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Blood diamond: From conflict to illicit-mapping the diamond trade

S Krishnan
Associate Professor, Seedling School of Law and Governance, Jaipur National University, Jaipur, Rajasthan, India

Abstract
Diamonds may be a symbol of loving, partnership and a girl's best friend, but are they also becoming a close friend to organized crime? There is growing evidence of organized crime syndicates becoming involved in the lucrative international diamond trade. Found only in certain regions of the world, diamonds are a finite natural resource — often difficult to mine. Limited abundance combined with strong consumer demand for gem-quality stones make diamonds a highly valued commodity. Desire by criminal operators to tap into this wealth through illicit means has encouraged the growth of theft and fraud within the diamond industry. Furthermore, diamonds are being used in certain parts of the world to finance more insidious activities including drug and arms dealing.

Keywords: black market, diamonds, kim berley process, organised crime, trade, un report

Introduction

Diamonds have fuelled three of Africa's most brutal wars. A 2001 United Nations Report on the "Illegal Exploitation of Natural Resources and Other Forms of Wealth in the Democratic Republic of Congo" concluded that the conflict in the DRC "has become mainly about access control and trade of five key mineral resources; Coltan, Diamonds, Copper, Cobalt and Gold". The exploitation of natural resources by foreign armies, the report said, "has become synthetic and systemic. Plundering, looting and racketeering and the constitution of criminal cartels are becoming commonplace in occupied territories. These criminal cartels have ramifications and connections worldwide."

Following failed elections in 1992, Angola's renewed civil war was largely financed by oil and diamonds, costing the lives of more than 500,000 people. UNITA, the Angolan rebel movement, has consistently controlled large areas of the country's diamond production, generating $3.7 billion between 1992 and 1999. In Sierra Leone, diamonds became both a motivator, and the resource that paid for a brutal civil war that began in 1991. As many as 75,000 people were killed in the decade that followed, most of them civilians. The Revolutionary United Front hallmark was brutal amputation: hundreds and perhaps thousands of innocents, many of them small children, had their hands and feet chopped off. Such are the effects of conflict diamonds.

Definition and Concept of Blood Diamond/Conflict Diamond

The terms 'conflict diamonds', 'blood diamonds' and 'war diamonds' began to appear in the middle of 2000, shorthand to describe a phenomenon researched and brought to international attention by two NGOs, Global Witness and Partnership Africa Canada, and a UN Security Council Expert Panel dealing with Angola. Interestingly, the reports resulting from the three investigations never used any of these terms. The expressions were media creations, convenient and descriptive shorthand for a complex subject. The formal definition of conflict diamonds has varied since the term was coined. In December 2000, the UN General Assembly defined conflict diamonds as "rough diamonds which are used by rebel movements to finance their military activities, including attempts to undermine or overthrow legitimate governments." An intergovernmental series of meetings, known as 'the Kimberley Process', debated the definition at length, settling on something more legalistic and less comprehensive: Conflict Diamonds means rough diamonds used by rebel movements or their allies to finance conflict aimed at undermining legitimate governments, as described in relevant United Nations Security Council (UNSC) resolutions insofar as they remain in effect, or in other similar UNSC resolutions which may be adopted in the future, and as understood and recognised in United Nations General Assembly (UNGA) Resolution 55/56, or in other similar UNGA resolutions which may be adopted in future.

The definition of the term 'conflict diamonds' is the subject of international debate. The Kimberley Process, which started in mid-2000, defined them by reference to the decisions of the Security Council of the United Nations. Conflict diamonds are understood to be: rough diamonds whose trade is deemed illegal by the United Nations, specifically the Security Council, because the proceeds of those rough diamonds are demonstrably fuelling armed conflict by rebel movements and their allies so as to undermine or overthrow legitimate governments.

The definition consists of two potentially conflicting elements, namely criminalisation by the Security Council, and the use of the diamonds as a source of finance for military acts against legitimate governments. The underlying premise behind the Security Council link was presumably that the Council would delegitimise diamonds as conflict diamonds only on the basis of that impermissible purpose. The adoption of the Security Council as a point of reference, however, renders the Kimberley Process definition hostage to the occasional incongruities of international law. In the absence of a Security Council ban, the Kimberley Process formulation would define out rough diamonds from Goma, even if they were extracted from a region under RCD control, or even sold by the RCD itself.

Similarly, diamonds from the SengaSenga alluvial mine, under the control of a Zimbabwe/DRC/Oryx Diamonds Ltd conglomerate, would also not fall foul of any prohibition. The Kimberley Process does not, of course, have legal force.

The United Nations General Assembly blandly defines conflict diamonds as: rough diamonds which are used by rebel movements to finance their military activities, including attempts to undermine or overthrow legitimate governments. The United Nations' Panel of experts on the Illegal Exploitation of the Congo's Resources did not follow the Kimberley Process definition. It went further than the General Assembly. In its November 2001 report (the November Report), which was an addendum to the April 2001 report, the panel defined conflict diamonds as: diamonds that originate in areas controlled by forces or factions opposed to legitimate and internationally recognized governments, and are used to fund military activity in opposition to those governments or in contravention of the decisions of the Security Council.

Conflict diamonds are usually associated with three current wars: the civil war in Angola, the complex of cross-cutting warfare in the Democratic Republic of Congo (DRC), and the RUF "rebel war' in Sierra Leone. The conflict diamonds of today, however, have their antecedents in other conflicts. Diamonds, for example, were used during the 1970s and 1980s to fund the Amal faction in the Lebanese civil war. Nabih Berri, head of Amal and Speaker in the Lebanese Parliament, was born in Sierra Leone and had close ties to key figures in the Lebanese-dominated Sierra Leone diamond trade. He made visits to Sierra Leone during this period to raise funds for his campaign in Lebanon, and further diamond-generated funds were raised later in Sierra Leone for Lebanese reconstruction.

Earlier, diamonds played a role in fuelling the Angolan liberation movement. In the first instance, they served to raise African awareness and resentment of Portuguese colonial rule. As late at 1954, Diamang, the Luanda-based diamond company – owned by Portuguese, Belgian, British and American interests – was resisting calls to raise the wages of its 17,500 workers from $2.45 a month. The proposed wage increase would have represented ten per cent of the company's dividend payments that year. The liberation war began seven years after this dispute, and as it heated up, diamonds fuelled Portugal's efforts to fight back.

Further north from Angola, a seemingly insignificant cross-border raid from Liberia into Sierra Leone in 1991 signalled the start of another brutal war. The Revolutionary United Front (RUF), supported by Liberian warlord Charles Taylor, spoke vaguely of democracy and justice, but its attacks were all aimed at non-combatants. The RUF signature – chopped hands, feet, breasts – was applied only to civilians, many of them women and children. By 1995, the RUF had gained control of Sierra Leone's diamond fields, and although not acknowledged internationally, it was obvious to casual observers in the region that the RUF was trading diamonds for weapons, the latter supplied by their Liberian mentor, Charles Taylor. After the deaths of 75,000 people, with half the country's population displaced, and Charles Taylor now the President of Liberia, Sierra Leone had reached rock bottom. By 1999, the government that was democratically elected in 1996 was restricted mainly to the Freetown peninsula.

In January 2000, a Canadian NGO, Partnership Africa Canada (PAC), issued an 88 page report on Sierra Leone diamonds entitled The Heart of the Matter: Sierra Leone, Diamonds and Human Security. It challenged a commonly held view that Sierra Leone's war, like others in Africa, was a crisis of modernity, caused by the failed patrimonial systems of successive post-colonial governments. It also disputed Robert Kaplan's thesis that Sierra Leone was a prominent exemplar of "the coming anarchy" and "new age primitivism" – a mindless breakdown of law and order and state control. The Heart of the Matter argued that while there was certainly no doubt about widespread Sierra Leonean disenchantment with the failing state, with corruption and with a lack of opportunity, similar problems elsewhere had not led to years of brutality by forces devoid of ideology, political support and ethnic identity. Only the economic opportunity presented by a breakdown in law and order could have sustained violence at the levels that plagued Sierra Leone after 1991. The report argued that,

"Traditional economics, political science and military history are of little assistance in explaining Sierra Leone's conflict. The point of the war may not actually have been to win it, but to engage in profitable crime under the cover of warfare. Diamonds, in fact, have fuelled Sierra Leone's conflict, destabilizing the country for the better part of three decades... Over the years, the informal diamond mining sector, long dominated by what might be called 'disorganized crime', became increasingly influenced by organized crime and by the transcontinental smuggling not just of diamonds, but of guns and drugs, and by vast sums of money in search of a laundry. Violence became central to the advancement of those with vested interests. As the mutation of the war in Sierra Leone continued and spread through the 1990s, so did the number and type of predators, each seeking to gain from one side of the conflict or another."

Although they denied it vociferously, among those complicit were De Beers, the entire Belgian diamond industry and a coterie of Canadian junior mining firms that were doing most of the formal mining in Sierra Leone. De Beers, officially out of Sierra Leone for years, continued to mop up "loose' diamonds wherever they appeared until as late as 1999, in order to retain control of the market. Belgium simply ignored the fact that imports into the diamond trading capital of the world, Antwerp, bore no relation to the production capacities of the countries they were said to come from. In 1998, Sierra Leone's diamond industry was almost completely under rebel control. There were virtually no official exports, and yet Belgium recorded 770,000 carats as originating in Sierra Leone. Much, much worse was the case of Liberia,– a country with the capacity to produce maybe 100,000 carats at most in a year. Between 1994 and 1999, almost 37 million carats, worth US$2.2 billion, were recorded in Belgium as Liberian.

Blood Diamonds and First Tracing Efforts

Despite the popularity of diamonds in western culture, the diamond trade has a sordid history, financing and spurring a myriad of atrocities such as civil war, insurgencies, looting wars, mutilation, rape, and terrorist activity. The sale and exchange of diamonds for weapons by rebel groups and war criminals funded conflicts in a number of African countries for several decades. Diamonds mined in conflict areas, such as areas in the midst of civil war, or sold to finance a conflict such as an insurgency, have been labeled "blood" or "conflict" diamonds.

The link between the diamond trade and third-world conflicts was first brought to light in 2000 by a UN investigation which led to a Security Council response, as well as the initiation of the Kimberley Process Certification Scheme. The Kimberley Process requires member countries to certify shipments of rough diamonds as "conflict-free" in an attempt to prevent conflict diamonds from entering the world diamond market. A three-step verification method is used, where mining countries must provide declarations regarding the origin of stones. Over 80 of the world's diamond-producing countries comply with the Kimberley Process. However, the process has fallen under vast criticism for system flaws such as the certificate process applying to batches of rough diamonds rather than individual stones, and failing to address issues around worker exploitation and other human rights violations.

The Kimberley process is voluntary; it is not an international legally enforceable agreement, and its purpose is mainly to stop the trade in blood diamonds, rather than deal with money laundering or terrorist financing activities. Thus, although the Kimberley Process has been effective in reducing the percentage of blood diamonds in the world diamond market, it is a far cry from complete transparency as to the traceability and provenance of all diamonds.

Money Laundering, Terrorist Financing, and Other Crimes

Diamonds have an obvious attraction for rebel movements and their suppliers. They are a low-volume, high-value commodity. They are highly portable, and all too often, they are readily accessible. The legitimate diamond industry has been shrouded in secrecy for generations, there is very little government oversight on the international trade, and there is a paucity of consistent, reliable trade and production data that might be used for tracking purposes. At least 20 per cent of the rough diamonds that are sold each year are, in one way or another, 'illicit', providing a ready-made cover for the 'conflict diamonds' that are the subject of current international interest. Add to this the fact that half the world's production or more is mined in countries with unstable or secretive governments, and there is an almost foolproof recipe for expanded and deepened criminality.

Improved regulation and awareness of money laundering typologies has forced criminals to find new methods and venues for laundering funds. As a result, criminals have begun to target Designated Non-Financial Businesses and Professions (DNFBPs), such as precious metals and precious stones industries, and the trade in rough diamonds, polished diamonds, and diamond jewelry has been particularly affected.

Diamonds are susceptible to money laundering and other crimes due to a number of factors. First, diamonds are a liquid asset; they can be utilized similarly to currency and can be used as a means of payment or readily converted to cash. There are instances of drug trafficking through directly trading diamonds for drugs. Diamonds are also difficult to track and can provide a level of transactional anonymity. Along with other precious stones, diamonds have a high value-to-mass ratio. Their small size allows for effortless smuggling across borders. Diamonds retain their value for a long period of time and aren't devalued by inflation. They also cannot be burned, do not expire, and accrue value over time (there is no hurry to get rid of them). The diamond trade also deals with high-dollar amounts, which provides the potential for laundering huge sums. The diamond trade typically involves multiple international transactions, which allows for an effective layering process, while simultaneously complicating investigations and law enforcement actions. As the trade is transnational, it is susceptible to a number of Trade Based Money Laundering (TBML) techniques, particularly over/under valuation. In addition, anti-money laundering/counter terrorism financing (AML/CFT) professionals and law enforcement are not well aware of the intricacies of the diamond industry, evidenced by the extremely limited number of reports filed by precious stones dealers to Financial Intelligence Unites (FIUs).

It was discovered that Osama bin Laden's Al Qaeda network purchased diamonds at low cost from Revolutionary United Front (RUF) rebel groups in Sierra Leone prior to September 11, 2001 and sold them for large profits in Europe, netting estimated millions of dollars. In July 2001, Al Qaeda diamond dealers began buying far more diamonds than usual and at higher prices. As diamonds were nearly untraceable and could be easily hidden, Al Qaeda likely invested in diamonds as a way of protecting its funds in anticipation of its accounts being frozen after the September 11th terrorist attacks.

Fraud is also prevalent in the diamond industry. Insurance fraud related to diamonds results in billions lost each year with instances of a single stone being claimed with multiple insurers. Synthetic and treated diamonds also pose a fraud risk. Synthetic diamonds are laboratory-created diamonds nearly identical to naturally occurring diamonds, but with slight atomic differences. Natural diamonds, which are unsuitable for commercial jewelry due to certain defects, can be enhanced by laboratory processes to achieve better color or clarity. There is no international nomenclature used for differentiating synthetic or treated diamonds from naturally occurring diamonds, thus synthetics may be fraudulently substituted for real diamonds. In addition, legislation in countries around the world rarely differentiates between synthetic/treated diamonds and naturally occurring diamonds. Referring to these three types of stones only as "diamonds" or "precious stones" is concerning, as it leaves room for interpretation that laws and regulations may not specifically apply to synthetic stones.

Criminal Opportunities with the Diamond Industry

Diamonds have numerous features that make them highly attractive as a commodity that may be used in connection with illegal trade. They are:

1. Small and durable (hence readily concealed and easily smuggled);
2. Of inherent value (with a very high value-to-weight ratio), serving as a form of "compressed cash";
3. Easily exchanged for cash or other commodities (for example, drugs, arms); and
4. Virtually untraceable once in polished form.

In addition, the origin of individual stones and/or mixed "parcels" is impossible to determine in any cost-effective or practical manner. These combined qualities make diamonds a seemingly ideal currency for organised crime.

Diamonds vary in quality from industrial grade to gem quality. There is marked variation in the value of gem-quality stones, determined according to "the four Cs": cut, colour, clarity and carat-weight.

Diamonds targeted for theft by criminals are typically gem quality, as these stones produce the highest comparative return. There is a relatively narrow market for high-end gems given their rarity and expense and the fact that they are readily noticed once they enter the market. Yet if criminal syndicates succeed in procuring and selling even a small number of high-quality diamonds illegally, this can return enormous profits. Alternatively, if syndicates are engaged in systemic theft of lesser-value gem quality diamonds, this still provides the potential for solid returns.

The Criminal Acquisition of Diamonds

Like most industries, the diamond industry is subject to internal regulation to ensure its integrity and to protect what is a valuable commodity and resource. Internal regulation and security measures have not, however, prevented organised crime groups from targeting the industry. Some of the criminal strategies adopted include the following:

- Persons associated with criminal groups seek employment in mining operations, with intent to steal diamonds once "inside" (that is, placement/insertion).
- Existing employees within the industry are targeted by criminals to steal diamonds for supply to the criminal group (that is, recruitment/ corruption). Theft can involve misappropriation of stones before they are brought to account on the production books, or diamond substitution later in the pipeline, whereby low-value goods are substituted for high-value gems.
- Opportunistic theft of diamonds may take place during transit between major points in the pipeline, for instance, by those in a position to handle goods during local or international transfers.
- Criminal syndicates may purchase diamonds sourced from rebel-held diamond-rich territories in various conflict regions around the globe. The trade in so-called "conflict diamonds" is perceived as one of the most significant threats to the legitimate diamond industry.

The first three scenarios constitute theft of diamonds that have been legitimately produced. While such theft is often perpetrated by individuals, offenders are typically linked to a broader criminal network into which stolen diamonds pass. Such theft may be distinguished from trade in conflict diamonds, in which the mining enterprise itself is not legitimate.

The trade in conflict diamonds has received considerable international attention and condemnation in recent years (see, for example, Global Witness 2000). Prohibitions have been imposed under United Nations Security Council resolutions against the purchase of conflict or non-certified diamonds from countries such as Angola and Sierra Leone. The United Nations has also sought to limit the role of other countries such as Liberia in providing provenance for illicit stones, and has imposed similar sanctions.

While the conflict diamonds issue has gained prominence in the international press, and efforts to publicise and condemn conflict mining are laudable, the media focus on this issue has been selective and arguably disproportionate. The United Nations has, for example, estimated that 20 per cent of the world's rough diamond trade is illicit in nature and that conflict diamonds constitute less than four per cent of world production. De Beers (2001) now place this latter figure at approximately 2.5 per cent. On the basis of these figures, only between 12 per cent and 20 per cent of diamonds in the illicit trade are conflict diamonds—the majority of the global illicit trade involves stolen, non-conflict diamonds. In either case, however, corruption (whether of individuals, segments of industry or national governments) is a core issue which must be addressed in local and international response strategies.

Trade In Illegally Obtained Diamonds

Profits may be derived from the illegal acquisition and trade in diamonds in a variety of ways. First, diamonds may be sold in international diamond markets (known as "bourses"). This may occur via clandestine trading of illicit stones, or through successful insertion of illicit diamonds into the legitimate marketplace. One example of the latter is legal miners "salting" their production with illicitly obtained diamonds (including conflict diamonds), thereby "laundering" them.

Second, illicit diamonds may serve as tradeable items of value, a form of "extra-national" currency, to be used in other illicit market transactions. Recent history has seen diamonds associated with the arms trade, the drug trade and, quite recently, with people smuggling. Within industry and law enforcement circles, awareness of these links is growing. Evidence of the association between illicit diamonds and other more established "high profile" transnational criminal markets provides cause for serious concern. Adding to this concern, there are emerging reports of diamonds being used to finance terrorist activities. The Washington Post reported on 2 November 2001 that the terrorist group al-Qaeda has reaped millions of dollars in the past three years from the illicit sale of diamonds mined by Revolutionary United Front (RUF) rebels in Sierra Leone. The article alleged that other terrorist networks including Hezbollah are also buying conflict diamonds from the RUF. With the enhanced focus on following criminal money trails since the terrorist attacks in the United States on 11 September 2001, there may be a move by such groups to increase their use of commodities other than cash; diamonds may provide an attractive alternative.

Diamond transactions may also be used as a vehicle for laundering the proceeds of other criminal activities, for instance, through the manipulation of diamond valuations. If a collusive arrangement exists between buyer and seller (who may be based in different countries), a diamond or diamond parcel may intentionally be over-valued by the seller. This enables the buyer to transfer payment at the inflated price, incorporating the actual value of the stones topped up with additional illicit funds which then become laundered and legitimised. Alternatively, stones may be under-valued in order to avoid or minimise taxation and customs duties. Over- or undervaluation is facilitated by the fact that diamonds are one of the few commodities valued on the characteristics of individual stones rather than on linear mass. Other criminal activities forming part of the illicit mosaic include the smuggling of diamonds across borders to evade customs duties or to enhance their provenance. This helps disguise the true origin of stones, and in the case of conflict diamonds can assist in establishing an appearance of legitimacy.

An important feature of the international diamond market is the somewhat parallel nature of the licit and illicit streams. Stones may remain in one or the other stream, or illicit and licit goods may cross over at virtually any stage of the pipeline. To illustrate, conflict goods may remain fully contained within the illicit market, being polished then traded to criminal groups in exchange for other criminal commodities. Alternatively, the origin of conflict or stolen diamonds may be successfully disguised and the diamonds may enter the legitimate market. Licit diamonds may also cross over to the illegitimate market (as when stones are stolen at some point in the legitimate chain and sold at a reduced price on the illicit market). The veil of secrecy surrounding diamond transactions and the lack of an adequate global regulatory and certification regime are two (but not the only) factors contributing to poor transparency within the industry. This in turn facilitates illicit activity in its various forms.

The Kimberley Process statistics account only for the legitimate trade between Kimberley Process member states. While team members have indicated that illegal trade is taking place, there is no source of data to evaluate the extent of such trade making it hard to establish the overall global volumes of rough diamond trading. Cases provided by team members or from open source show that smuggling accounts for a large portion of the illegal activity, indicating that the illegal trade in diamonds is very significant.

The following countries have either provided cases involving smuggling and/or indicated that smuggling of diamonds occur within their jurisdiction: Belgium, Canada, Israel, Netherland, Russia, South Africa, Sierra Leone, United Kingdom, and United States of America. The illegal diamond trade can be divided as follows:

1. Illegal mining which takes place in mining countries. The illicit diamonds will then be either inserted to the trade of a local mine or smuggled to a neighbouring country with a mining industry and then commingled with the produce of a legal mine.
2. Stolen diamonds which are inserted to the legal trade as a laundering method (for example, it is estimated by DeBeers that USD 100 million is stolen from them annually).

   Diamonds are an attractive alternative for criminals and terrorists to transport and transfer value physically, as diamonds are relatively small in size and are high value goods. The latter has also made diamonds a feasible alternative to currency, which is used in some countries by criminal or terrorist groups to buy supplies, drugs, weapons, or pay for drug-trafficking related debts. This is relevant considering that diamonds could be stolen pieces, "conflict diamonds" or diamonds used to pay for drugs or weapons. Forged Kimberley Certificates can allow them to pass as recently and legally extracted stones, those bought as investments or as used diamonds removed from pieces of jewellery. This is particularly important to financial institution providing loans against diamonds as collateral. Without the ability to verify the source of diamonds either for rough diamonds where a KP certificate is available or for loose polished diamonds where there is no certificate, there is a risk of such loans being part of a ML/TF scheme.

The most noted predicate offence related to the use of diamonds as a currency is drug trafficking. Canada, Australia, the United Kingdom and the United States provided cases for such use. Drug traffickers/producers use these commodities for a number of reasons in support of their criminal enterprise. The drug business generates huge amounts of cash which is a well-known fact by reporting entities and law enforcement. It isn't surprising that criminal organisations that are involved in drug production and trafficking are looking for other ways of payment. Cases provided by team members have shown that diamond and jewellery are actually used by drug traffickers of different levels as a mean to finance the purchase and distribution of drugs.

In October 2011 officers from the Metropolitan Police Service's Central Task Force arrested Daniel McNeill-Duncan, Aaron Bowell, Karl King and James Bailey at Bailey's Neasden home. A drugs search found more than GBP 92 000 in cash, almost 2 kilos of cocaine (street value GBP 1m+). A search of King's home found large quantities of cocaine cutting agents Boric Acid, Phenacetin and Lignocaine, scales and a money counting machine. A search at Marlon Okeowo's address – Bailey's associate – found GBP 80 000 worth of cut diamonds. All pleaded guilty to conspiracy to supply cocaine.

The drug dealer who had strong industry, commodity and market knowledge sold the least valuable (scrap) jewellery as scrap to jewellery stores and bullion dealers. Jewellery that had some aesthetic or residual market value above the component parts was sold as estate jewellery to jewellers. In return, the drug dealer received cash, gold and silver bars and coins and diamond jewellery. The drug dealer used some of the proceeds of crime from the sale of drugs and sale of jewellery obtained through trade for drugs to purchase specific diamond jewellery and gemstones items (jade) as a mean to store wealth. The drug dealer used appraisals to define the value of jewellery that was stored as wealth and to help negotiate fair prices for the resale of the jewellery to the market.

Prices of diamond are relatively stable and provide the security that the value invested in their purchase would not depreciate significantly over long periods of time. By changing proceeds of crime into diamonds and jewellery, criminals can:

1. conceal proceeds of crime over long periods of time and avoid seizure and confiscation,
2. transfer very high value across borders while keeping their investment relatively safe,
3. transfer very high value across borders without a need to declare carrying value as requires by FATF standards and local legislation with regard to bearer negotiable instruments (BNIs),
4. use as a form of payment after long periods of time, and
5. Insure the value of the diamonds in case of loss or theft.

At any level of the trade, a purchase of a large sum worth of diamonds or jewellery by a customer, whether in cash or any other means of payment, may be an attempt by a criminal to place proceeds of crime into diamonds as a vehicle to store wealth, making the diamond trade a target for placement and layering of criminal proceeds.

Diamonds Pipeline

Bringing diamonds from production (mining) to the retail consumer involves several stages of processing and a variety of transactions (also known within the industry as the “diamond pipeline”). The stratification of the diamond industry is as follows

1. Production (including mining, sorting and valuing)
2. Rough diamond trading / sales
3. Cutting and polishing
4. Polished diamond sales
5. Jewellery manufacturing
6. Jewellery retail sales

Within this string of transactions and processes, the diamond industry has two distinct components:

a. Mining and Manufacturing, which is the segment of the industry that deals with rough diamonds and includes diamond mining through to rough diamond cutting and polishing.
b. Jewellery Manufacturing and Sales, which is the segments that deals in finished (cut and polished) diamonds and includes polished diamond dealing on through to jewellery retailing.

Production

The diamond industry begins with the mining of diamonds in the production segment. Generally speaking there are a few primary locations for diamond mining the world over. These are South, Central and West Africa, Russia, Australia and Canada. The diamond trade in most of the African mining countries is of high economic importance accounting for a large part of the GDP and export earnings.

Diamonds occur in kimberlitic hard rock deposits or alluvial/fluvial deposits. Hard rock mines are those in which a kimberlitic pipe (and occasionally lamphorite), the host rock where diamonds are found in, is blasted from the surrounding rock and crushed to release the diamonds contained within it. Alluvial mining is the extraction of diamonds from river bed, sea floor, or beach deposits. They are referred to as secondary sources, since the diamonds in alluvial deposits were removed from kimberlitic mines (primary source) by natural erosion. Techniques used to collect the alluvial diamonds can be divided to industrial mechanized mining when specific conditions which make alluvial industrial mining economical are met or artisanal mining which involves diggers working in teams with simple implements such as picks, shovels and sieves. According to the literature review, contributions received from some of the mining countries (Australia, Botswana, Canada, Russia Sierra Leone and Zimbabwe) and discussions conducted in the workshop held in Dakar, kimberlitic mines are smaller in terms of geographical area and are much easier to secure than alluvial mines which may spread across huge geographical area which cannot be isolated. Kimberlitic mines are also highly mechanised with strict controls, while alluvial deposits (mainly artisanal) are more difficult to control because the diamonds can be extracted without large industrial machinery.

The next step of the production stage will be to sort and evaluate the diamonds and have them ready for sale. Sorting and valuation are done by dividing the diamonds into different groups according to their quality and value. This process will provide added value to the price of the rough diamonds. An important issue to understand is that when the report refers to diamonds, it covers a range of products. The price of a diamond, rough to polished, can vary from few tens of dollars per carat to tens of thousands of dollars per carat for a cut and polished diamond.

Rough Diamond Trading and Sales

Diamonds recovered from mining processes are purchased by rough diamond dealers through the global diamond markets. Purchases are usually arranged through diamond bourses (although there are different methods for the purchasing of rough diamonds) in countries such as Belgium, UK, India, Israel, and the United Arab Emirates (Dubai). While many of these centres are located in countries that have no diamond production themselves, their rough diamond trading industry has evolved over decades or hundreds of years. A diamond bourse or exchange is a private commercial business with membership restricted to individuals only (not companies). The bourse provides a trading floor where members and buyers meet to trade in rough and polished diamonds. Globally, there are 29 diamond bourses affiliated with the World Federation of Diamond Bourses. Other localised markets may exist in proximity to diamond mining locations, where street vendors purchase diamonds from artisanal miners. This is a vulnerable stage since it is very hard to control, as will be explained later. The diamonds are sold to regional dealers and then often to global diamond markets. The rough diamonds may be sold several times between rough diamond dealers and several diamond bourses before they are ultimately sold to a diamond cutter/polisher.

Rough Diamond Cutting and Polishing

The beauty of a diamond is realised through cutting, faceting and polishing. Cutting and polishing centres exist in several parts of the world, with major centres existing in Belgium, India, Israel and China. Once the diamonds are cut and polished they are ready for use in jewellery and are moved along the “pipeline” to be utilised in diamond jewellery manufacturing and sales. The transformation from a rough to a polished diamond is another vulnerable stage, as a diamond becomes much more difficult to track once it has been cut and polished. Whilst it is possible to judge when certain diamonds were polished using antiquated techniques, for the vast majority of polished diamonds on the market it is virtually impossible to ascertain when they were polished. All diamonds one might view in a shop window might not be first hand goods.

Diamonds Dealers

Once the diamonds have been cut and polished, they are ready to be sold for use in jewellery and, to a very limited but growing market, as an investment product. Diamond dealers are the first merchants of diamonds after they have been cut and polished, and often handle hundreds of millions of dollars’ worth of diamonds every year. These dealers usually operate from the major diamond dealing centres of the world including Antwerp, London, New York, Tel Aviv and in Dubai, India and China. Their clients include other diamond dealers, large diamond jewellery manufacturers and diamond wholesalers.

Diamond Wholesalers

This segment of the industry deals in smaller amounts of diamonds. They often deal with specific products, such as size or quality spectrums of diamonds or diamonds with fancy cuts or patented cut styles and they are often involved in branding their diamonds. This segment of the industry usually sells to jewellery retailers, but is increasingly selling directly to the consumer.

Diamond Jewellery Manufacturers

Structurally, organisationally, and operationally the jewellery sector is quite distinct from the diamond sector. The jewellery sector also deals in gold, other precious stones, silver, platinum and a range of other raw materials. The financing and capital structure are also entirely different. Some of the larger diamond jewellery manufacturing centres now exist in Asia (China, Chinese Taipei and Indonesia). Jewellery is manufactured and may be sold to jewellery wholesalers and then on to jewellery retailers. Increasingly, the manufacturer is selling directly to jewellery retailers and consumers.

Jewellery Retailers

Diamond jewellery sales is the driver of the diamond industry and this occurs through retail jewellery sales. All of the processes that have previously occurred are in support of this segment of the industry. Diamond jewellery sales occur in virtually all countries of the world through brick and mortar vendors. Vendors exist as single independent stores or large corporate chains with hundreds of stores. Increasingly the internet is being utilised to market and directly sell diamonds and diamond jewellery to the consumer.

Pawn shops

Polished diamonds and jewellery are also sold through pawn shops (i.e., diamonds or diamond jewellery will be placed as collateral for loans extended, and only when the borrower defaults, the pawn shop owner takes possession of the collateral). Jewellery can then be resold to jewellery stores, pawn shops, lately to wholesalers, and at special fairs conducted for this purpose. Someone who wishes to sell his or her personal jewellery (in order to repay debts, sell jewellery from inheritance, etc.) can do so at these venues.

Business Practices and Changes In The Diamond Trade

In many respects, the diamond and jewellery industry is not unlike any other trade industry but there are practices specific to the diamond trade. Some of these practices with relevance to AML/CFT considerations are detailed below.

Sight holders/tenders

Sight holders are clients of De Beers who are authorised to buy bulk rough diamonds from the Diamond Trading Company (DTC) held by De Beers thus ensuring a steady supply of rough diamonds. Similar systems of rough diamond supply exist with other large mining diamond companies. The tender system is an alternative way to buy rough diamonds where bulk diamonds are offered for sale to diamond dealers through tenders. This system however is not limited to sightholders and large mining companies only; it allows ‘smaller’ rough diamond traders to sell their diamonds in a secure and controlled environment.

Payment methods

Common to the diamond industry is a cash remittance system that is historically-based. Diamond sales at virtually all levels of the market function were made on cash purchases. Nonetheless, while acceptance of cash is still common, this practice has subsided in recent times and modern forms of remittance such as wired funds or credit systems are becoming more prevalent, even in cash based economies such as India and Namibia.

Trust

The diamond industry has always functioned on the basis of trust. Million dollar deals are sealed with a handshake. There is an accepted code of conduct and internal arbitration system. Rough or polished stones worth millions of dollars may be sent to another dealer for consignment without a written contract. For example, the owner of the stones will trust that a consignee will transfer the correct payment upon selling or otherwise return the exact same stones. Consultations conducted with the WFDB revealed that a breach of this trust would ruin the diamond dealer’s reputation and consequently end his career.

Memo transactions

A practice that continues to be used in the diamond industry is the lending of a diamond or a mix of diamonds to others in the diamond industry so that they may have the opportunity to sell them – this is known as a “memo transaction.” Under this arrangement, the conditions of the loan are specified, including for how long the diamond will be lent, the price of the diamond, and the terms of remittance to the owner if the diamond is sold. The vendor who has the diamond on memo may sell the diamond at a mark-up and then pay the owner in the time and amount specified by the memo. Sometimes the vendor that has the diamond on memo may lend it to another vendor on another memo. Some issues have arisen in the industry around the use of memos, including fraud. There have also been questions around who is responsible for reporting the sale of the diamond under ML reporting requirements (the owner or the seller). In addition, there have been cases in which the diamonds on memo have been sold, but the seller refuses to pay. This would be considered an outright conversion theft.

Related to the use of memos and ownership of diamonds is the variance in inventory practices at different levels of the industry and in different regions of the world. Generally speaking, while diamonds may be counted as individual units, they can also be accounted for by weight. For example, one carat of diamond could be a single one carat stone or 100 diamonds of 0.01 carat each (the per carat valuation is what will distinguish the two parcels in this case, as the one carat diamond may sell for USD 4 000/carat, whereas the 0.01 carat diamonds may only sell for USD 500/carat). While each stone has been weighed, the inventory, which has implications on the profit and hence on tax paid to the tax authority, may be registered differently, i.e., some inventory practices may record diamonds by piece, others may do so by weight. This leaves room for manipulation and "playing" with tax reports, making it difficult for tax authorities to verify the level of inventory on the date of reporting, thus also allowing for manipulation of profit and income tax.

It is also common to negotiate a final price for a diamond. While there are industry suggested prices for a given quality of diamond they are in fact only guidelines, i.e., a starting point from which the negotiation of the final price begins.

Special Expertise

Training in gemology requires a unique skill set, or, at the very least, industry experience. As a result those who enter the jewellery industry or trade are often those whose family is already in the industry, and through whom they can learn the business and garner the necessary experience to succeed. The independent jeweller must be a business person with savvy market specific knowledge, keen gemology skills (that need to be constantly upgraded), and, perhaps most importantly, industry contacts to acquire product to sell. Similarly, each level of the industry requires its own specific training, and this knowledge is only learnt through experience in the industry itself.

This makes it very difficult for a person to enter the jewellery and diamond trade, as the experience required and practical market knowledge is not readily available33. For example, in order to become a diamond bourse member, it may be necessary to be in the business for several years and to be recommended by an existing bourse member34. These barriers to entry, including with regard to obtaining product from wholesalers, has made it possible for the diamond industry to protect itself from criminals infiltrating the trade. This is especially the case in countries where special ‘license’ needs to be obtained from the government in order to become a diamond dealer. In the past, one would receive a referral to a wholesaler from an established jeweller and then obtain an account with the wholesaler to purchase products. Once a few accounts had been set up and business arrangements with diamond/jewellery wholesalers made, these accounts could be leveraged to establish one’s legitimacy as a jewellery business. However, without the initial referral from someone already in the business and the subsequently use of primary suppliers to obtain accounts with others, it was virtually impossible to become established.

Some families have been in the diamond business for several generations and have developed strong alliances and networks over time. The involvement of both religious and ethnic groups is very much a reflection of the industry’s history, although, in recent times, there has been a shift in the geographic concentration of the diamond trade. This is more of a phenomenon of the finished diamond sector, particularly with respect to the wholesaler to the retailer end of the business.

New trading Centres

New diamond trading centres in China, India, and the United Arab Emirates (Dubai), among others, have emerged alongside the traditional trades centres - the diversity in rough diamond dealers and increasing supply from multiple sources has afforded opportunity for new rough and finished diamond dealing centres to emerge and historical diamond centres are being challenged by these new diamond centres. The United Arab Emirates has become a 40 billion USD free trade zone trade market. India, and to a lesser extent China, became the major cutting and polishing centres with trade amounting to many billions of dollars. Smaller trade centres like Panama, have also recently emerged with a view to serving South America. The emergence of these new centres is primarily a function of the aforementioned supply chain shift, and also reflects the changing tax and regulatory environments. In addition, increasing consumption of diamonds in some of these markets has drawn many diamond manufacturers (cutters / polishers) to these new centres. New trade centres should be aware of the ML/TF risks this shift might entail.

Beneficiaries of War

Among these beneficiaries are: political leaders; multinational corporations; intermediary networks; local military commanders; warlords; organised crime syndicates. Financial self-interest also motivates soldiers, commanders, and their political backers through activities that sustain conflicts as profitable enterprises and where they gain a stake in the resource wealth involved. This can result in both violent conflict, but also collusion between combatant interests.

War economies that involve valuable but illicitly traded goods such as gems, hardwoods, and drugs, circumvent regulation and taxation, contributing to the growth of the black, parallel or informal economy. The deregulation and internationalisation of trade through globalisation has greatly facilitated commercial links. Criminalisation occurs when the marketing of illicit commodities requires armed movements to develop downstream partnerships through illegal networks to then facilitate trade or retail sales.

However instability caused by conflict is not always conducive to profits, although conflict helps eliminate competition.

- In Southern Africa several states produce diamonds. The diamonds recovered illicitly from conflict areas in Angola and the DRC are infused with an export stream of clean diamonds from those exporting legitimately.
- To avoid creating an audit trail, smuggling and bribery sees collusion of public figures at the highest levels through the attractive financial rewards available. The causal link between corruption and civil strife is not always direct, but the corrosive effect on local economies is ultimately destabilising.
- In some instances, an imposition of sanctions is destabilising when making normal economic activities illicit, and pushing the state to engage with criminal gangs to run smuggling operations.
- A wide variety of commercial penetrations occurs including use of migrant labour, individual smugglers, small companies in neighbouring countries, and either junior or larger transnational corporations.
- The involvement of mercenaries or private military companies has become widespread in mineral rich countries in Africa. Their role is less that of fighting wars, than the protection of strategic economic interests for recognised governments. This leaves the population of resource-poor areas without public services, and at the mercy of predatory rebel groups.

In most cases, foreign powers and associated commercial interests hide geopolitical and economic agendas by claiming that their activities are guided by the need to restore “order and stability.” However “order and stability” often result in conditions of mutual benefit for local elites and foreign interests. Elf Aquitaine has been heavily involved in the Republic of the Congo (Congo Brazzaville), while Thai business and British security firm interests co-operated in a coup in Sierra Leone in 1997. In the DRC, the French supported Mobutu forces allied with Rwanda Hutu militias to oppose Lawrence Kabila before he was assassinated.

Value and Price of Diamonds

The value of rough diamond production was approximately US$7.5 billion in 2000. This was converted into $57.6 billion in diamond jewellery sales, of which the diamond content was approximately $13.7 billion.

Rough diamonds range dramatically in value, from a few cents a carat, to thousands of dollars. At the lowest end of the scale are 'boart' and industrial diamonds, while at the higher end are large, clear gem diamonds that can be worth hundreds of thousands of dollars per carat. A 79 carat pink diamond found in Brazil in 1999 was estimated at something between US$6 million and $20 million. Depending on grade and colour, other 'pinks' have sold recently for anything between $16,000 and $730,000 a carat. A flawless round premium cut diamond weighing 1.78 carats was selling for $8,600 per carat in November 2001. The same diamond eight notches down the scale (I1 grade) was selling for $3,800 per carat. Many gem diamonds are very small, but modern polishing techniques have made it possible to commercialize diamonds that once would have been used only for industrial purposes – as small as one one-hundredth of a carat, or even less.

In 1880, Cecil Rhodes formed the De Beers Diamond Mining Company Ltd. Forty years later, in the 1920s, the diamond industry was in a perilous state: there were too many diamonds and too few buyers. Sir Ernest Oppenheimer, appointed Chairman of the Board of De Beers in 1929, reorganized the industry, essentially by offering to buy all the diamonds throughout the world, in order to support a stable price. The Oppenheimer family has maintained its relationship with De Beers ever since. Harry Oppenheimer, who succeeded his father, was in turn succeeded as Chairman by his son, Nicky in 1994.

For 80 years De Beers has had a symbiotic relationship with Anglo American, a major player in the mining and natural resource sector. Anglo American plc was formed in 1917 by Ernest Oppenheimer in order to gain access to capital markets in the United States. For many years, cross directorships and shareholdings meant that De Beers and Anglo American essentially controlled one another. In 1998, however, Anglo American re-structured, and was operationally separated from De Beers. The purpose of the separation, according to De Beers, was to "assemble all the diamond skills and expertise which have long been De Beers' special strength in one independent, dedicated and integrated company, led by a highly focussed management team, free to devote its full attention to its core role – the discovery, mining and marketing of diamonds." That did not last long, however. In 2001, the Oppenheimer family and Anglo American bought out De Beers shareholders, turning the company into a private firm run by the Oppenheimer family.

De Beers mines or partners in mining the majority of the world's diamonds. Although there have been major recent changes in the way it does business, its major role, and a role in which it has been extremely successful, is to maintain stable prices by manipulating both the supply and the demand for rough diamonds on world markets. This is done primarily through its London-Based Diamond Trading Company (DTC).

The DTC sells diamonds at 10 annual 'sights' (sales) to approximately 125 'sightholders'. Sightholders are designated by De Beers and are presented with mixed 'parcels' of diamonds. The parcels may include stones from a combination of countries. Parcels are priced by De Beers and are bought by sightholders. Sightholders then take the diamonds to other cities where they are resorted and repackaged for onward sale, or for cutting and polishing.

The value of a diamond is determined by what the industry calls "the four C's" – cut, colour, clarity, and carat. To these might be added a fifth C: concealment. Almost everything about the diamond industry is secretive, from the agreements between De Beers and African governments at one end of the spectrum, to the movement of a few stones across Hoveniersstraat in Antwerp at the other. At the high end of the chain, De Beers and other mining firms make their profit on the mystique and mystery of diamonds, and the detailed workings of a cartel are, by its very nature, secretive. De Beers is actually barred from operating in the United States because of unresolved price-fixing charges, levelled by the US Justice Department under anti-trust laws.

Throughout the diamond chain, security is always an issue. In addition to the pilfering and low-level theft of diamonds from mining sites, diamonds have been the object of many organized and violent thefts throughout the years. One of the best ways of dealing with this, especially where small firms are concerned, is by making the movement of diamonds as secretive as possible.

Historically, there has been an odd symbiosis in the industry between secrecy and trust. Major transactions are made on a handshake. Millions of dollars of diamonds are sent from one dealer, and one city, to another on approval, without paper work. As noted above, De Beers makes its goods available to sightholders in boxes of pre-selected diamonds with a fixed price. Sightholders may complain or refuse, but this is rare, and there is little bargaining. Sightholders must trust the quality and price indicated by De Beers, or find another source of diamonds. In fact, until recent years, there was no published price list anywhere for diamonds. When a New York diamantaire, Martin Rapaport, first published diamond prices in 1978, it was as though the known diamond world had come to an end.

It is often said that diamond dealers keep at least two, if not three sets of books. Some industry watchers say this is no longer common. However, the opaque nature of the industry makes it very difficult to know much about the volume and value of a company's business, or to distinguish between licit and illicit goods. Because many dealers or their families have been trading in Africa for generations, there are established connections and routes that, in the absence of adequate government regulation, make the introduction of conflict diamonds into the legitimate stream extremely easy.

The demand in the diamond market is indisputably related to the conditions on the jewellery markets in Europe and North America, especially in the United States. Together, these consumer markets buy about 65 percent of diamond jewellery produced worldwide each year. According to the UNSC, $3.12 billion of polished diamonds under 0.5 carat and $8.134 billion of polished diamonds over 0.5 carat were imported into the US in the year 2000. The demand for polished diamonds on the US jewellery market was one of the main elements that fuelled the sale of rough diamonds. Consequently, one would assume that a decline in demand for diamond jewellery in the US would inextricably lead to a fall in the demand and the price of rough diamonds around the world.

Besides the US, China is another country with an increasing demand for diamond jewellery. The city of Shanghai has been labelled as one of the fastest growing diamond jewellery markets in the world with 40 percent annual growth over four consecutive years. The new Shanghai Diamond Exchange, a nationally recognized centre approved by the State Council, has over 100 companies selling platinum-based pieces with diamond insets. The demand for diamond inset pieces of jewellery by the people of Shanghai exceeded RMB 600 million or HK$558 million in 2001. This represents only one-fifth of China's diamond consumption, however. Surveys also show that a new generation of Chinese women is no longer satisfied with only one diamond but looks to purchase several pieces for special occasions such as graduations or births, as a hedge against inflation, or simply as a fashion statement. The speedy growth in demand for diamond jewellery can only encourage more production of rough diamonds and probably more conflict in Sub-Saharan Africa unless a world wide-diamond CO system is established and implemented in all countries involved in diamond trade.

Surat – The Diamond Hub of India

The Gujarat Mail is just another red-eye train. Twelve powder-blue passenger cars crisscrossing, like so many hundreds of others, India's northwestern breadbasket through the dark of night. At five minutes past two, the Mail begins its four-hour journey, lumbering south from Surat to Mumbai. Inside, the third-class cabins are equal parts scurrying roaches and dangling unwashed feet; fading monsoon rains that bleed through the iron-barred windows grant only fleeting mercies. A few hundred unwilling insomniacs are sandwiched together, helplessly sweating on filthy vinyl benches as the shrieking of the rails splinters dreams along every gentle bend. In this part of the world, it's an utterly unexceptional journey.

Aside from the $25 million or so in freshly polished diamonds on board, that is. The grungy wagons are filled with dozens of diamond mules, each man secretly carrying tens of thousands of dollars of stones inside custom-made tank tops with hidden stomach pouches.

Everyone sleeps with one eye open. Despite their attempts at traveling incognito, the nervous paces of the conductor — and the fact that the doors are bolted from the outside for the entirety of the trip — belie the false sense of ease. Altogether, the mules on this sweltering, tense train trip shuttle almost every single diamond sold in the world today.

The diamonds come to Surat, the world's fourth fastest-growing city, to get cut and polished inside the microfactories within countless rows of crumbling, whitewashed concrete office buildings. Of Surat's 5 million residents, an estimated 500,000 deal, polish, or move stones. The gems are flown, freighted, and trucked in from Africa, Central Asia, and other mining hot spots to take advantage of India's cheap labor and no-questions-asked atmosphere. In Antwerp, Belgium, which for 500 years served as the world's diamond headquarters, old money, rigorous documentation, and high security epitomized the business. But nearly 6,000 miles away in Surat, I discovered legitimate merchandise mingling openly with undocumented diamonds in a trading free-for-all. Indeed, so-called conflict diamonds — illicitly mined stones that fund conflicts in the world's war zones — are for sale by everyone from small-time street hustlers to the Indian government itself. And the entire system is protected by an intricate familial society of brokers and middlemen that operates almost exclusively on the black market.

In a thriving corner of Surat's bazaar, Samir Shah's fat Rolex and impressive girth provide testament to his flourishing business. "These stones are from Africa", he said, holding up two knuckle-sized murky brown diamonds. "We can't always tell where they are from, but they aren't legitimate. But here business is done with cash and no questions."

Around Shah, sitting on the cracked pavements, handkerchiefs pressed hard against their faces to protect them from the foul air, rows of gem traders trickle rough diamonds into ancient brass scales. Behind them, in the winding medieval alleyways, hundreds of black-market dealers huddle over briefcases full of illegal raw and polished stones.

"Look at this diamond", Shah said. "It's not small, but is easy to smuggle. What can be done to stop that being smuggled to India? I will get a buyer, an agent for a polisher, who will give me a good price, and then sell it out of a reputable firm for export. There is no way it can ever be traced."

Here in Surat, dirt-cheap wages and loose regulations have created a dream environment for the global diamond industry. It has turned a sleepy provincial town into a new megacity within a single generation, a business center where more than 90 percent of the world's unpolished diamonds are now processed and polished. Individual stones can change hands up to a dozen times over a matter of weeks in polishing houses that grab from piles of legal and illegal stones like mix-'n'-match candy bins. Deciphering clean from dirty becomes nearly impossible. "Once the Gujarat Mail reaches the end of the line in Mumbai, the stones have had their damning histories washed away, and buyers ship more than $40 billion of certified merchandise annually out of a country that international authorities say is clean," said Shah. But if you own a diamond bought in the 21st century, odds are it took an overnight journey on the Mail. Odds are too, you'll have no idea where it really came from.

Diamonds Carry

A stately image that is as much carefully crafted corporate mythmaking as treacherous intrigue. They conjure glamour and promises of love, or perhaps shady backroom dealings by faceless financiers handcuffed to their briefcases. For years De Beers, the diamond trade's dominant company and public face, sold the allure of the glittering stones while it ran the industry as a cartel, using its extensive reserves throughout Africa to create a near monopoly on the mining and trade of rough stones. To some, the firm seemed the pinnacle of luxury and success; to others, it was a cautionary tale of how Western greed funded conflict across the continent.

The diamond world has changed, however, and cheats have found new ways to game the system. The De Beers empire has been parceled out and sold to even bigger conglomerates; marketplaces in Hong Kong and Dubai are replacing the old guard; and the world's largest diamond bourse now sits in Mumbai.

Meanwhile, efforts have been made to clean up the business, most notably the Kimberley Process — named for a diamond-producing region in South Africa and started in 2000 after human rights organizations and some industry players saw how the trade in illicit diamonds was fueling wars and warlords (and eroding the business). The Kimberley Process attempts to ensure conflict-free provenance by functioning like a passport for shipments of rough stones. But while the Kimberley certificate is today's near-universal standard requirement to trade rough diamonds, it is still shamefully basic. It's a single sheet of paper identifying only the country of origin, the country of import, value, and total carats of each diamond shipment — along with a serial number and a couple of signatures. It's about as easy to fake as an old driver's license. Because certificates only note the total amount of rough carats, it's also easy to add or subtract polished merchandise to the bags as needed because polishing can carve away up to 50 percent of the original rough carat weight. As India is now the world's third-largest diamond consumer (after the United States and China), leftover certificates from shipments intended for domestic sales are reused to smuggle conflict stones out of the country, providing another laundering avenue. And since there's no established mechanism to ascertain the quantity of legitimate stones coming into India for cutting and polishing, it's basically impossible to know where the diamonds leaving the country have truly come from.

of course, warlords and dictators have never stopped digging up conflict diamonds; they're drifting into the market today through these enormous gaps in the Kimberley Process. While rough stones can be traced to their origin, every press on the polishing wheel removes a diamond's distinctive and distinguishing surface features, like the "argyle pink" from certain Australian mines or the telltale nitrogen deposits on some South African stones. Kimberley Process officials declined requests for interviews, but what those involved in the trade told me is that smuggling stones directly into Europe or the United States is no longer necessary. It's not worth the risk when they can be imported, laundered, and stamped with approval in India before being sold onward.

And Surat's where they go to get their shine. Thirty-five tons of rough diamonds pass through this city every year to be cut and polished, but Fewer than two-thirds arrive by legal channels, according to investigations by Yagnesh Mehta of the *Times of India*. The rest sneak in by container or courier from Angola, Ivory Coast, the Democratic Republic of the Congo, and other areas. Or they come from Zimbabwe, where a major diamond-producing region was recently approved as conflict-free, though the country is still officially untouchable for U.S. diamond buyers.

The Indian system rests on the back of a tight-knit, secretive familial network of many thousands of importers, dealers, and polishers. They come from small towns like Palanpur and the Saurashtra region, hundreds of miles away from Surat, and prospective employees need to be vouched for by current workers to have any shot at joining the business. No locals, nobody from other parts of India, and certainly no internationals can penetrate this cabal. The unarmed traders accept the smuggled stones for up to a 40 percent discount compared with accredited diamonds. Violence is rare, owing to their total monopoly, and authorities told me they feel pressure to look the other way to avoid tarnishing the image of India's "Diamond City."

The real laundering begins in Surat's Mahidharpura diamond market. Here, thousands of clubby traders congregate daily along a long pedestrian alley strewn with electric wires and dotted with sari-wearing mothers hauling construction bricks as tinny speakers blast Bob Sinclar's "World, Hold On" into the throng. Each man is a walking bank, wearing an undershirt ballooning with diamonds. When it comes time to deal, they pull out a small, blue felt-lined tray and display the goods — right in the open on steps, sitting on the endless rows of parked motorcycles, or anywhere there's a free space. Dealers mix the conflict stones with the legitimate, breaking them up into small parcels before doling them out to brokers.

Paperwork is frowned upon. Instead, this $40 billion economy runs on Post-it notes. When deals are made, the parties exchange squares of paper that mark only the date, participants, carats, and value of the merchandise. No other transaction traces exist. If a dealer cheats someone, he's kicked out of the circle forever and his debt is shifted to other family members Their trustworthiness thus assured, the brokers fan out across the city, climbing the staircases of dozens of nondescript weathered buildings to deliver merchandise to the independent contractors who do the polishing.

Surat hosts more than 3,000 polishing companies large and small. Like most of the complexes, the Diamond World towers have lighter security than a strip mall, with a sole half-asleep guard leaning on a bamboo stick that is both weapon and crutch. Beyond this inattentive gatekeeper are hundreds of compact, dimly lit polishing rooms, where rows of teenage boys work 14-hour shifts, each grinding and shining about $10,000 in diamonds a day.

Ramesh Dhanjibhai and his cousin Kalpesh Mangukiya run two typical chop shops in Diamond World. Their workers earn about $1 for each of the 0.3-carat stones they polish, most of which will retail for about $1,000. The cousins process half a million dollars' worth of polished stones a month. Dhanjibhai told me that most local polishers have "no idea where the stones came from or where they're going, and we don't really care." Whether their merchandise is from Congo or Ghana, they export exclusively to the United States. "Our entire business is black market," Mangukiya beamed. "We need Kimberley Process documentation if we want to legally import diamonds ourselves. Once we get them here, we just throw the certificate away — we don't need it anymore."

When Dhanjibhai's crew finishes the grinding, the stones begin the most dangerous part of their Indian saga — the transport to Mumbai. They go via the *angadias*, a secretive community of couriers who hail from the faraway Mehsana district in northern Gujarat state. They're not much to look at: mostly middle-aged men with wrinkled collared shirts, knockoff Chinese suitcases, and ill-fitting slacks — the kind of potbellied guys all over India nobody ever thinks twice about. It's a perfect disguise. From the smallest polisher to the biggest processing center, everyone counts on their delivery services across India, and that means the Gujarat Mail.

"The whole trip is scary. It's mentally very tough, and we don't sleep much," says Navrattambhai Patel, a senior angadia who goes on runs as a reserve agent when some of his 700 regulars can't. Eschewing other means of transportation means cheap rates; shipping $20,000 in diamonds by angadia costs only $2, and one person carries anywhere from $10,000 to $150,000 in stones a night. Most angadia firms are small, family-based businesses. But to find the biggest, just wander down the hallway of burned-out light bulbs on the ground floor of Diamond World to the door with a haphazardly taped sheet of paper that reads "B.V.C."

Even the most hackneyed thriller novelist wouldn't dare dream up B.V.C. Logistics Private Limited. It's just too unbelievable. Out of a diminutive 200-square-foot office, ManishaChinai claims to oversee the transport of an astonishing $5 billion in diamonds a year. B.V.C. is the most sophisticated of all angadia firms — it bypasses the Mail in favor of a single armored vehicle ingeniously cobbled together from an old Mahindra pickup truck and some spare steel plates. Chinai's specialty is making deliveries for the larger firms that need multimillion-dollar deliveries on a weekly basis.

Those angadias who don't get the premium ride down south in B.V.C.'s makeshift Brink's truck are rounded up every night at midnight, save Sunday, by jeeps darting around the city with police escorts. Then they're unceremoniously dumped at the back entrance of the railroad station, where the couriers try to blend into the rest of the expectant crowd waiting for the train to Mumbai.

Surat May Be

One of the world's fastest-growing cities in economic terms, but it's no paradise. Child labor is pervasive. When the movie *Blood Diamond* hit the screens in 2006, India cracked down on companies employing underage workers — including as many as 100,000 child laborers in the diamond industry — out of fear of similar scandal. But the kids don't stop coming. They just move into the massive textile factories clogging the town, biding their time until they can shift to the more profitable polishing industry.

Despite the promise of riches, it's a hard life, as several current and former diamond workers told me. After two decades of constant squinting and 100-hour workweeks, most boys who come here to make their fortunes in the polishing trade no longer have the eyesight to do the work. By 35, if they haven't been lucky enough to become dealers, those polishers already suffering from early-onset vision loss are shown the door and left to fend for themselves. And decades of continuously inhaling microscopic diamond grains often leads to tuberculosis and respiratory diseases ("diamond lung," as it's called locally), which afflict tens of thousands of workers. Most go back to their villages to try to farm the land they abandoned years earlier — literally sent out to pasture.

ChanderbhaiSuta knows firsthand how quickly fortunes (and reputations) can change in the market. In 2007, disgruntled with a system in which small traders were consistently cheated out of the best prices and best stones, Suta organized the first trader strike in the history of Mahidharpura market. By his own account, it was a spectacular success, winning "over 95 percent" of their goals of market fairness and self-policing against cheaters. Among his colleagues, he was a hero.

Suta says that at about the same time, "foreigners started coming around asking around if we'd ever heard of blood diamonds. We'd never heard of them, or of the movie. After it came out, a few of us saw it and thought that we were funding wars and felt that it wasn't good. But the stones without the Kimberley certification were 40 to 50 percent cheaper, so there were still a lot of buyers." Emboldened by his newfound standing, Suta took on the cause.

This time, the reaction was swift and vicious. "Once I came out [against blood diamonds], all the rough-diamond dealers decreased their support to me significantly," said Suta. "The bigger traders were upset, asking, 'Why do you want to publicize this thing? Everyone is making their bread in peace.'" Undeterred, he pushed on. "Then they started giving me death threats. I stopped — I didn't have any other choice."

A short ride across town, the Directorate of Revenue Intelligence (DRI) isn't exactly taking up Suta's shattered mantle. The DRI is the main line of defense against smuggling, tasked with ensuring that all merchandise entering India has the requisite paperwork identifying it as legitimate. Its local headquarters in Surat feel as sleepy as its dilapidated waiting room, which is stacked floor to ceiling with slowly molding customs forms and newspaper clippings. Here, seven employees are tasked with tracking nearly all the illegal diamonds coming in and out of India; a few wormholed ledgers that need liberal doses of cellophane tape to stay in one piece tally their successes. Despite the anemic staffing, the longhand still tells of a few big scores: a staggering 48,000 Zimbabwean carats seized in April 2011, 10,000 carats from Congo later in 2012.

And Mumbai is where they come to buy. The massive convention center feels like it could be hosting any other trade show, with its stale air-conditioning, pop-up display structures, and cavernous rows of dealers, but upstairs from the showrooms is where the gem world's biggest deals are now iced. Once a buyer's eye is caught, he's escorted above the display level into what would best be described as a "closing room" in a car dealership. Drink trays and potted plants decorate the mahogany desks behind which senior executives from Surat mill nervously about, quickly adjusting their ties and demeanors when the shadows of potential whales begin to creep up the staircase walls. If they make the right pitch, their polishing centers might be in business for years. Once there's a handshake, everything else is a trifle. The Mumbai bourse, where inspection and pickup of the diamonds take place, is in the same neighborhood as the convention hall, and from there, the final hurdle is just across the street.

In the shadow of Mumbai's Chhatrapati Shivaji International Airport, the diamond division of the customs office is always bustling. Nearly $60 million in diamonds passes through every day in hundreds of packages on their way to North America, Europe, and East Asia. The 30 inspectors in this office epitomize Indian bureaucracy: They fly through reams of paperwork, stamping pages hurriedly while staring absentmindedly down the hallway; once in a while they breeze their box cutters across security-taped parcels to scan random bags of diamonds inside.

They can be excused for their lack of vigilance — their work is purely a formality. The stacks of certificates accompanying every box mean that the onus of responsibility has been passed along to the dealers. "For us, the Kimberley Process has no relevance," explained a frustrated senior official, Dinesh Nanak. The inspectors can't even inspect; the law requires they let even the most suspicious shipments go if they pass the minimal Kimberley bar, which by the time the certificate reaches the airport customs office is worth about as much as a crumpled ATM slip.

Nanak watched as a security guard dollied away a load of packages destined for the luggage holds of planes bound for New York, London, and Los Angeles. In the United States alone, cash registers ring up some $10 billion in holiday diamond sales each year. And it's hard to fathom that most of that loot, at one point in time, passed through this dinky customs office.

War Economies, Resource Extraction and Globalisation

Commodities for arms transfers are a common feature of 'warlords' (faction leaders in control of territory, resources, and associated trade) in many conflicts who control natural resources such as gold or diamonds, or illicit goods produced in their territory, such as drugs. Such transfers may be direct (commodities for arms barters), but more commonly are indirect, with non-state armed forces relying on the earning power of war economies in which commodities are exchanged for hard currency to provide the finances for the arms deal. In the case of conflict diamonds, however, the bartering of gems for arms is commonplace, particularly when a neighbouring state offers both access to diamond markets and a ready supply of weapons by acting as an intermediary in the international networks of war economies.

Some analysts point to the growth of a global illicit economy in parallel with the globalisation of legal trade. Improved transport and communications infrastructure has facilitated the growth of commercial interactions across the globe regardless of their legality. The nexus between the globalised illicit economy and the arms black market is closely related to the war economies established by conflict protagonists during protracted wars. Mark Duffield has claimed that: "Political actors have been able to control local economies and realize their worth through the ability to forge new and flexible relations with liberalized global markets. Manuel Castells, for example, has argued that deregulation has prompted the emergence of a globalized criminal economy. This economy is internationally networked, expansive, and supremely adaptive."

Regional illicit networks have increasingly overlapped as the illegal trades in drugs, precious stones, minerals, metals, ivory, hardwoods, and arms, have been linked by the expansion of key actors, such as transnational criminal organisations, into numerous illicit markets. Naylor has claimed that: "it is no longer the operation of this or that individual black market...This does not add up to a monolithic criminal conspiracy. Modern black markets are complex, but they are not integrated into neat monopolies or cartels. If they were, they would be easier to control. Instead of a organizational hierarchy one finds a series of arms-length commercial relationships...The result is that a modern covert arms deal is likely to take place within a matrix of black market transactions."

In spite of this overlapping, the degree of globalisation of illicit trade appears to remain linked to regional situations. Thus, illicit drug production is still dominated by a few regions such as the golden crescent and the golden triangle. The trafficking networks of these drugs expand outwards as corridors of impunity develop as traffickers develop relationships with corrupt customs officials or adapt routes to flow through the most porous borders, or away from crackdowns on their activity. Similar dynamics have characterised the flow of conflict diamonds from UNITA in Angola and the RUF in Sierra Leone in which regional transnational networks and neighbouring governments form the key link between warlords and the international diamond market.

The war economies of many conflicts, including, but not only, those aspects that involve 'conflict diamonds', form the heart of co-operative commercial relationships between warring factions, regional political leaders, and multi-national companies which form the basis of this regionalised parallel trade. These actors utilise the opportunities of an increasingly globalised world to foster the exploitation of criminalised war economies and to engage in international commerce. Thus, regionalised illicit economic alliances are increasingly significant actors in the global economy as the forces of globalisation, such as increasing freedom of international financial flows, blur the boundaries between legal and illegal trade resulting in greater opportunities and impunity for those profiting from war. The international attention paid to conflict diamonds is a response to one particular aspect of this, but it is one that fails to acknowledge the blurred boundaries sufficiently, thereby dissociating the 'conflict diamond' trade from the full range of structures of power and profit from which it results.

Nevertheless, the nature of the trade in conflict diamonds is different to the trade in some other illicit goods that fuel conflicts in the same way. The illicit trade in drugs and some illicit arms transfers, remain wholly outside of legal supply channels. The trade in conflict diamonds, however, is predicated on the ability of those involved to insert the illicitly extracted stones into the legal wholesale and retail markets. (Sales of gold, timber, ivory, and other commodities that have also fuelled conflicts often also need to enter legal markets). It is this nexus of the legal and illegal trades that has raised awareness of the issue since consumers can buy illicit diamonds unknowingly on the legal market. This nexus also presents the key opportunity for control. It is generally accepted that if conflict diamonds can be denied access to the legal market, the illicit trade will be marginalised and reduced. At least this is the argument put forward by the diamond industry as it is faced with a possible consumer boycott of its products much like that which occurred with the fur trade. However, it must be noted that for such marginalisation to occur, universally accepted and enforced controls must be put in place – any gap in the regime will almost certainly become a channel for conflict diamonds.

The Diamond Industry

The diamond industry is concentrated in a handful of large companies each of which may bear an individual responsibility for some conflict diamonds transfers, and bear collective responsibility for the phenomenon in general. Among the largest of these companies is De Beers, which mines 50% of rough diamonds, and also part owns, with the respective governments, much of the diamond industry in Botswana and Namibia. Numerous medium sized companies also operate the extraction of diamonds from particular mines. In most cases of conflict diamonds these large companies do not operate the mines held by rebel factions. They may, however, purchase diamonds from the rebels, thereby providing access to legal markets. For example, De Beers is known to have purchased large amounts of diamonds from UNITA. However, De Beers maintains that it has never directly purchased diamonds from the Angolan rebels, but as Global Witness claim: "this is a complete abdication of corporate responsibility, and it further raises the question of whom exactly the De Beers staff, who were based in DRC along the Angolan border, thought they were paying for the diamonds that flooded across that border up until the fall of Mobutu in 1997."

Most conflict diamonds appear to have entered the 'legal' market before or on arrival at the main trading centres. Indeed De Beers admits that it has purchased diamonds that originated from UNITA, unknowingly, on the markets of Antwerp and Tel Aviv. This is eminently plausible, since Belgium is the biggest market for rough diamonds with 80% of rough, and more Then 50% of polished diamonds being traded through Antwerp. Additionally, because diamonds from UNITA held areas are distinctive when raw, and since the imposition of the UN Security Council Embargo on UNITA diamonds passed in 1998, they are often routed through Israel and/or Ukraine where they receive a first polish which masks their origin. It has also been claimed that most conflict diamonds are transported in packets mixed with those from legitimate sources, thus rendering identification, under existing procedures, close to impossible.

From Antwerp diamonds are transferred through Switzerland, for tax purposes, to the London based Central Selling Organisation (CSO) through which 70% of all diamonds mined are sold. By this point conflict diamonds are sold alongside, or amongst, those legally produced.

The diamond industry as a whole bears much of the responsibility for the ease of entry of conflict diamonds into legal markets. While in many transactions Certificates of Origin are required, they are easily forged and not yet standardised globally. It is interesting to note that similar problems beset the illicit flow of arms back to the warring factions, with end-use and end-user certificates easily forged or obtained through corrupt officials. Legal exports of arms require the provision of an end-user certificate and other official documentation issued by the government of the ostensible end-user as proof to the export licensing body. In illicit transfers which pervert legal channels, as opposed to those which avoid them altogether, such documentation is either forged, made easier by a lack of standard formats of these certificates, or acquired from corrupt officials in other state bureaucracies. It has been claimed that most end-user certificates used in such illicit arms transfers are genuine but corruptly issued.

A similar problem might beset even a universal scheme of certificates of origin, particularly in the case of conflict diamonds, where neighbouring states may provide such certification either through the actions of corrupt officials or as covert state assistance to the warring faction. Thus, for example, given the porousness of Sierra Leone's borders with Liberia, in addition to established smuggling routes and networks of traffickers, brokers, and officials, the establishment of a universal certificate of origin regime would do little to stem the laundering of conflict diamonds through complicit neighbours. Such a system is currently under discussion amongst diamond industry organisations and governments. If it is to be successful, it will have to be accompanied by stringent measures for the investigation of apparent disparities between production capability and exports, and punitive measures for laundering conflict diamonds, such as restricting the ability of the illicit exporters to sell diamonds on the legal market. The International Diamond Manufacturers Association has proposed that a new international body, the International Diamond Council, be established with the power to remove the rights of countries to export diamonds if they exceed known production or verified official imports. Likewise, countries found to be importing uncertified diamond packages would also lose the right to import any diamonds legally. This regime would greatly enhance mechanisms such as UN embargoes, but may generate concerns from legitimate exporters who may find themselves subject to such sanctions because of the actions of a handful of corrupt officials. Such concerns might be assuaged if, when a possible abuse of the legal trade is detected, an investigation is triggered into the nature and scale of complicity, throughout the duration of which some exports would be allowed, but limited to a quota of certainly no more than apparent production capability, thus rendering engagement in laundering diamonds costly rather than profitable. Further sanctions could then be imposed, or not, when the investigation was completed, with automatic bans resulting from a lack of co-operation with the investigators.

Peter Meeus, the director of the Antwerp High Diamond Council, has complained that the diamond industry has been singled out as a culprit by Western governments who themselves do not do enough to end the African conflicts they have been charged with fuelling. This complaint is akin to arguing that because others also do things that fuel conflict, the diamond industry should not be held to account for its role, at least until such time as all other activities and actors are equally accountable. International opprobrium over the fuelling of violent internecine conflicts is not restricted to diamonds, and in fact issues such as small arms and landmines have been on international agendas for far longer than the diamonds issue. Nevertheless, the complaint is valid in the sense that a far greater range of commodities than diamonds have the potential to fuel conflicts in the same way. Although the flow of conflict diamonds is a significant problem, stemming that flow will not end the conflicts or prevent others. While those governments that push for an end to the conflict diamonds trade must accept this simple fact, it should not detract from efforts to limit the problem.

The diamond industry has also claimed that, even if it were possible to determine the origin of diamonds to be from a conflict area, if they didn't buy them, somebody else would. This claim, also used by those selling arms, is anachronistic and although used in order to guard against blame, is no excuse for complicity in trading in 'blood diamonds'. This claim will also become less pertinent as regulation of the global diamond trade grows.

While the diamond trade has been largely unregulated in the past, major diamond industry players such as De Beers, the International Diamond Manufacturers Association (IDMA), and the World Diamond Congress, have proposed mechanisms that are essentially self-regulatory but with the back-up of national legislation and a new international body, the International Diamond Council. The key aspects of the plans proposed by each of these inter-related bodies emphasise the need for standardised documents, including certificates of origin, to be enhanced by various legal and self-regulatory transparency measures. There is also an emerging consensus that there is a need for the governments of all exporting, processing and importing states to enact legislation that makes it illegal to participate in the trade of uncertified diamonds.

Legislation and Regulation

The illicit trade in diamonds has fuelled a number of conflicts in West Africa: Liberia, Sierra Leone, Côte d'Ivoire and Angola. Studies on causes and prevention of conflicts have drawn attention to illicit exploitation of extractive natural resources as an important source of revenue for armed groups. The illicit diamond trade has been linked directly to the financing of arms and ammunition by rebel groups.

In response to growing concern about the trade in conflict diamonds numerous policies have been initiated. It appears that the diamond industry, while initially reluctant to acknowledge the scale or nature of the problem, has become more convinced of the need to reform, and to do so publicly, in order to avoid the prospect of a consumer boycott. Thus, the 2000 meeting of the World Diamond Congress resulted in a plan, to be implemented by the end of 2000, to allow the certification of the origin of diamonds and requiring that all countries importing diamonds enact legislation that requires that all diamonds arrive in registered and sealed packets. This move was welcomed by NGOs such as Global Witness, but nevertheless addresses the problem rather late in the supply chain, long after conflict diamonds have often entered legal channels, particularly when supplies are from conflict-wracked states that may lack the regulatory capacity to ensure that diamonds are conflict-free. In addition, De Beers, the Diamond High Council, the Israeli Diamond Exchange, and India (a major centre for the processing of diamonds), have threatened to ban any member who knowingly trades in diamonds obtained from rebel groups in Africa.

Some governments have also taken steps, such as the import ban imposed by the United States, to target conflict diamonds. The French government, for example, at the recent G-8 summit in Japan, proposed a permanent UN panel to help target sanctions and oversee "the imposition of bans on illicit trafficking in diamonds and other raw materials that fund wars." However, the same French government was critical of the Fowler report on UN sanctions against UNITA and exerted diplomatic pressure on the UN prior to the release of the report in order to protect its former colonies from the degree of opprobrium contained in the draft report.

Preventing the illicit exploitation of commodities in conflict situations thus became a priority for the international community. The UN Security Council recognised the need to establish controls over the trade of rough diamonds, beginning with the diamond sanctions on Angola in 1998 (resolution 1173). It has prohibited importation of rough diamonds from conflict states and urged them to establish Certificate of Origin regimes for the trade in rough diamonds. The General Assembly, in resolution 55/56 of 1 December 2000, called on all concerned parties-including countries that produce, process, export or import diamonds-to "find ways to break the link between diamonds and armed conflict."

Increasingly, the Council has turned to the use of targeted sanctions as a tool for conflict prevention and resolution, particularly in Africa. There have been some successes, particularly with regard to diamond sanctions imposed on UNITA (*UniãoNacionalparaaIndependência Total de Angola*) in Angola, the RUF (Revolutionary United Front) in Sierra Leone, and against Liberia to end Charles Taylor's support and facilitation of the RUF.

However, while the Council is apt to employ targeted sanctions more widely in conflict situations, the effectiveness of sanctions regimes often suffers from lack of full implementation by many countries. In some cases, this is due to lack of capacity and, in others, lack of commitment. Moreover, a number of outstanding recommendations to further improve the implementation of sanctions regimes are yet to be adopted by the Council. Nevertheless, there have been significant improvements in sanctions regimes in recent years resulting primarily from changes in the design and implementation of sanctions, prompted by the Interlaken, Bonn-Berlin and Stockholm processes.

The Kimberley Process grew out of a 2000 meeting in Kimberley, South Africa, when the world's major diamond producers and buyers met to address growing concerns, and the threat of a consumer boycott, over the sale of rough, uncut diamonds to fund the brutal civil wars of Angola and Sierra Leone—inspiration for the 2006 film *Blood Diamond*. By 2003, 52 governments, as well as international advocacy groups, had ratified the scheme, establishing a system of diamond "passports" issued from the country of origin that would accompany every shipment of rough diamonds around the world. Countries that could not prove that their diamonds were conflict-free could be suspended from the international diamond trade.

The Kimberley Process was hailed as a major step toward ending diamond-fueled conflict. Ian Smillie, one of the early architects of the process and an authority on conflict diamonds, estimates that only 5% to 10% of the world's diamonds are traded illegally now compared with 25% before 2003, a huge boon for producing nations that have a better chance at earning an income off their natural resources.

The international community's responses to the problem of conflict diamonds, particularly the Kimberley Process Certification Scheme for Rough Diamonds, are having a significant impact on the illicit trade in rough diamonds. The Kimberley Process Certification Scheme, which was adopted 5 November 2002 after almost two years of negotiations, went into effect January 2003. It requires governments to implement import- and export-control regimes that certify and control the trade in rough diamonds, and it creates a documentary trail from the extraction to the polishing of diamonds.

The UNITA sanctions were broadly supported by the Non-Aligned Movement, Organisation of African Unity, and the Southern African Development Community. In 2000 a number of initiatives were made in support of diamond sanctions. These included: efforts by the Belgian government to curb diamond sanctions and by the Diamond High Council (a non-profit diamond trade organisation) to make Angola diamond sanctions more effective; the African diamond-producing countries' proposal to convene a conference of experts for the purpose of devising a system of controls to facilitate the implementation of the measures contained in resolution 1173 (1998); and South Africa's announcement of its intention to host the conference. It was contemplated that the conference would develop arrangements allowing for increased transparency and accountability in the control of diamonds from point of origin to the bourses. The conference, held at Kimberley, South Africa in May 2000, began the process of establishing the Kimberley Process Certification Scheme.

The Council adopted resolution 1459 on 28 January 2003 specifically endorsing the Kimberley Process and welcoming the Certification Scheme as a valuable tool against the traffic in conflict diamonds. The Council's subsequent approach used its Chapter VII powers to require countries, including Liberia, to establish a Certificate of Origin regime in conformity with the requirements of the Certification Scheme and to adopt relevant laws and an effective administrative mechanism to become a member of the Kimberley Process. The Council's use of its powers under Chapter VII – under which all sanctions resolutions are adopted – to impose the Kimberly Process Certification Scheme's requirements on governments in conflict situations has contributed significantly to the Scheme's early success. In less than three years, the Kimberly Process Certification Scheme has been credited with reducing significantly the illicit trade in diamonds, denying rebel armies a major source of funding.

Conclusion

Blood diamonds have a disastrous effect on the economy and the politics of the country involved in the phenomenon, as they motivate the start of a conflict or prolong it in states that are already poverty-stricken, thus creating further economic and political instability. Instead, African states should act responsibly and harness revenues coming from the sale of diamonds to promote economic growth, the development of the education, health-care, and transportation systems. As the Kimberley Process is inherently flawed, it should be amended in order to encompass a larger definition of blood diamonds, including the diamonds exploited by the government to fund violent actions.

Moreover, the Kimberley Process should be modified in order to constitute an efficient monitoring system, enforcing compliance among the states and the diamond industry actors participating in this joint initiative, and suitably punishing transgressors. By taking these preventive measures, blood diamonds can be finally eradicated and used to fund African development.

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