or violate related U.N. resolutions. On October 10, 2000, President Clinton issued a proclamation denying entry into the United States of persons who assist or profit from the armed activities of the Revolutionary United Front (RUF) rebels fighting the government of Sierra Leone. In a related statement, he declared that the restrictions were to apply immediately to President Charles Taylor, senior members of the Liberian government, their supporters, and their families. He stated that the action represented an explicit sanction against the Liberian government for its failure to end its trafficking in arms and illicit diamonds with the RUF, thus fueling the Sierra Leonean conflict.

The United States is also participating in multi-lateral diplomatic and policy-focused coordination initiatives, both at the inter-governmental level, and in forums involving participation from governments of producing and consuming nations, NGOs, and the international diamond industry. One result of government-to-government dialogue was a major policy statement in July 2000 by the Group of Eight (G8) on Illicit Trade in Diamonds. The statement was a part of the G8 Miyazaki Initiatives for Conflict Prevention, named after Japan's Miyazaki Prefecture, the meeting place of the G8 2000 Summit. It:

- ! Called for an end to conflict diamond commerce, and expressed support for an international diamond certificate of origin regime
- ! Expressed support for and cooperation with a range of related on-going international policy formulation and regulatory capacity-building efforts; and
- ! Endorsed United Nations actions aimed at ending the conflict diamond trade, such as U.N. sanctions aimed at this goal.

U.S. efforts to encourage the July 2000 G8 joint statement on conflict diamonds were preceded by Secretary of State Madeleine Albright's December 1999 G8 Berlin Ministerial presentation, in which she highlighted the connection between arms and diamond trading.

Africa-Focused and Bilateral Policy. In addition to multi-lateral efforts, the Clinton Administration has encouraging diamond marketing reform and the building of regulatory capacity in African diamond producing countries through unilateral dialogue and joint policy planning exercises between the U.S. government and those of these countries. These efforts are aimed at assisting African states to create sound

legal and administrative mechanisms that will allow them to better regulate their domestic diamond industries and to integrate these mechanisms with similar regulatory regimes in consuming and importing countries. The U.S. government is undertaking technical assistance in Sierra Leone, along with other donor governments and industry officials, to develop an effective certificate of origin export system in Sierra Leone. At the same time, it is encouraging increased transparency, competition, and participation-broadening reforms based on free market principles within Sierra Leone's domestic diamond industry.

Kimberley Process and International Diamond Trade Reform. The Clinton Administration also participated in the Kimberley Process, named after the South African city where this working group-based forum, made up of governments, the private sector, and NGOs, met in May 2000. The conference established a Technical Group to formulate and recommend mechanisms for implementing the conference agreements. The Kimberley Forum conference resulted in a draft agreement that largely echoed the later proposals of the WDC and the G8 Miyazaki Initiatives for Conflict Prevention. The Technical Group met several times following the May meeting to research issues related to a regulatory mechanism and to formulate recommendations based on its findings.

The Kimberley group met again in Pretoria, South Africa in late September 2000 to consider the report of its Technical Working Group, which is reported to have determined that a practical, reliable, and cost effective technical system for physically identifying the origin of individual diamonds does not exist. The Working Group instead recommended the establishment of an international export control regime, consisting of a system of sealed, registered diamond export parcels accompanied by forgery-proof certificates of origin, to be issued by exporting state authorities. The system would be overseen by a inter-governmental authority charged with monitoring and compliance, accreditation of national export regimes, and standard-setting, and possibly could be organized under U.N. auspices. It would also require the implementation of legal sanctions and penalties for violations of national-level legal export controls.

The Working Group also noted a need for flexibility in any proposed system, especially vis-a-vis alluvial diamond mining and small scale production and trading. It also recommended that participating nations ensure that domestic diamond marketing and production operate on the basis of open market competition governed by a national system of transparency, disclosure and oversight of all diamond operations. The Pretoria meeting concluded on September 21 with a Ministerial communiqué that endorsed a range of on-going national, international intergovernmental, and industry initiatives aimed at curtailing the trade in conflict diamonds. It recommended that the Forum's Working Group proposals be further investigated, and that the proposed monitoring authority should possibly have a relationship with the World Diamond Council. It called for a "a simple and effective scheme that does not place undue burden on governments and industry, particularly smaller producers."

On September 25-26, Britain sponsored a conference aimed at consolidating broad governmental support for the Kimberley conference agreements in anticipation of the U.N. General Assembly's inclusion of conflict diamonds on its agenda in

November, 2000 during the fifty-fifth session. Such a discussion could precede a formal U.N. treaty banning illicit trade in diamonds, according to remarks made by Foreign Office Minister Peter Hain of Britain. The South African Minister of Mines and Energy reportedly criticized Britain for holding the conference, asserting that no decision had been reached at the September Kimberley Forum about any further actions to be taken by Forum participants prior to U.N. General Assembly action on the issue. Russia, which had been expected to co-host the conference with Britain, reportedly attended the London meeting, despite news reports that it would not do so. Russia was reportedly concerned about the possibility that a multi-lateral monitoring and enforcement system might compromise its sovereignty.

On December 12, 2000, the U.N. General Assembly adopted without a vote a resolution titled "The role of diamonds in fuelling conflict: breaking the link between the illicit transaction of rough diamonds and armed conflict as a contribution to prevention and settlement of conflicts."¹⁵ The resolution was sponsored by 50 countries, including the United States. It describes and recognizes the link between conflict and trade in diamonds and acknowledges and positively welcomes prior national and multi-lateral actions aimed at halting the illicit conflict trade, and calls for the need for additional measures toward this end. In doing so, the resolution emphasizes that such measures "should be effective and pragmatic, consistent with international law, including relevant trade provisions and commitments, and should not impede the current legitimate trade in diamonds or impose an undue burden on Governments or industry..." The resolution also recommends that a simple and workable international certification scheme for rough diamonds be created. The proposed scheme, it further recommends, should be transparent and based "primarily on national certification schemes," that "meet internationally agreed minimum standards." It also expresses "the need for appropriate arrangements to help ensure compliance, acting with respect for the Sovereignty of States."

To further these goals and to build on the work of the Kimberley Process, further international meetings aimed at addressing technical and other issues associated with creating an international diamond regulatory system are planned. This international effort, dubbed "Kimberley-Plus," is scheduled to continue in February 2001 with a technical meeting in Namibia.

Criticisms of Clinton Administration Policy

In a statement before the House International Relations Committee Subcommittee on Africa during a May 9, 2000 hearing entitled *Sierra Leone and Conflict Diamonds*, Representative Frank Wolf stated that "[w]hile the West lets the problem of conflict diamonds fester, conditions where this illicit trade occurs, continue to worsen. As evidenced by recent events in Sierra Leone, where rebels now are not only terrorizing the civilian population, but are killing, harassing, and robbing at gunpoint U.N. peacekeepers---chaos reigns, and millions suffer at the hands of brutal and selfish thugs. ... I have written to the Administration several times about the

¹⁵ A/RES/55/56.

problems in Sierra Leone and about the issue of conflict diamonds. ... To date, the Administration has done little or nothing on any of these recommendations ...¹⁶

During a September 13, 2000 hearing of the Trade Subcommittee of the House Ways and Means Committee entitled *Illegal Trafficking in Sub-Saharan Diamonds*, several congressional member witnesses called for more active Administration engagement to curtail the trade in conflict diamonds. Representative Tony Hall stated that “there is apparently not the sustained commitment from senior [Clinton] Administration officials [that] this issue merits.” He stated that his proposed legislation, the *Consumer Access to a Responsible Accounting and Trade Act of 2000* (the so-called *Carat Act*, H.R. 5147), “requires the administration to work more coherently on the problem of conflict diamonds.”¹⁷

At the same hearing, Representative Cynthia McKinney stated that the United States “must show leadership and act more swiftly against all the countries mentioned in the *Fowler Report*.”¹⁸ The *Fowler Report*, she stated, “took the bold step of naming names of individuals and countries that were sanctions busters ... We should lead the effort to implement the Fowler recommendations, not just to study them ... People are losing their homes and their lives while this [Clinton] Administration studies.” She also stated that “[s]ome of the sanctions-busters named by Ambassador Fowler are our allies. If we were really serious about the diamond trade our leadership could make a difference.” She also asserted that “Rwanda is ‘running’ diamonds looted from Congo and Angola and wreaking havoc on the people of Eastern Congo in reckless pursuit of its own policies, encouraged by the United States ... as we all stand and do nothing.” She also stated that “the United States and Europe must also begin bilateral and multilateral discussions with Israel a leading destination for the illicit diamonds.”¹⁹

Clinton Administration Response. The Clinton Administration counters that it is and has been actively working to curtail the conflict diamond trade, but notes that international consensus on how to halt the trade in conflict diamonds – which the Clinton Administration sees as an essential prerequisite for successful policy formulation and implementation– is not yet fully formed. In verbal remarks to the House Ways and Means Subcommittee on Trade on September 13, 2000, William Wood, Principal Deputy Assistant Secretary of State for International Organization Affairs, described Clinton Administration efforts to help create such consensus. He

¹⁶ “Statement by Frank R. Wolf,” Testimony before the Subcommittee on Africa of the House International Relations Committee hearing on *Sierra Leone and Conflict Diamonds*, May 9, 2000 [http://www.house.gov/international_relations/af/diamond/wolf.htm].

¹⁷ “Statement of the Honorable Tony P. Hall, M.C., Ohio,” Testimony before the Subcommittee on Trade of the House Committee on Ways and Means, Hearing on *Trade in African Diamonds*, September 13, 2000. Online at [<http://waysandmeans.house.gov/trade/106cong/9-13-00/9-13hall.htm>].

¹⁸ See Appendix, below, for more details on the *Fowler Report* and diamonds in Angola.

¹⁹ See “Statement of the Honorable Cynthia McKinney, M.C., Georgia,” Testimony before the Subcommittee on Trade of the House Committee on Ways and Means Hearing on *Trade in African Diamonds*, September 13, 2000, online at [<http://waysandmeans.house.gov/trade/106cong/9-13-00/9-13mcki.htm>].

cited Clinton Administration advocacy of the issue within the G8 and the active participation of the United States in the Kimberley Process and similar forums. He noted that since 1998 the Clinton Administration pushed hard for U.N. sanctions to prevent the trade in conflict diamonds, and testified that the United States is assisting Sierra Leone and Angola to improve their diamond export certification systems. He stated that the Clinton Administration would welcome legislation expressing a sense of the Congress in support of efforts to curtail the conflict diamond trade. He noted, however, that the issue is complex, and involves many countries, industry groups, and other actors. He cautioned against conflict diamond legislation that would mandate specific policies, which he stated might not conform with policy consensus emerging at the international level.

Clinton Administration officials also note that under their leadership, the United States was a primary sponsor of Resolution 56 of the 55th Session of the U.N. General Assembly, which built on earlier multi-lateral initiatives in which the United States under Clinton Administration leadership had participated, and which the United States promoted. Clinton Administration officials also note that they have continued to make the conflict diamond issue and the creation of consensus on a multi-lateral certification regime a high priority. On January 10, 2001, the White House Office of Science and Technology Assessment, in conjunction with the National Security Council, the State Department, the National Science Foundation, and the Treasury Department, held a White House Diamond Conference entitled *Technologies for Identification and Certification*. Nearly one hundred and fifty policy makers, scientists, engineers, and representatives of the world diamond industry and NGOs participated in the forum, which examined the technical capacities and limitations of chemical and physical analyses to determine the provenance of rough diamonds; technologies to support an origin certification regime; and associated policy issues.

Congressional Role

Congressional interest in an end to the armed hostilities that have generated international trade in conflict diamonds has led to several legislative initiatives. These proposals have generally aimed at curtailing the ability of rebel groups fighting established governments to fund their armed activities through diamond export sales. Several hearings in both the House and Senate have addressed the issue of conflict diamonds in the context of hearings on U.S. policy on Sierra Leone, Angola, and U.N. activities in Africa.

In addition to the two hearings noted above, the Subcommittee on Africa of the House Committee on International Relations held a hearing on May 9, 2000 entitled *Africa's Diamonds: Precious, Perilous Too?*, focusing on the issue of conflict diamonds. On September 13, 2000, the Trade Subcommittee of the House Ways and Means Committee held a hearing entitled *Trade in African Diamonds*, during which subcommittee members highlighted several key concerns relating to possible commerce-related legislation on conflict diamonds. They remarked that such legislation should be consistent with relevant World Trade Organization trade rules and with an emergent international diamond certification of origin trade regime. Several member witnesses and subcommittee members noted that any proposed legislation should not penalize legitimate producers of diamonds, such as Botswana and South Africa. Witnesses also pointed out, however, that failure to enact

legislation to curtail the conflict diamond trade and to introduce methods of separating legitimate diamonds from illicit diamonds might lead to a consumer-driven decrease in market demand for all diamonds, thus damaging the revenue base of legitimate diamond producing nations.²⁰

Legislation

In the 106th Congress, several conflict diamond-related bills were introduced. H.R. 4811, the *Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001* became Public Law 106-429. The Act prohibits U.S. funding assistance for any government credibly found to have aided or abetted in the illicit distribution, transportation, or sale of diamonds mined in Sierra Leone.

Representative Tony Hall's *CARAT Act* (H.R. 5147) would prohibit the importation of diamonds from Sierra Leone, Liberia, Burkina Faso, Cote d'Ivoire, Angola, Guinea, Togo, or Ukraine, unless accompanied by a certificate of origin from the legitimate government of Sierra Leone or Angola. It also provides for the appointment of a U.S. Special Representative on Conflict Diamonds, and the implementation of a range of U.S. diplomatic and administrative efforts aimed at curtailing trade in conflict diamonds. The bill provides for several conditional waivers on the import prohibition, and for civil and criminal penalties for violations of the Act's provisions. An earlier bill introduced by Representative Hall, H.R. 3188, carried the same title, but differed in its provisions.

On October 26, 2000, Representative Hall introduced H.R. 5564, the *Conflict Diamonds Elimination Act of 2000*, which was referred to the House Committee on Ways and Means on the same day. The act would prohibit the importation into the United States of diamonds from countries that are not implementing a system of controls and documentation relating to the import and export of rough diamonds, or which are not party to an international agreement establishing similar controls. The legislation also would require the President to ensure that the Act's requirements are enforced, but would allow the President substantial authority to waive certain provisions of the Act. In addition, the President would have to report to Congress on progress in regulating international diamond trade, and the bill lays out certain dates by which various aspects of the Act are to be implemented.

Several legislative proposals, introduced as subsections of other legislation, would effectively have prohibited the importation to the United States of diamonds originating in countries suspected of being points of origin or transshipment for conflict diamonds. The countries named in these bills include Sierra Leone, Liberia, Cote d'Ivoire, the Democratic Republic of the Congo, Angola, and—in two cases—Burkina Faso. While the language in each proposal differed, their legislative intent and methodology were similar: they would have prohibited the use of congressionally appropriated funds to allow for the entry into or withdrawal from warehouse for consumption in the United States of diamonds from the countries listed above, as evidenced by a legible importation certificate of origin. Several of these proposals

²⁰ See the written testimony of witnesses, online at [<http://waysandmeans.house.gov/trade/106cong/tr-23wit.htm>].

exempted from these restrictions diamonds certified as being of legitimate origin by the governments of Sierra Leone or Angola. Legislative initiatives that employ this approach include: S. Amdt. 3157, sponsored by Senator Judd Gregg (an amendment to S. 2521, the Senate version of the *Military Construction Appropriations Act, 2001*), and a provision in a draft version of H.R. 4690, the *Commerce, Justice, State FY2001 Appropriations Bill*, sponsored by Representative Harold Rogers. A draft version of H.R. 4871, the *Treasury and General Government Appropriations Act, 2001*, sponsored by Representative Jim Kolbe, employed a similar approach to bar the entry of conflict diamonds into interstate or foreign commerce.

Several other legislative proposals have sought to encourage curtailing the conflict diamond trade as part of more comprehensive conflict resolution initiatives. Such legislative proposals include: H. Con. Res. 323, *Supporting Peace and Democracy in the Republic of Sierra Leone*, sponsored by Representative Tony Hall; H. Res. 390, *Expressing the Sense of the House of Representatives Concerning the Peace Process in Angola*, sponsored by Representative Maxine Waters; and H.R. 3879, the *Sierra Leone Peace Support Act of 2000*, sponsored by Representative Sam Gejdenson.

Appendix: Controlling the Diamond Trade in Conflict Diamond Source Countries

Three African countries are the primary sources of conflict diamonds—Angola, the Democratic Republic of the Congo, and Sierra Leone. All have recently undertaken efforts to regulate the marketing and export of diamonds.

Angola²¹

Angola has been devastated by a lengthy civil war between the governing Popular Movement for the Liberation of Angola (MPLA), led by President Jose Eduardo Dos Santos, and the rebel National Union for the Total Independence of Angola (UNITA), led by party president Jonas Savimbi. A series of broken peace accords and negotiations have caused the war to wane for limited periods, but armed hostilities have prevailed since Angola gained independence from Portugal in 1975. The most recent peace agreement, known as the Lusaka Protocols, fell apart during 1998, and by the end of that year full-scale war had resumed, and continues until the present.

In order to compel UNITA to comply with peace accords that it had signed during the Lusaka peace process, an existing U.N. arms and fuel embargo against UNITA was strengthened in June 1998 by the imposition of additional sanctions. U.N. Security Council Resolution 1173 required all U.N. member states to freeze UNITA assets; prevent the sale of Angolan diamonds lacking a government of national unity and reconciliation (GURN) certificate of origin; prevent the sale to UNITA of all vessels, aircraft and mining equipment. It also banned official contacts between U.N. member governments and UNITA, apart from those of the GURN, the U.N., Russia, Portugal, and the United States, which had acted as key mediators and observers in the Lusaka peace process.

Diamonds in Angola. Diamonds are found throughout Angola, but are notably abundant in the northeast of the country, in Lunda Norte and Lunda Sul provinces. Angolan diamonds are primarily gem-quality; the proportion of industrial grade diamonds has comprised between 10 and 15% of total diamond production in recent years, with the balance made up of near-gem and gem quality stones. Total production for 1999 is estimated to have been worth between \$544 million and \$619 million. The Diamond High Council reports that Belgium alone officially imported \$58.24 million worth of Angolan diamonds in 1999.²² A large proportion of Angolan diamond production—roughly two thirds—is artisanal or undertaken by small business firms.

²¹ For information on the conflict in Angola, see CRS Report 97-980, *Angola: Background and Current Situation*; CRS Report 98-816, *Angola Update*; and CRS Report RS20085, *Angola: War Resumes*. Periodic U.N. reports on the conflict are also online at [<http://www.un.org/documents/repesc.htm>].

²² HRD Diamond Council, *Quarterly Trade Statistics*, available online at [<http://www.diamonds.be/main11.htm>].

United Nations Sanctions Monitoring.²³ On March 10, 2000, a committee authorized by the U.N. Security Council to investigate the status of compliance with U.N. sanctions measures in effect against UNITA released a report of its findings. It documented violations of the sanctions by U.N. member states and private actors. The report focused on UNITA's marketing of diamonds in exchange for goods, services and logistical assistance in pursuing its war against the Angolan government. It also showed how UNITA had used diamonds to maintain a network of international political support. The report detailed actions in support of UNITA by the governments of Presidents Gnassingbé Eyadéma of Togo, President Blaise Compaoré of Burkina Faso, and former president Mobutu Sese Seko of the former Zaire (now the Democratic Republic of Congo, or DRC). Such actions included permitting and substantively aiding in the transfer of arms through each country, facilitating meetings between arms and diamond dealers and UNITA, and stockpiling weapons on behalf of UNITA.

The report also described links between UNITA and government officials in Rwanda, Zambia, Côte d'Ivoire, Congo-Brazzaville, and Gabon that had facilitated UNITA's diamond and weapons deals. The report asserted that France, Portugal, Switzerland, Namibia, South Africa, the United States, and several other countries had allowed UNITA representatives greater freedom to operate or travel in each country than is permitted by the sanctions regime. The report named Bulgaria as a principal source of UNITA arm shipments, Ukraine as a possible source, and criticized Belgium for laxity in controlling the origin of imported diamonds. The report made nearly 40 detailed recommendations suggesting ways of curtailing UNITA's diamond trading, punishing sanctions transgressors, and regulating the diamond trade. A five-member committee panel is slated to follow up on the report's findings.

In July 2000, acting in response to U.N. Security Council Resolution 1295 (2000), U.N. Secretary General Kofi Annan established a Monitoring Mechanism to monitor compliance with U.N. resolutions sanctions against UNITA. On October 25, 2000, the Chairman of the U.N. Security Council's Angola Sanctions Committee distributed to the Chairman of the Security Council an interim report (S/2000/1026) that described monitoring of compliance with U.N. sanctions against UNITA by the Sanctions Committee's Panel of Experts. The interim report used the *Fowler Report* as a point of departure. The interim report described investigatory progress by the Panel of Experts to date, and summarized its preliminary findings. In some instances, e.g., in relation to arms trading, the Panel found continuing "serious discrepancies" in the information received from the arms importing and exporting countries. It also found mixed levels of cooperation by member states in prohibiting UNITA travel and representation. In several cases, after being formally banned, UNITA representatives had formed "front" organizations that member states "found it difficult to prohibit." Despite significant international action aimed at banning the trade in conflict diamonds, the Panel found that UNITA continues to be able to mine and sell diamonds. It also described significant action taken by the government of Angola

²³ *Report of the Panel of Experts on Violations of Security Council Sanctions Against UNITA, op. cit.* The report has been dubbed the *Fowler Report* after the name of the sanctions committee chairman, Canadian U.N. Ambassador Robert R. Fowler.

aimed at establishing a diamond export certification system. In late December 2000, the Monitoring Mechanism published a final report on its investigations and findings. The report, U.N. S/2000/1225, augmented the Mechanism's interim report, adding considerable detail, and contained a range of recommendations aimed at tightening the sanctions against UNITA.

Regulation of the Angolan Diamond Industry. In order to comply with U.N. Resolution 1173, the Angolan government is currently implementing a system to prevent conflict diamonds from entering the legal market by better regulating the mining and sale of diamonds in the country, thereby denying UNITA a domestic market. Beginning in early 2000, Angola instituted a diamond marketing and certificate of origin system designed to allow the government to guarantee that conflict diamonds are not part of officially-sanctioned exports; cut off sources of funding for UNITA; and to increase government tax revenues. Under the system, the majority of Angolan diamonds are sold through a single company, the Angola Selling Corporation (Ascorp).

Ascorp. Ascorp is a joint venture between Sodiam UEE, a company owned by the Angolan government and two private foreign investors. Sodiam was established by the Angolan government's Ministry of Geology and Mines and Endiama, a government agency charged with licensing and regulating diamond mining which, until the creation of Ascorp, held the sole right to market Angolan rough diamonds. Sodiam reportedly owns 51% of Ascorp. The remainder, as reported by *Africa Energy and Mining* and the *Financial Times*, is owned roughly evenly by Lev Leviev, an Israeli diamond buyer with interests in the Russian diamond industry and by Belgian business interests, which include the Omega Diamond firm. Most other buying offices in Angola have been ordered to shut down. Ascorp's foreign joint partners were reportedly chosen because they possess substantial operating capital, extensive international trade connections, and trade independently of De Beers. A small Australian company called Majestic Resources, however, announced in April 2000 that it had signed a contract to sell \$20 million worth of official Angolan diamond sales.

Domestic Regulatory Reform. In order to prevent conflict diamonds from entering official state channels, Angola is reportedly registering between 300,000 and 350,000 artisanal miners and small-scale diamond traders. This effort is aimed at establishing a system of national-level documents that will enable the government to maintain a chain of legal provenance for diamonds produced by small-scale miners and purchased by official, government-licensed diamond buyers. The scheme aims at cracking down on second-tier, informal market buyers from whom some official buyers have reportedly purchased diamonds. Observers believe that these intermediary buyers form a conduit that in the past has allowed diamonds from rebel-controlled areas to enter the official diamond market. To enforce the Ascorp system, a special police and judiciary system with law enforcement powers is being created to regulate the artisanal diamond industry.

The government has reportedly dramatically increased its revenues following implementation of the Ascorp scheme, which has drawn complaints from large diamond brokering and sales companies, such as De Beers and other firms that formerly held Angolan diamond mining and selling rights. In May 2000, De Beers and

some smaller companies attempted to freeze a shipment of Angolan diamonds to Antwerp, which they claimed was theirs under prior contract agreements. De Beers has reportedly claimed that it holds a contract, backed by a loan worth about \$50 million, with Sociedade de Desenvolvimento Mineiro (SDM), a joint venture between Endiama and two foreign mining and construction firms, to purchase the equivalent of 20% of Angolan rough diamond official sales.²⁴

Anecdotal accounts allege that Ascorp is using its monopsony powers to pay sub-market prices to artisanal miners, and to have those who refuse arrested, as it is illegal to sell diamonds to buyers other than Ascorp. Ascorp officials claim that rising government diamond revenues and the decrease in diamond-rich territory held by UNITA, as a result of recent battles and earlier government battlefield victories, indicate that exports of Angolan conflict diamonds are decreasing. However, on-going conflict makes effective administration of large regions of Angola impossible, and the alleged payment of sub-market prices to producers may motivate smuggling. In addition, UNITA representatives have recently reportedly stated in early October 2000 that it controls half of Angola's diamond producing areas. As a result of these factors, the possibility of UNITA-mined diamonds entering the official diamond market continues to exist, industry watchers report.

Democratic Republic of Congo²⁵

In August 1998, a rebellion began in the Democratic Republic of Congo (DRC) against the government of Laurent Kabila. Kabila had come to power as the head of an armed alliance backed by Uganda and Rwanda, the Alliance of Democratic Forces for the Liberation of Congo-Zaire (ADFL). The ADFL seized power in May 1997 from Mobutu Sese Seko, who had ruled the country since 1965. The war continues until the present. It is complex. At least three rebel movements backed by Uganda, Rwanda and to a lesser extent by Burundi are fighting the DRC government and its allies. The rebels currently control between one-third and one-half of the country. The DRC government's allies presently include Zimbabwe, Angola, and Namibia. Chad and Sudan have also reportedly fought, or provided logistical support, on behalf of the DRC government. In addition, several militias in eastern DRC are allied with the government.

Diamonds in the DRC. Diamonds are principally found in two regions of the DRC: East and West Kasai Provinces, especially around the towns of Tshikapa and Mbuji-Mayi, and to a limited extent in the region surrounding the city of Kisangani, in Province Oriental and in Bandundu Province. Between 70 and 90% of Congolese diamonds are industrial-quality; the remainder are jewel-quality gems. More than half of diamond mining is artisanal. Total production for 1999 is estimated to have been worth between \$396 million and \$759 million or more. The Diamond High Council reports \$758.75 million worth of diamonds were imported to Belgium from the DRC in 1999.

²⁴ "Diamonds: The Angolan question," *The Mining Journal*, March 31, 2000, p. 243.

²⁵ For additional background on the conflict in the DRC, see CRS Issue Brief IB96037, *Congo (Formerly Zaire)*. Periodic U.N. reports on the conflict are also available at [<http://www.un.org/documents/repsc.htm>].

Diamonds and Conflict in the DRC. Analysts do not regard the Congo conflict as primarily a war over diamonds. Control of diamond areas, however, has played an important role in strategic terms, since control over these areas simultaneously yields the possibility of a significant source of funding and denies access to the same resources by opposing forces. Diamonds may also represent a source of frictions among allies. Several battles between Rwandan and Ugandan forces in Kisangani are reportedly attributable, in part, to conflict over control of diamond and gold mining in the region.

Diamonds may be a significant factor enabling the Kabila regime to maintain foreign military support. Many press accounts have reported that Zimbabwean military assistance for the Kabila government is contingent, in part, upon the receipt of exclusive and valuable business concessions in the DRC by Zimbabwean firms. Some of these firms are reported to have close ties to the Zimbabwean military and ruling party, and diamond mining rights have played a high-profile role in these alleged business arrangements. In October 1999, Cosleg, a joint venture between Osleg (acronym for Operation Sovereign Legitimacy), a company owned by the Zimbabwean Defense Forces, and Comix, a company owned by the DRC army with links to the Presidency, was announced. The companies reportedly planned to purchase artisanal gold and diamond production, and possibly in the future undertake mining, timber, and other extractive operations directly.

Cosleg reportedly prepared to initiate mining operations at a substantial mining concession west of Mbuji-Mayi in south-central DRC that was previously owned by Societe Miniere de Bakwanga (MIBA). MIBA is a parastatal that is the country's largest diamond producer and the former official holder of monopoly diamond mining rights in the DRC. The Cosleg operation reportedly involved the use of Zimbabwean earth moving equipment under the control of the Zimbabwean Defense Forces. It was supported by technical and financial assistance provided by Oryx Zimcon, a company reportedly financed by the Omani Consul in Zimbabwe, Kamel Khalfan. Khalfan reportedly runs a range of businesses in Zimbabwe and has alleged close ties to ZANU-PF. Oryx Zimcon and Osleg reportedly are both registered with addresses at the Zimbabwe Ministry of Defense in Harare.²⁶

Oryx Listing. The two Congolese and Zimbabwean military companies and Oryx Zimcon later entered into a business agreement with an Omani-linked firm called Oryx Natural Resources. Plans called for the latter to be listed on the London Alternative Investment Market (AIM) as Oryx Diamonds, through a reverse takeover of a listed company registered in the Cayman Islands, Petra Diamonds. The move would have allowed Oryx to raise funds or acquire other firms through its listing, in part based on Oryx's reported rights to a substantial mining concession near Mbuji-Mayi. In June 2000, former American Ambassador to Burundi Frances Cook

²⁶ "Glittering prizes from the war," *Africa Confidential*, May 26, 2000, Vol. 41: 11; Chris Gordon, "Zimbabwe army seeks payback in Congo," *Mail and Guardian* online edition, Oct. 1, 1999, online at [<http://www.mg.co.za/mg/news/99oct1/1oct-congo.html>]; and Lawrence Bartlett, "War and riches inspire new African economic deal making," *Mail and Guardian* online edition, Sept. 2, 1999, [<http://www.mg.co.za/mg/news/99sep2/30sep-congo.html>], among other reports on the Zimbabwean role in the war in the DRC.

was reported to be a proposed member of the board of directors of the newly listed company.²⁷ Profits were reportedly to be split between Petra Diamond shareholders and the Cosleg partners. The planned listing was later withdrawn, reportedly under pressure from NGOs, the London Stock Exchange, and Britain's Foreign Office. They objected to the deal on the basis that the concession, worth a reported \$1 billion, was located in a conflict zone and was being undertaken by parties to the DRC conflict. The listing may, reportedly, be undertaken in the future, possibly in Ireland or North America.

Regulation of the Congolese Diamond Industry. In response to publicity surrounding the Oryx deal and increased international public concern about conflict diamonds, the DRC government has recently acted to more closely regulate the diamond industry. Apart from its concern about conflict diamonds, the DRC government has also expressed a desire to gain increased control over diamond trading and mining, crack down on smuggling, and increase diamond-related revenue collections. Its actions also respond to U.N. Security Council concerns about the link between conflict and mineral resources in the DRC. The Council in early June 2000 requested the U.N. Secretary General to set up a panel of experts on the illegal exploitation of natural resources and other forms of wealth in the DRC. On August 17, 2000 the DRC government reportedly filed with that panel a report alleging that Rwandan and Ugandan companies are illegally expropriating and expatriating Congolese gold, diamonds, and other precious minerals. The report was reportedly compiled by Observatoire Gouvernance Transparence in Kinshasa, an NGO, in April 2000.

IDI Diamond Monopsony.²⁸ The DRC government recently undertook a medium-term initiative aimed at controlling and regulating its diamond trade that is similar to that taken by Angola. On July 31, 2000, according to press accounts, the DRC government signed an 18-month monopoly contract with IDI Diamonds, an Israeli rough diamond trading firm owned by businessman Dan Gertler. The contract gives IDI exclusive rights to buy and market uncut Congolese diamonds, both from MIBA and from all other authorized trading firms. The contract, which is limited to territory controlled by the DRC government, requires IDI to pay fees of \$20 million annually to the government for exclusive control over trade worth an estimated \$600 to \$700 million dollars annually. The IDI-DRC contract creates a quasi-public corporation, Societe de Development du Diamante (SDD), also reportedly called International Industries Congo, owned jointly by IDI (30%) and the DRC government (70%). The contract revoked all existing export and buying licenses within thirty days of its signing, although existing trading companies will reportedly be able to operate under unspecified standards to be established by SDD.

²⁷ "Change at the top at MIBA," *Africa Mining and Energy*, No. 277, June 14, 2000; and "Petra Diamonds Ld - Proposed Acquisition, etc," *Regulatory News Service/World Reporter*, May 18, 2000.

²⁸ This account of the IDI diamond deal draws upon coverage in multiple issues of *Africa Energy and Mining*; the *Financial Times* of London (Online at [<http://news.ft.com>]); and articles from Tacy Ltd., a diamond industry consulting firm, online at [<http://diamondconsult.com/info.htm>], *inter alia*.

News reports state that the object of the arrangement with IDI, according to the government, is to maximize revenue collections, which have fallen recently due to increased smuggling in the wake of a government order in 1999, which banned foreign participation in diamond buying and required market transactions to be undertaken in Congolese francs. It is also meant to provide the means to establish the legal provenance of diamonds exported from Congo in order to certify that they are from areas held by the internationally recognized government of Congo. In addition, it is aimed at improving the regulatory capacity of the Centre National d'Expertise (CNE), a government organ charged with setting up a diamond certification system and evaluating diamond values and weights. As part of the IDI deal, the government stated that it would issue certificates of origin for all rough diamond exports to prevent conflict diamonds from entering official trade. IDI will also reportedly establish representation in the diamond areas held by the government, including in the Tshikapa area and the nearby border area with Angola in order to monitor and verify the legitimate origin of diamonds entering its stock.²⁹

Past Regulatory Efforts. The IDI deal comes in the wake of earlier DRC government attempts to rationalize and control the country's diamond industry. In mid-2000, CNE had reportedly consulted with Zurel Brothers, an Antwerp firm, to assist the DRC government in setting up a diamond certification and production control system. The status of the results of this consultancy in the context of the IDI deal is not clear.

In May 2000, the government reportedly opened a training center with the objective of creating a special mining police force that will be able to halt theft at mines, regulate artisanal mining and informal diamond traders, and prevent the under-evaluation of diamonds by CNE officials. In early April 2000, the DRC government announced plans to implement a new mining code to attract western investors to the country. In 1999, the government issued regulations that centralized all diamond trading in Kinshasa; banned the presence of foreigners in diamond mining regions and the purchase of diamonds with foreign currency; and required foreign traders to pay license fees of between \$100,000 and \$150,000 per license. Some industry observers believe that these measures have contributed to sharp drops in the volume and dollar value of diamond exports in 2000. The local affiliate of one firm, Lazare Kaplan International, was given an exemption in April 2000 that allowed it to set up trading operations in the Tshikapa region and to trade in foreign currency, an action that reportedly infuriated local diamond buyers.

Prospects. There are indications that the IDI deal may not endure. In late August 2000, nine DRC diamond trading houses signed a joint letter to the government

²⁹ Press accounts reported that the deal involves the promise of training of DRC armed forces by the Israeli army, in order to prevent cross-border smuggling of diamonds. This was denied by the Israeli Defense Ministry and by Israeli Diamond Exchange president Schmuël Schnitzer. Schnitzer stated that IDI might provide recommendations relating to security firms to assist the DRC armed forces to combat smuggling but will not be directly involved in anti-smuggling training or operations. See "Israel defends controversial diamond deal," *Agence France-Press*, Sept. 7, 2000; "Congo denies Israeli trainers offered in exchange for diamond deal," *The Jerusalem Post*, Sept. 6, 2000, p. 12, and "Congo signs Israeli company to stop smuggling: Firm denies military training," *National Post* (Canada), Sept. 5, 2000, p. A10.

requesting that their licences—revoked earlier in the month—be reinstated, and that they continue to be permitted to export diamonds. According to news reports, diamond exports were halted following the revocation of local traders' permits. The lack of sales was reportedly due to a refusal by traders to sell their diamonds to IDI and to a “slow start” by IDI in making diamond purchases. The charge that IDI was not implementing its monopoly rights rapidly and that it was the primary cause of the currency shortage has been denied by Schmuël Schnitzer president of the Israel Diamond Exchange. The Panafrican news agency reported on September 19, 2000 that a DRC ministerial meeting had upheld the IDI contract, and that the ministers had requested IDI to speedily set up diamond purchasing centers throughout the country.

To address the complaints of diamond traders, the DRC government is reported to be setting up an arbitration agency, the Service for the Development of the Congolese Diamond, to mediate price disputes between IDI and domestic diamond traders. The lack of diamond exports has reportedly caused a drastic foreign currency shortage and a steady and sharp drop in the value of the Congolese franc on the black market, from a rate of around 65 francs per U.S. dollar to 95 francs as of mid September 2000. The local currency, pegged at an official rate of exchange of 23.5 Congo francs per dollar, has been devalued three times since early 1999, when commercial transactions in foreign currency were banned in order to stabilize the local currency and to maintain low fuel and other basic commodity prices. The DRC reportedly lacks foreign currency reserves, and the shortage has caused a contraction of imports in all economic sectors, reportedly causing a sharp contraction in economic activity and shortages of fuel and staple food.

Sierra Leone³⁰

From 1991 until the present, successive governments of Sierra Leone, a small West African country with significant mineral and timber resources but a poorly developed economy, have been besieged by a rebel group, the Revolutionary United Front (RUF). Two inter-related factors motivate the hostilities:

- ! The growth of systemic government corruption leading to a severe deterioration in the capacity of the state to govern and provide basic public goods and services. In this sense, the conflict has domestic roots.
- ! Conflict over control of mineral wealth—particularly diamonds—and state resources, with participation by domestic and foreign actors. In this sense, the conflict can be seen as a result of both domestic factors and of long-term political instability in the Mano River subregion of West Africa.

³⁰ The Sierra Leone conflict is described in CRS Report RL30367, *Sierra Leone: Background and Issues for Congress*; CRS Report RS20578, *Sierra Leone: A Failed Peace?*; and in CRS Issue Brief IB96025, *Liberia: Current Issues and United States Policy*. Periodic U.N. reports on the conflict are also available at [<http://www.un.org/documents/repsec.htm>].

The RUF is infamous for its brutal treatment of civilians. In the first half of 2000, following the UN's assumption of peacekeeping duties, the RUF kidnapped over 500 U.N. peacekeepers and military observers. All were released but the U.N. operation continues to receive sharp criticism for its failure to implement its peacekeeping mandate. Internal discord has also been reported within UNAMSIL, the U.N. peacekeeping mission in Sierra Leone.³¹

The configuration of the sides in the Sierra Leone conflict has shifted periodically. Relations between individual units of the SLA and the RUF have ranged from mutual non-interference to outright collaboration. This has led to the coining of the term "sobel," i.e., "soldier-rebel." Access to diamond mining areas in the country's southeast and the looting of civilian property and other resources have often been the apparent purpose of such cooperation.

Liberian Role. The origin and operational capacity of the RUF have been closely tied to the politics of Liberia. In the first years of the Liberian civil war, the National Patriotic Front of Liberia (NPFL), headed by Liberia's current President, Charles Taylor, reportedly sought to assert control over the trade in diamonds and other resources in the area near the Liberian-Sierra Leone border and to prevent rival groups from exploiting this trade. The NPFL also is reported to have recruited fighters in Sierra Leone and reportedly assisted the Revolutionary United Front (RUF) in its fight against successive Sierra Leonean governments. The historical tie between Mr. Taylor and the RUF is widely believed to have endured. Liberia continued to provide assistance, such as arms and logistical support, to the RUF in exchange for smuggled diamonds and other resources, according to many news reports and statements by concerned governments. These actions, for which President Taylor and his ministers have repeatedly denied responsibility, are said to have considerably hampered efforts to end the conflict in Sierra Leone.

In March and June 2000, the international press reported the existence of fresh intelligence held by western and regional governments that confirmed the RUF-Liberian ties. Airplanes ferrying wounded fighters, field supplies and food, diamonds, and arms were reported to be flying regularly between core RUF areas in western Sierra Leone and Monrovia, the Liberian capital, and other areas of Liberia. Radio traffic between RUF units, referring to Liberian logistical support, and between the RUF and Liberian officials, was also reportedly intercepted. Arms for the RUF are also reported to have been imported into Burkina Faso, and then transshipped to Liberia for delivery to Sierra Leone in exchange for diamonds. American officials have repeatedly warned Taylor directly that they believe that he is supplying the RUF with arms in exchange for diamonds, and have explicitly called on him to end the relationship. Likewise, Britain, which has sent troops and military trainers to assist the government of Sierra Leone (GOSL) against the RUF, has taken an especially direct stance on the issue of alleged Liberian assistance to the RUF in exchange for diamonds. It succeeded, in mid June 2000, in suspending approximately \$50 million

³¹ Douglas Farah, "Old Problems Hamper U.N. in Sierra Leone; Leadership, Equipment Troubles Leave Peacekeepers Vulnerable," *Washington Post*, June 11, 2000, p. A25; and Douglas Farah, "Internal Disputes Mar U.N. Mission," *Washington Post*, September 10, 2000, pp. A1, A34.

of European Union (EU) aid to Liberia, against considerable opposition of other EU members. The Liberian government has repeatedly and consistently denied that it is a conduit for RUF diamonds.

Diamonds in Sierra Leone. Diamonds are found in approximately one-third of Sierra Leone's territory, principally in the east and southeast. Alluvial deposits (those found on or near the surface and in river beds) predominate, but several diamond-rich kimberlites (deep pipes, of volcanic origin, made up of eruptive rock materials) are also present. Artisanal mining, which has been an important mode of extraction since diamonds were discovered in Sierra Leone, is currently the primary source of production in the country. Conflict has largely halted production by large scale, formal sector mining firms, which have historically contributed significantly to production.

Sierra Leone Diamond Exports. Diamonds have historically been a key source of foreign exchange for Sierra Leone and have accounted for between 80 and 90% of export earnings in recent years, although some of this hard currency has reportedly entered the country via the black market. Liberia and Guinea have been named as primary destinations for smuggled Sierra Leone diamonds, as has Burkina Faso to a lesser extent.³² Diamond production, predominantly unofficial or illicit, has been estimated as being worth between \$70 and \$138 million dollars in 1999, but annual production may be significantly higher. Some observers have attributed a major source of a rapid rise in Liberian diamond exports, totaling more than \$298 million in 1999 and \$268 million in 1998, to diamonds smuggled from Sierra Leone to Liberia. Others claim that the rise is attributable to the transshipment and re-export of diamonds from Russia and elsewhere through Liberia in order to avoid Belgian import tax payments. Liberia has a reported annual diamond production capacity of 100,000 to 150,000 carats.

Official Sierra Leonean diamond exports in 1999, according to the Sierra Leone Government Gold and Diamond Office (GGDO), as reported by USAID, were worth a total of \$1.5 million dollars.³³ The Diamond High Council, of Antwerp, Belgium, however, has reportedly stated that uncut diamonds officially exported from Sierra Leone were worth \$31 million in 1999, down from \$66 million in 1998.³⁴ From January through June 2000, the GGDO reported that diamonds valued at \$3.45 million were exported from Sierra Leone.³⁵ No diamonds were legally exported from Sierra Leone following the passage by the U.N. Security Council of Resolution 1306

³² Interview with Sierra Leone Ambassador to the United States, John Leigh, September 18, 2000; and Tim Sullivan, "Rebel diamonds turn to guns in West African smuggling network," Associated Press Newswires, August 5, 2000, *inter alia*.

³³ USAID, *Diamonds and Armed Conflict in Sierra Leone: Proposal for implementation of a new diamond policy and operations*, Office of Transition Initiatives, May 8, 2000, online at [http://www.usaid.gov/hum_response/oti/country/sleone/diamonds.html].

³⁴ Personal communication with HRD Diamond Council, *inter alia*.

³⁵ "Diamond export statistics," *Presentation by the Government of the Republic of Sierra Leone to the United Nations Sanctions Committee*, July 31, 2000.

(2000), which prohibits the exports of Sierra Leonean diamonds lacking GOSL certification under a UN-accredited certification scheme, according to USAID.³⁶

Regulation of Sierra Leone Diamonds. The United Nations, through Security Council Resolution 1306 (2000), has prohibited for 18 months the importation to U.N. member states of all rough diamonds from Sierra Leone not covered by a certificates of origin regime implemented by the GOSL.³⁷ The resolution calls on the government to set up such a system with help from U.N. member states and international organizations. All diamonds certified by the GOSL, following official creation of a functioning regime, are exempt from the prohibition. The resolution also calls upon the Sanctions Committee on Sierra Leone created by Resolution 1132 of 1997 to take measures to identify persons or entities engaged in violations of the diamond export sanctions and to report to the Security Council on such findings.

On July 31 and August 1, 2000 the Panel of Experts called for in Resolution 1306, made up of members nominated by the Sanctions Committee, held exploratory hearings on the illicit diamond trade. The hearings focused on the alleged role of Liberia and Burkina Faso in the conflict diamond trade out of Sierra Leone, the reported role of Ukraine in supplying arms to the RUF via Liberia and Burkina Faso, and the GOSL's proposed diamond export certification plan. At the hearing the Sierra Leone plan was criticized by Monie Captan, foreign minister of Liberia who, according to the *Financial Times* "questioned which diamonds the GOSL would be certifying since it did not control the mines." Representatives from the United Kingdom, the United States, and NGOs reportedly voiced concern that, in spite of the proposed certification scheme, conflict stones might enter into legitimate trade. Following the hearings, the Sanctions Committee's Panel of Experts undertook field investigations into illicit trade in Sierra Leonean diamonds and of the arms trade networks supplying the RUF.

In late December 2000, the Panel of Experts on Sierra Leone Diamonds and Arms released a report on its findings.³⁸ The report described in detail a system of trade, linked to international criminal networks, that has enabled the export of diamonds from Sierra Leone and the export of arms into the country, despite U.N. sanctions prohibiting these activities. The report named many individuals, businesses, and countries that it found to be complicit in these activities, and described how the RUF has exported diamonds from Sierra Leone. It focused much of its attention on the role of Liberia and several other African countries in enabling such prohibited trade but also underlined the failure of European countries to more strongly regulate arms brokering and rough diamond trading. It noted that lax regulation of trade between European countries, including Belgium, Switzerland, and the United Kingdom (UK), enabled the origin of diamonds from conflict regions to be obscured. The report, which also described systemic weaknesses in West African aircraft control

³⁶ Interview with USAID official, Sept. 22, 2000.

³⁷ "Resolution 1306 (2000) Adopted by the Security Council at its 4168th meeting, on 5 July 2000," United Nations, S/RES/1306 (2000), July 5, 2000, [<http://www.un.org/Docs/scres/2000/res1306e.pdf>].

³⁸ S/2000/1195. Also see footnote 3, above.

systems, included many detailed recommendations on how to prevent prohibited arms and diamond trading. It also noted a high degree of overlap between the work and findings of the Sierra Leone and the Angolan sanctions committees and suggested that the United Nations create a permanent sanctions monitoring and compliance body.

Certification System.³⁹ The Sierra Leonean certificate system was not initially accepted by the Sanctions Committee, which met on August 9, 2000 and September 29 to consider in detail the GOSL plan for compliance with U.N. Resolution 1306. On October 6, the Sanctions Committee effectively accepted the GOSL export control plan, and recommended to the Security Council that the diamonds exported under the GOSL regime be exempted from the sanctions imposed by Resolution 1306. On October 12, the GOSL reportedly lifted the ban on legal diamond exports.

The certificate system, which the GOSL developed in consultation with experts from the governments of the United States, the United Kingdom, Israeli experts, and with technical assistance from the Diamond High Council, is reported to operate as follows:

- ! Each parcel is to be accompanied by a certificate of origin (COO) labeled for identification with a randomly chosen serial number printed on tamper-proof, watermarked paper.
- ! Each COO is to be matched by an import confirmation certificate and a numbered label, both originating as perforated sections of the original certificate, and incorporating the same security measures. Under the system, the import confirmation certificate is detached from the COO upon arrival of a diamond parcel at its destination by the importing authorities and is returned to the exporting authority in Sierra Leone. The numbered label is placed as a legal seal upon the parcel being shipped to prevent tampering with the package en route.
- ! The certificates, printed in the United Kingdom and paid for by the GOSL, will be issued by the Sierra Leonean Gold and Diamond Office. Their cost will be recouped by exporting firms upon issuance through payment of a certification fee.
- ! Each parcel is also to be accompanied by a GOSL valuation form, describing the consignment by weight and value, and describing associated export duties and other shipment identification information. The valuation form information is reflected upon the reverse of each certificate of origin.

³⁹ The proposed certification system is described in *Presentation by the Government of the Republic of Sierra Leone to the United Nations Sanctions Committee*; interview with USAID official, Sept. 22, 2000; Office of Transition Initiatives, USAID, *Status Report and Proposed Actions: Technical Assistance to the Government of Sierra Leone for Development and Implementation of a New Mining and Export Regime for Diamonds*, September 1, 2000.

- ! Each parcel is also to be accompanied by a commercial invoice, containing information and in a format that conforms to international trade practice and has been approved by the Bank of Sierra Leone

The GOSL export regime also incorporates a separate security system that is meant to augment and add redundancy to the COO system. It consists of digital photographs of the contents of each certified export parcel accompanied by a digital record reflecting the same identifying export information found in the COO documents described above. This digital information is transmitted separately to the recipient export authorities upon the dispatch of each parcel shipment. It comprises an independent, parallel means of verification for each shipment.

The COO regime provides for the seizure of parcels that have been found to have been tampered with during shipment, which will be undertaken by a limited number of exporting firms. Each participating firm must be licensed in Sierra Leone and hold membership in diamond exchanges recognized by the World Federation of Diamond Bourses or the International Diamond Manufacturers Association, two major industry groups. Each participating firm is also required to train and employ as a valuer at least one Sierra Leonean. Each must also buy and sell its diamonds in accordance with a revised export banking regime, currently under development by the GOSL, aimed at creating a secure and efficient fiscal and financial system. The envisioned regulatory system will reportedly allow for the purchase of diamonds using hard currency, the import and export of which must be undertaken in transactions channeled through accounts held in banks accredited by the Bank of Sierra Leone. Such accounts will reportedly allow for open market convertibility of hard currency, the establishment of which is aimed at preventing black market currency arbitrage and illegal expatriation of foreign currency and diamond sales profits.

Broad Context of Regulatory Reform. The nascent COO export system, which revises and improves upon an existing GOSL diamond trading and export legal regime, is meant both to comply with the U.N. Resolution 1306 and to prevent the export of conflict diamonds through improved regulation of exports. It is also meant, however, to bring about conformity with international norms of commerce and to foster reform of the domestic trading system in order to create a diamond industry based on open market principles that will better distribute diamond-related wealth.

Ensuring legal consistency with international trade practices is meant to regularize the diamond trade, at least with regard to Sierra Leonean diamonds, by making it subject to integration with a broad body of laws governing trade. Within Sierra Leone, the export system is meant to foster broad-based reform aimed at creating a transparent diamond industry built upon positive financial incentives and inclusive social participation that will, in turn, be amenable to regulation by a combination of laws and self-interest among participants in an open market. These reform efforts—of which free floating currency exchange is an integral part—aim at removing structural incentives, such as government-controlled rates of exchange, that create opportunities for illicit activities (e.g., smuggling, black market currency transactions and expatriation of diamond earnings). Likewise, they are meant to remove artificially high barriers to entry into legitimate trade, such as unreasonably high tariffs and licensing fees, and opportunities for exploiting unequal terms of trade

among producers and traders, such as lack of access to credit, price differentials between legal and illicit trading.⁴⁰

Future Prospects

Although action at the international level is being taken to curtail the trade in conflict diamonds, an effective and conclusive solution to the problem is unlikely in the short term. The challenge is two-fold:

- ! The creation of international consensus, backed up by legislative and administrative action to create a global diamond trade regime.
- ! The need to strengthen the domestic capacity of Sierra Leone, Angola, and the DRC to effectively regulate their economies.

Progress at the international and national levels is on-going, but at the root of the problem is armed conflict, poverty, and varying degrees of institutional incapacity aggravated by corruption. These problems require long-term, comprehensive socio-economic policy solutions, of which conflict diamonds are merely a component. However, the many current policy initiatives described in this report are the basis for incremental progress in dealing with the problem of conflict diamonds.

The Angolan and Sierra Leonean diamond export control systems are administratively and procedurally robust in concept. They are workable policy tools that are presently being implemented, and represent a first concrete step toward reducing conflict diamond exports. They also represent a basic building block in efforts to promote the conformance of the international diamond trade with standard international trade mechanisms and national laws.

The DRC certification of origin process is less robust. It relies upon the IDI deal, which incorporates a range of provisions for ensuring that diamonds exported from the DRC originate in territory controlled by the government. The IDI deal, however, may not endure, according to industry observers, and the DRC government does not appear to have formulated a clear-cut policy on diamond export controls apart from its announcement of the IDI deal. Both the Congolese and the Angolan single buyer policies could also lead to increased smuggling, if sub-market prices are paid to local diamond dealers, as has been reported in Angola, or if the single buyer is not willing or able to purchase the available supply, as has been reported in the Congo.

The international diamond trade has historically been self-regulating and, in many respects, has been exempt from many standard trade laws governing trade in goods. Illicit trading in diamonds exploits these aspects of the legitimate trade, and these

⁴⁰ The relation between structural market distortions and disincentives and the rise of illicit and policy strategies are described in detail in "Appendix. Guidelines on the mining and marketing of diamonds in Sierra Leone." *Presentation by the government of the republic of Sierra Leone to the United Nations sanctions committee*. July 31, 2000. Virtually the same document, which proposes a wide range of market-based reform solutions, is available as USAID, *Diamonds and Armed Conflict in Sierra Leone*.

factors, along with the fungible nature of diamonds, has made the prosecution of crimes associated with illicit diamond trading difficult to detect and prosecute. The application of standard regulatory norms of trade in diamonds, such as requiring certificates of origin during export, is aimed at removing such exemptions of practice. It is also meant to establish a body of standard export, trade, and tariff documentation, related to diamond transactions, that can be audited and tracked. Such documentation, in turn, may in the future also enable larger bodies of national and international law and legal precedent (including punitive measures, standards of evidence, and other legal tools and remedies) to be applied to illicit diamond trading. In addition, it facilitates the possible future application to diamond trading of trade system incentives, such as the application of tariff reductions under various preferential tariff agreements.

Regardless of the effectiveness of export control policy planning, it remains possible that conflict diamonds might enter into legitimate commerce—albeit likely at reduced prices—through the domestic trading systems of Sierra Leone, the DRC, and Angola. This possibility remains because these countries, which remain in conflict, possess weak regulatory and administrative control over much of their territories and economies. Both the Angolan and Sierra Leonean plans take cognizance of these challenges, and incorporate measures to better regulate their respective domestic industries. The GOSL diamond industry plans also incorporate measures for institutionalizing open market competition and transparency in diamond trading and for broadening of participation in the diamond sector through the increased access to credit and the development of mining and trading cooperatives. These measures, if implemented, are likely to have the greatest impact on reform by legitimizing and spreading the wealth created by diamonds.