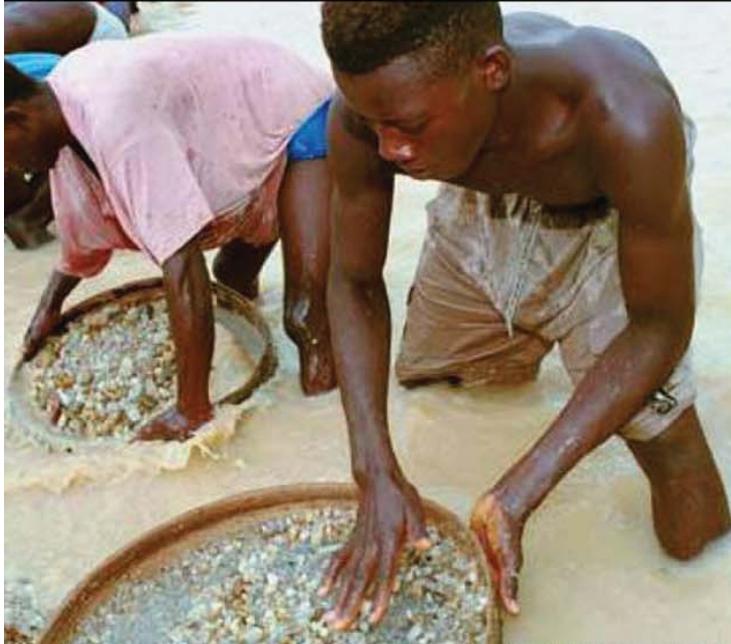


MORAL CLARITY AND THE DIAMOND INDUSTRY



RAPAPORT SPECIAL REPORT
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About the Rapaport Group

The Rapaport Group is an international organization serving the diamond industry since 1976. The group employs approximately 180 people with offices in New York, Las Vegas, Antwerp, Ramat Gan, Mumbai, Surat, Dubai, Hong Kong and Shanghai. With over 14,000 clients in more than 100 countries the Group has a broad global reach and extensive connections throughout the international diamond and jewelry industry.

Group activities include information services, online diamond trading networks, diamond grading and certification, global tender auction services, trading logistics and fair trade development. The Group does not trade diamonds for its own account but provides a broad range of added value market services to the international diamond trade.

All Rapaport Group activities reflect our organization's mission and values - the development and implementation of free, fair, ethical, transparent, efficient, and competitive markets. The Group operates in full compliance with anti-money laundering regulations including the U.S. Patriot Act, OFAC regulations, Kimberley Process rules and the national laws and regulations in the various countries of operation. Rapaport also advocates and takes a proactive position regarding the elimination of human rights violation in the diamond and jewelry industry.

For more information visit: Diamonds.net or email: info@diamonds.net.

Additional documents related to this report are available at Diamonds.net/MoralClarity

About Rapaport Fair Trade

Rapaport Fair Trade is a Rapaport initiative devoted to the promotion and implementation of socially responsible sourcing of diamond, gem and jewelry products. Initiatives include fair trade conferences, (diamonds.net/conferences), the ethical pledge campaign at ethicalpledge.com, and the Rapaport fair trade website (rapaportfairtrade.com). Additional initiatives underway include the Rapaport Fair Trade and Ethical Jewelry Directory and Catalog, as well as Rapaport Source and Recycled Certification.

For more information visit RapaportFairTrade.Com or email: fairtrade@rapaport.com

MORAL CLARITY AND THE DIAMOND INDUSTRY

RAPAPORT SPECIAL REPORT – JANUARY 2013
BY MARTIN RAPAPORT

Personal Comment

I write this report out of deep concern for the future of our diamond community. Over the past decade our trade has confronted and overcome numerous external challenges to our business from the financial, technology and political sectors. However, there is one threat that we have not adequately addressed or overcome. The great risk that we ourselves will destroy our precious diamond and jewelry industry by not properly regulating our internal ethical and moral behavior.

While it may not be politically correct for me to raise the issues that I write about in this report, I have no choice. My memory of standing in a Sierra Leone amputee camp in 2000 and promising myself ‘never again’ will never go away. And so I make this effort to communicate my concern and dire warning that if our trade does not seriously address the moral issues related to our supply chain we will forfeit the right to earn our livelihood from diamonds.

Make no mistake. Our diamond trade is facing extreme danger and an unprecedented test of our humanity. The moral issues before us transcend business. How we handle these issues will not only define our products and companies, they will define us as individuals. It’s time for us to integrate who we are with what we do. We must take personal responsibility for the consequences of our business decisions.

Introduction

Sometimes it’s hard to tell right from wrong. And sometimes it’s not.

Some people don’t want us to tell right from wrong. They prefer that the diamond industry avoid ethical issues and concentrate on “business only.” Often this is because they and their friends make windfall profits selling questionable products. When serious ethical matters such as severe human rights violations get in the way of their profits, they manipulate the truth through misrepresentation, denial, half-truths, and confusion to protect their business interests. “Don’t ask, don’t tell, don’t know” is their credo.

The purpose of this article is to promote moral clarity within the diamond industry. We will analyze complicated issues and present ethical perspectives that encourage you to establish your own ethical standards and an independent sense of moral clarity. Finally, we will recommend specific actions that should be taken by individuals and industry organizations.

A Theoretical Model

Let's start our search for moral clarity with a theoretical model designed to establish a consensus baseline for right and wrong.

Gangs of Colombian thieves operating in the U.S. are attacking traveling diamond salesmen and jewelry stores. Sometimes they even go to jeweler's homes and take their families hostage. Occasionally a jeweler or salesman is murdered. A market for stolen diamonds develops. Initially the prices of the stolen diamonds are very low, however as the market becomes more efficient and diamonds are sold to unknowing or "un-asking" third parties, higher prices are achieved. Some dealers mix stolen diamonds with legitimate diamonds, masking their identity and lowering average prices.

Decent people consider it highly unethical to buy stolen diamonds. However, some buyers eyeing large windfall profits claim that if they don't buy the stolen diamonds others will. After all, they say, "diamonds are neutral, it's not the diamonds' fault they were stolen." Furthermore, if they buy the diamonds from a "third party" they could claim they did not know they were stolen and avoid legal responsibility. Since the thieves and their dealers make windfall profits and don't have ethical concerns, the market for stolen diamonds develops, expands and becomes more efficient.

The creation of an efficient "quick cash" market for stolen diamonds at "good prices" encourages robbers to expand operations. New players enter "the business." More jewelers get robbed, murder rates go up and there is a significant increase in robberies at the homes of wealthy consumers. Salesmen no longer travel with diamonds, insurance rates skyrocket and consumers start questioning the safety of owning diamond jewelry.

As the market for stolen diamonds expands some legitimate diamond dealers and jewelers find it hard to compete against the lower priced stolen goods. Some stop buying and selling diamonds. The perception that diamonds are dangerous continues to develop as more people suffer robberies and assault. There is a significant decline in market and consumer demand. Diamonds get a dangerous reputation; demand and prices fall.

Obviously, different players have different perspectives. The robbers and their buyers are highly motivated by short term profits. Ethical and legal issues do not concern them. The legitimate dealers and jewelers suffer financial loss and physical threat. At first glance there does not seem to be much they can do.

The solution, of course, is to shut down the market for stolen diamonds, arrest the robbers and their buyers, and place severe fines and prison sentences on anyone caught dealing in stolen diamonds. By differentiating stolen diamonds from legitimate diamonds, denying them access to legitimate markets and then raising the risk and cost of dealing in stolen diamonds, windfall profits and liquidity disappear, robbers and their buyers lose their lucrative financial incentive and markets return to normal, safe and profitable conditions.

While there may always be some kind of underground market for stolen diamonds, the legitimate diamond trade will not support it and certainly not provide economic incentive for its growth and development.

Unless you are a robber or one of their buyers, the above scenario offers clear options. Trade or don't trade in stolen diamonds. There is no grey area and that is what we mean by "moral clarity." Clearly, supporting the market for stolen diamonds, encouraging the mixing of stolen and legitimate diamonds and supporting the "right" of thieves and their buyers to sell into the legitimate market is highly unethical.

The Real World

While the moral conclusion of the theoretical model is clear, many people have a problem applying these conclusions to their real world. Many are in denial when it comes to the ethical sourcing of their supply chain. It's understandable since no one wants to believe that they are making their livelihood based on someone else's suffering. Yet the facts speak for themselves. As an industry and as ethical individuals we must ask: Are we systematically and consistently buying and selling diamonds or other products that have been stolen or involved in human rights abuses?

While it is common knowledge that there are significant problems associated with rough diamonds from countries such as the Congo¹, Angola², Venezuela³ and

Human Rights Violations in Marange

Detailed reports by NGOs, including Partnership Africa Canada, Global Witness and Human Rights Watch have documented:

- ◆ The 2008 massacre of over 200 artisanal diamond diggers and the torture of thousands by military forces aligned with the government's ZANU-PF party²
- ◆ The murder of hundreds³ of opposition Movement for Democratic Change (MDC) political party activists and the torture of hundreds more during and after 2008 elections⁴
- ◆ The seizure by the military of the Marange diamond fields⁵
- ◆ The establishment of mining companies owned by secret partnerships that include the military, ZANU-PF and unknown others⁶
- ◆ The failure of government-owned diamond companies to pay taxes, royalties and dividends owed to the government⁷
- ◆ The personal enrichment of Minister Mpofu and other members of the ZANU-PF clique⁸

Diamonds in the Rough: Abuses in the Marange Diamond Fields of Zimbabwe, Human Rights Watch, June 2009.

² Return of the Blood Diamond, Global Witness, June 2010.

³ "Why 2009 is Zimbabwe's Year of Change or Rebellion," The Zimbabwean, January 3, 2009; <http://reliefweb.int/report/zimbabwe/why-2009-zimbabwes-year-change-or-rebellion>

⁴ "2008 Human Rights Report: Zimbabwe," U.S. Department of State, February 25, 2009;

<http://www.state.gov/j/drl/rls/hrpt/2008/af/119032.htm>

⁵ Diamonds and Clubs: The Militarized Control of Diamonds and Power in Zimbabwe, Partnership Africa Canada, June 2010.

⁶ Ibid.

⁷ "Biti Cuts Budget, Blames Diamonds," New Zimbabwe, July 18, 2012; <http://www.newzimbabwe.com/news-8531-biticutsbudget+blames+diamonds/news.aspx>

⁸ Reap What You Sow: Greed and Corruption in Zimbabwe's Marange Diamond Fields, Partnership Africa Canada, November 2012.

¹ "Blood Diamond Smuggler from Congo Arrested," Times of India, August 4, 2012; http://articles.timesofindia.indiatimes.com/2012-08-04/surat/33034592_1_kp-certificate-illicit-diamonds-rough-diamonds

² "In Angola, the Blood Diamond Resurfaces," The Wall Street Journal, June 19, 2010; <http://online.wsj.com/article/SB10001424052748704198004575311282588959188.html>

³ "Venezuela Expelled from Diamond Treaties," The Guardian, June 26, 2008; <http://www.guardian.co.uk/world/2008/jun/26/venezuela>

Zimbabwe, members of the diamond trade often prefer to be unaware of the details. There is a general consensus that while there may be “problems out there,” the situation is unclear and buyers can’t decide what not to buy. Furthermore, there is no easy way to differentiate good diamonds from bad diamonds. Finally, some buyers say they can’t afford not to buy questionable diamonds at good prices and claim – “if everybody else is doing it, why shouldn’t I?”

To shed light on the real world challenges associated with diamond sourcing, we will highlight the situation of diamonds from Marange, Zimbabwe. In this case there are plenty of documented clear facts. Furthermore we can analyze how individuals and trade organizations have responded to the ethical challenges.

The Marange Story

In 2003 U.S. President George W. Bush placed economic sanctions on Mugabe and members of his ZANU-PF political party, including the current Minister of Mines Obert Mpofu.⁴ The president cited their actions “to undermine Zimbabwe’s democratic processes or institutions, contributing to the deliberate breakdown of the rule of law in Zimbabwe and politically motivated violence and intimidation in that country.”⁵ These sanctions have been continuously renewed by President Obama. In October and November of 2008⁶ Zimbabwean government security forces controlled by President Robert Mugabe and his ZANU-PF political party killed and tortured hundreds of Zimbabwean diamond diggers to steal diamonds and keep their political party in power.⁷

With Mugabe demanding elections in the near future the current situation is not good. Two MDC



Marange Rough

⁴ “Bush Orders Sanctions Imposed Against Leaders of Zimbabwe,” New York Times, March 8, 2003; <http://www.nytimes.com/2003/03/08/world/bush-orders-sanctions-imposed-against-leaders-of-zimbabwe.html>

⁵ “Executive Order - Blocking Property of Additional Persons Undermining Democratic Processes or Institutions in Zimbabwe,” Federal Register, Presidential Documents, March 10, 2003; <http://www.gpo.gov/fdsys/pkg/FR-2003-03-10/pdf/03-5848.pdf>

⁶ *Diamonds In the Rough: Human Rights Abuses in the Marange Diamond Fields of Zimbabwe*, Human Rights Watch, June 2009.

⁷ “Global Witness Leaves Kimberley Process, Calls Diamond Trade to be Held Accountable,” Global Witness, December 5, 2011; <http://www.globalwitness.org/library/global-witness-leaves-kimberley-process-calls-diamond-trade-be-held-accountable>

activists were murdered in February 2012⁸, dozens of MDC activists have been jailed under false pretenses and there have been recent physical attacks by ZANU-PF on the MDC Home Secretary and Treasurer.⁹ There is great fear that the diamond revenue currently being hijacked by ZANU-PF members will be used to fund attacks on members of the MDC opposition during the upcoming campaign for elections in early 2013¹⁰. **Anyone buying Marange diamonds today should be concerned that their money will be used to fund violence.**

Tendai Biti, MDC Minister of Finance in the unity government, had this to say about the situation: "As Ministry of Finance, we fear that there might be a parallel government in respect of where the revenue is going and not coming to Treasury.... I think the people that are stealing our diamonds are so sophisticated that stealing will continue."¹¹

LEGITIMIZING THE ILLEGITIMATE

So here you have it, a gang of thieves disguised as politicians stealing diamonds and supporting violence against their own people in one of the poorest countries in the world. Diamond suppliers so bad that the U.S. government has slapped Office of Foreign Assets Control (OFAC) sanctions on them, making it illegal to import their diamonds to the U.S.¹² You might think the diamond trade would be ethical enough to not buy these diamonds. Well, think again.¹³

At the recent November, 2012 Zimbabwe Diamond Conference designed to legitimize Mugabe, Mpofu and their gang, leaders of the diamond industry fell



Zimbabwe Minister of Mines Obert Mpofu

⁸ "Two MDC Activists Murdered in One Week," AllAfrica, February 13, 2012; <http://allafrika.com/stories/201202140902.html>

⁹ "Zimbabwe: MDC Secretary for Home Affairs Attacked," AllAfrica, November 21, 2012; <http://allafrika.com/stories/201211220126.html>

¹⁰ "Action urgently needed to stop off budget financing to Mugabe's regime," Global Witness, June 23, 2012; <http://www.globalwitness.org/library/action-urgently-needed-stop-budget-financing-mugabe%E2%80%99s-regime>

¹¹ "Biti says diamond revenue is going to a parallel government," The Insider, May 17, 2012; <http://www.insiderzim.com/stories/3954.html>

¹² "Executive Order - Blocking Property of Additional Persons Undermining Democratic Processes or Institutions in Zimbabwe," Office of Foreign Assets Control, November 23, 2006; <http://www.treasury.gov/resource-center/sanctions/Documents/zimb.pdf>

¹³ "Zimbabwe to become biggest supplier of diamonds to Surat," Times of India, September 1, 2010; http://articles.timesofindia.indiatimes.com/2010-09-01/surat/28244170_1_zimba-diamonds-marange-rough-diamonds

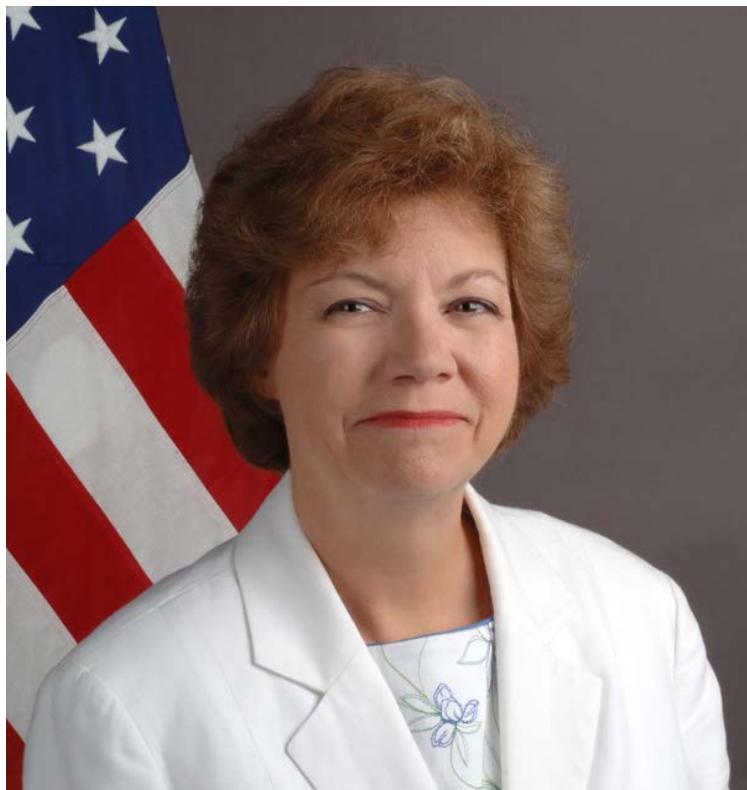
all over themselves, toadying up to the bad guys.¹⁴ Eli Izhakoff, chairman of the World Diamond Council (WDC) went so far as to say he would use the WDC to petition the U.S. and EU governments to drop sanctions against the Zimbabweans.¹⁵

What about the Kimberley Process (KP)? Isn't the KP supposed to certify that diamonds are free of human rights abuses and violence? If the KP is certifying Marange diamonds, doesn't that mean they are legitimate? No and no again.

Here is what Ambassador Gillian Milovanovic, U.S. chair of the KP had to say at the Zimbabwe conference: "KP certification is not designed to address human rights, financial transparency, [or] economic development, issues."¹⁶ She failed to add that the KP does not

address armed conflict and violence when the governments are perpetrating the violence against their own people, as is the case in Zimbabwe. From the KP's perspective, it's perfectly all right for Mpofu and his ZANU-PF gangsters to kill as many people as they like or steal as much money as they like. The KP is only interested in cases where rebel forces use diamonds to attack a government and the UN Security Council approves an embargo. The KP turns a blind eye to everything else.

Please note that Milovanovic is a diplomat from the U.S. State Department. Her job is to talk, persuade and advise but she has no real power. Don't be confused, just because the State Department approves Zimbabwean KP certificates, that does not mean that the U.S. Department of the Treasury's OFAC won't fine you up to \$500,000 or throw you in jail for up to ten years if you are caught importing KP certified Marange diamonds into the U.S.¹⁷



Ambassador Gillian Milovanovic

¹⁴ "Izhakoff: Diamond Sector is Committed to Africa's Development," Rapaport News, November 12, 2012; <http://www.diamonds.net/News/NewsItem.aspx?ArticleID=41599&ArticleTitle=Izhakoff%253a%2bDiamond%2bSector%2bis%2bCommitted%2bt0%2bAfricas%2bDevelopment%2b>

¹⁵ "WDC President Wants Zimbabwe Sanctions Lifted," JCK Online, November 15, 2012; <http://www.jckonline.com/2012/11/15/wdc-president-wants-zimbabwe-sanctions-lifted>

¹⁶ "U.S. Seeks Updated Definition of Conflict Diamonds," Embassy of the United States in London, October 31, 2012; <http://london.usembassy.gov/africa128.html>

¹⁷ "Executive Order - Blocking Property of Additional Persons Undermining Democratic Processes or Institutions in Zimbabwe," Office of Foreign Assets Control, November 23, 2006; <http://www.treasury.gov/resource-center/sanctions/Documents/zimb.pdf>

What about the World Diamond Council System of Warranties (SoW)? Aren't they supposed to ensure that diamonds are legitimate? Doesn't the SoW guarantee that diamonds are free of human rights abuses? No and no again.

The WDC is the puppet of the KP as indicated by their mission statement. "The primary objective of the WDC is to represent the diamond industry in the development and implementation of regulatory and voluntary systems to control the trade in diamonds embargoed by the United Nations or covered by the Kimberley Process Certification Scheme. ... Conflict diamonds are rough diamonds used by rebel movements or their allies to finance conflict aimed at undermining legitimate governments, as described in relevant resolutions by the UN Security Council and UN General Assembly."¹⁸ Let's be clear, if the KP does not "address human rights, financial transparency, economic development or other important issues," neither does the WDC or its SoW.

The WDC has been misleading the diamond and jewelry trade for many years by implying that KP certification and the WDC-SoW assures the legitimacy of diamonds. They have been using phrases like 'conflict free' and 'non-conflict diamonds' to imply that these diamonds are legitimate and free of human rights abuses.

Consider the WDC's diamondfacts.org website, Employee Training Manual, page one, "We are part of an industry-wide, global effort to eradicate illegal diamonds. We will be discussing how you can speak confidently to your customers and assure them that the diamonds they are buying come from legitimate sources." Additionally on page two of the Manual: "The Kimberley Process guarantees that only diamonds from legitimate sources are used in our jewelry."¹⁹ That's an outright lie.

Pray tell, what is legal and legitimate about KP certified Marange diamonds that are illegal for trade under U.S. law and fund violence? The KP and WDC SoW never certify legitimacy or lack of severe human rights violations, so why does the WDC lie to us and say that they do?

In his keynote speech at the recent KP meeting, Izhakoff had this to say about KP certification: "For the process to work effectively, the consumer needs to understand that every legitimately traded diamond can be traced to a verifiable KP certificate, by way of the World Diamond Council's Chain of Warranties. However, if we begin to differentiate between KP certificates, implying that one may be more legitimate than the other, then we will undermine consumer confidence in general."²⁰

It is unethical for Izhakoff and his WDC colleagues to continuously mislead the trade and public regarding the efficacy of KP certificates. While it may be technically true that every legitimately traded

¹⁸ "About the WDC," World Diamond Council, <http://www.worlddiamondcouncil.org/about-wdc>

¹⁹ *Employee Training Manual: How to Train Your Employees About Conflict Diamonds*, DiamondFacts.org, http://www.diamondfacts.org/pdfs/industry/TrainingGuide_v5.pdf

²⁰ "Izhakoff: Kimberley Process Success Relies Upon Full Commitment," Rapaport News, November 27, 2012, <http://www.diamonds.net/News/NewsItem.aspx?ArticleID=41707&ArticleTitle=Izhakoff%253a%2bKimberley%2bProcess%2bSuccess%2bRelies%2bUpon%2bFull%2bCommitment%2b>

diamond can be traced to a KP certificate,²¹ it is also true that almost every illegitimate diamond can also be traced to a verifiable KP certificate. His statement is misleading because he implies to consumers and the trade that all KP certified diamonds are legitimate — which they certainly are not.

Izhakoff's carefully phrased, clever double-talk is not a slip of the tongue but rather the continuation of a consistent long-term misinformation campaign by the WDC to falsely claim that the WDC-SoW guarantees the legitimacy of a diamond.

In a letter to Rapaport on August 12, 2010, OFAC states “a U.S. person may not procure goods, services or technology, including diamonds, from a blocked person directly or indirectly (including through a third-party intermediary). … A U.S. person generally cannot purchase diamonds from a foreign company if the U.S. person knows or has reason to know, that a blocked person has or has had an interest in the diamonds.”²² This makes it clear that U.S. companies can't indirectly buy polished Marange diamonds from third parties.

Furthermore, given the fact that diamond manufacturers have bought, cut and sold millions of carats of Marange rough diamonds, integrating them into the mainstream market, everyone in the diamond trade “has reason to know” that polished diamonds may originate from Marange.

It's not just a voluntary ethical issue anymore. Jewelers of America (JA) has advised its members that *“OFAC enforces legal sanctions that prohibit all dealings, both directly and through third-parties, with the Zimbabwean entities that own or control the Marange region diamond mines and the diamonds exported by these entities.”*²³ Furthermore they have advised all JA members to obtain a written commitment from their suppliers that the diamonds being sold to them do not originate in Marange. We congratulate JA for the correct ethical and legal advice they are giving their members.

We strongly urge all U.S. diamond and diamond jewelry buyers to contact their suppliers and require them to provide the following written commitment on all invoices:

“To the best of our knowledge, the diamonds herein invoiced do not originate from the Marange region of Zimbabwe or other sources subject to U.S. legal restrictions. Our supplier of these diamonds has provided us with a similar assurance of origin.”

Members of the trade are cautioned that in the fall of 2010, Cecilia Gardner, Esq., President and CEO of the Jeweler's Vigilance Committee (JVC) and General Counsel of the WDC, issued a guidance that falsely claimed U.S. companies can indirectly buy Marange polished diamonds from the secondary

²¹ Diamonds: Does the Kimberley Process Work?, BBC, June 28, 2010; <http://www.bbc.co.uk/news/10307046>

²² Gacki, Andrea. Letter to Rapaport 12 August, 2020. Office of Foreign Assets Control, Department of the Treasury. Washington, D.C. <http://www.diamonds.net/Docs/Zimbabwe/OFAC-USDEPARTMENTOFTREASURY-ZIMBABWE-2010.pdf>

²³ “Zimbabwe Diamonds Position Statement, Jewelers of American, http://www.jewelers.org/about/j_whatwestandfor/zimbabwediamonds.php?phrase_id=6736

market. She writes: “*If the transaction is on the secondary market, not a transaction directly between a U.S. company and a listed company (or a 50 percent-owned affiliate of a listed company) then the transaction should not be blocked nor would it violate any U.S. laws.*”²⁴ This is a false statement that directly contradicts the written directions in the letter OFAC sent to Rapaport, as well as JA’s position. We have sent our OFAC letter to Gardner and asked her to revise her guidance. So far, she has refused to do so.

In the same advisory Gardner writes “You will note that there is one issue that JVC has not addressed in this article — the ethical calculation one might apply generally to the purchase of diamonds from Marange. This is a subject for another day. JVC’s focus and expertise is legal compliance, which is the subject of this article.” We note the JVC tagline at the header of their web page states “The Industry’s Guardian of Ethics and Integrity.” How can it be that the guardian of our industry’s ethics and integrity is ignoring ethical issues and advising the trade that it is OK to buy illegal diamonds?

While we recognize, appreciate and support the tremendous good work that Gardner has done and continues to do for the jewelry trade we must also recognize that there is a fundamental problem with the WDC and JVC. Not only are these organizations failing to protect the legitimacy of our diamond supply chain they are using their position and influence to provide false assurances about the legitimacy of illegitimate and illegal products.

Under the influence of the WDC the JVC has crossed a red line here. It’s easy to make the mistake of prioritizing unification of the world diamond industry through compromise over the need to protect the interests of the U.S. industry. However, being inclusive cannot come at the price of turning a blind eye to unethical behavior or human rights violations. Encouraging and legitimizing the trade of diamonds that should be illegal for sale in the U.S. is entirely unacceptable. Especially and particularly for the JVC who must be held to the highest standards due to their stated mission as “The Industry’s Guardian of Ethics and Integrity.” There is a clear conflict of interest of between the JVC and the WDC and the roles of Gardner and Izhakoff.



Artisanal Diggers – Rapaport Photo

²⁴ “The Office of Foreign Assets Control and Marange Diamonds: The legal aspects of trade in diamonds from Marange in the US,” Jewelers Vigilance Committee, Fall 2010; <http://www.jvclegal.org/index.php?categoryid=433>

I respectfully call upon JVC's board of directors to review the situation and align their position with JA's. Furthermore, the JVC board of directors should order Gardner to resign her position as General Counsel of the WDC. Gardner should be directing her efforts to the ethical and compliance challenges confronting the U.S. jewelry trade. Simply put, the JVC should be working to protect the U.S. jewelry industry, not the cutters in India.

REPUTATIONAL RISK

U.S. purchases or sales of Marange and other diamonds involved in human rights abuses present a real danger to the U.S. diamond and jewelry market as well as international brands selling diamonds. I cannot imagine a worse public relations scenario than U.S. jewelers being brought up on charges for violating OFAC sanctions by buying or selling diamonds from Marange.

In 1996, the media publicized severe labor problems in Nike's supply chain.²⁵ By the 1997-1998 fiscal year Nike's revenue fell by 16 percent, profits plunged 49 percent and the share price fell by 57 percent.²⁶ The reputational risk to our industry is obvious. Consumers will stop buying diamonds if they are associated with human rights violations. The WDC might be able to fool consumers for a while longer but if we keep on importing and selling dirty diamonds our industry will self-destruct.

We need to recognize the megatrend toward ethical consumerism. The U.S. Dodd-Frank Act and similar overseas legislation in consuming countries are forcing companies to clean up their supply chain.²⁷ Global warming or should I say *global warning* is wreaking havoc with the weather and changing consumer attitudes. Social networks are supporting socially responsible consumerism, which is evolving from a trend to a long-term lifestyle commitment. Years ago you could light up a cigarette in an airplane; would anyone dream of doing that now? Our industry cannot ignore fundamental changes in consumer preferences and behavior.

How long do you think our trade can go on sneaking dirty diamonds into our supply chain? It's not just an ethical or legal issue. It's a business issue. It's a matter of our industry's survival.

FINANCIAL INTERESTS

There are huge profits to be made dealing in dirty diamonds. Consider the perspective of an Indian diamond cutter who does not have an ethical or legal problem dealing with Marange diamonds. If he can buy Marange rough diamonds at a 25 percent discount and then cut and mix them with diamonds from legitimate sources, he can make significant windfall profits on the Marange diamonds. There is a

²⁵ "Nike Pledges to End Child Labor and Apply U.S. Rules Abroad," New York Times, May 13, 1998; <http://www.nytimes.com/1998/05/13/business/international-business-nike-pledges-to-end-child-labor-and-apply-us-rules-abroad.html>

²⁶ Michael Conroy, *Branded: How the Certification Revolution is Transforming Global Corporations*, New Society Publishers, 2007, p. 12.

²⁷ "SEC Adopts Rule for Disclosing Use of Conflict Minerals," U.S. Securities and Exchange Commission, August 22, 2012; <http://www.sec.gov/news/press/2012/2012-163.htm>

huge economic incentive for diamond cutters to buy Marange goods, mix them and sell them as legitimate.

Consider how much more Marange diamonds would be worth if Izhakoff and his WDC could get the U.S. and EU to drop sanctions while continuing to convince the world that KP certificates guarantee the legitimacy of all diamonds. Whose economic interests does the WDC serve?

When diamond manufacturers tell you they can't separate Marange diamonds from legitimately sourced diamonds, don't believe them and don't buy from them. Cutters can separate VVS1's from VVS2's, Triple X's from Triple VG's and rough diamond productions from one customer to another. Would your supplier tell you they could not separate treated or synthetic diamonds from natural diamonds? If your supplier can't guarantee a supply of diamonds free of Marange, then stop buying from them. Money talks when money walks.



Artisanal Diggers – Rapaport Photo

CONFLICTS OF INTEREST

By now it should be clear that there is a fundamental conflict of interest between international diamond manufacturers and U.S. diamond buyers.

Diamond cutters in India do not have OFAC or EU/UK legal constraints. In their market, Marange diamonds are perfectly legal. Furthermore, they do not have the same level of reputational risk that U.S. retailers and international brands have. When there is the inevitable consumer backlash against dirty diamonds, U.S. retailers and brands on the frontline will feel the heat head on. The Indians will hide in India. Their horizon does not include the socially conscious U.S. consumer. They don't see or feel our risk. What they do see and feel is money. Lots of money, that they can make right now by selling the Marange diamonds to the U.S. market.

From the U.S. buyer perspective Marange diamonds are poison. Not only are they unethical and illegal, they also destroy the market's level playing field. Retailers who cheat buy at lower prices in a highly competitive market environment. Legitimate diamond dealers and retailers are in danger of losing business when forced to compete against sellers of illegal Marange diamonds.

The only solution is for the legitimate U.S. diamond trade to insist on the separation of good diamonds from bad diamonds and the exclusion of bad diamonds from the legitimate distribution system. We need to establish and support independent competitive source certification systems that support

legitimate markets for legitimate diamonds. We should support efforts by the Responsible Jewelry Council (RJC) and others to create legitimate Chain of Custody²⁸ and Source Certification Systems.

There is a fundamental conflict of interest between the WDC and the legitimate U.S. diamond industry. The WDC supports the mixing of Marange diamonds with legitimate diamonds, the establishment of standards that ignore human rights and the misrepresentation of KP standards to consumers. The WDC claims to represent the interests of the entire diamond trade from mining companies to retail jewelers, but it doesn't. The WDC represents the interest of Mugabe and other illegitimate and illegal miners as well as profit-seeking diamond cutters against the interests of the legitimate U.S. retail and wholesale diamond trade.

Let's make it clear. The WDC is promoting and encouraging the poisoning of the well from which we all drink. It is incomprehensible that U.S. retailers and diamond dealers are represented by an organization that advocates the mixing and legitimization of illegal and unethical diamonds. It's bad enough that the WDC is working against the interests of the U.S. diamond industry — but it is outrageous that we are allowing the WDC to represent us against our interests in our name. It is wrong for leaders of the U.S. diamond industry, U.S. companies and trade organizations to legitimize and support an organization that opposes our American laws and values.

The Rapaport Group calls upon all legitimate members of the diamond trade and especially U.S. members and trade organizations to publicly resign from the World Diamond Council. If organizations



2012 Kimberley Process Plenary, Washington D.C.

²⁸ "Chain of Custody Standards Development," Responsible Jewellery Council, <http://www.responsiblejewellery.com/standards-development/chain-of-custody/>

wish to be represented at the KP, they should apply for independent observer status and ensure their legitimate interests are presented and protected.

Mining Companies

Legitimate mining companies should carefully consider the impact of Marange and other illegitimate diamond sources on the value and reputation of their rough diamond production. The inclusion of illegal and unethical diamonds into the legitimate supply chain is dragging down diamond values and exposing the diamond industry to unacceptable levels of reputational risk.

When consumers find out that industry organizations and websites supported by the mining companies have been green-washing dirty diamonds through the KP, there will be a backlash against all diamonds including diamonds from legitimate sources. Legitimate producers should stop funding and supporting the WDC and their misleading diamondfacts.org website. They should support chain of custody and source certification systems like the RJC CoC that enable the separation of legitimate diamonds from diamonds of unknown or problematic origin.

U.S. DIAMOND BUYERS UNITE

It's time for U.S. diamond buyers to unite, stand up for their rights, and exercise their market power. It is absurd that foreign diamond suppliers think they can force us to buy their illegitimate and illegal diamonds. "We can't separate the diamonds," the cutters and dealers say. Poppycock, I say.

Legitimate American buyers need to come together under an organization like Jewelers of America and present a united front for an ethical supply chain.

We must deal with diamond suppliers in an organized, powerful and focused manner. American diamond buyers have a responsibility to their customers and have the economic power to back up ethical demands.



Protecting the diamond dream

The Rapaport Group supports the African concept of BEE – Black Economic Empowerment, which seeks a fair and equitable distribution of the benefit from diamonds and other mineral resources originating

in developing countries.²⁹ We also support the concept of an American BEE – Buyer Economic Empowerment which supports the rights of buyers to an ethical and legal supply chain. It's time that we communicated to our African comrades that American and other ethical buyers have the right to refuse their unethical and illegal diamonds. The message from diamond buyers must be simple and straightforward. Meet our ethical standards or we won't buy your diamonds.

THE WAY FORWARD

While it's important to talk about ethics, nothing really gets done unless there is money behind it. If we want ethical supply chains, we must support them and make sure they are profitable. The obvious need for separating good and bad diamonds is also an opportunity to create a differentiated diamond product category with a unique selling proposition. We can add value to legitimate generic diamonds through ethical source certification that emphasizes and markets their goodness. A diamond with a documented legitimate supply chain is worth more than a diamond from an unknown source. We need to market this added value.

Ethical and source certification has the power to change markets the way that diamond cut grading has. After the American Gem Society (AGS) introduced a cut grade, excellent cuts brought significant premiums as sellers used the excellent cut on the grading report to differentiate their products. Ethical and source certification has the power to accomplish the same thing. Once diamonds with source certification appear in the market competitive market forces will encourage suppliers to obtain added value through ethical sourcing.

The way forward is for the diamond industry to use certification systems to create a market for legitimate diamonds from known sources. Realization of the added value attributable to certified ethically sourced diamonds will make such efforts sustainable and profitable. Companies must recognize that supply chain management should not just be about damage control; it should be about getting higher prices for ethically sourced diamonds and branded jewelry. The separation and legitimization of an ethical diamond supply chain will add value to diamonds and benefit everyone in the diamond pipeline from the African digger to the young woman excited to get her beautiful engagement ring.

RAPAPORT RECOMMENDATIONS:

1. Diamond buyers in legal jurisdictions subject to sanctions (U.S., UK, and EU) should obtain a written commitment from their suppliers that to the best of their knowledge the diamonds being sold to them do not originate from sanctioned entities or other sources subject to human rights violations. All U.S. and other legitimate trade organizations should publicly expel members that do not comply with this rule.

²⁹ "The new 'legal regime' for BEE," The Foundation for the Development of Africa, April 30, 2004; http://www.foundation-development-africa.org/africa_black_business/legal_regime_black_economic_empowerment.htm

The following statement or something similar should appear on all invoices from suppliers.

"To the best of our knowledge, the diamonds herein invoiced do not originate from the Marange region of Zimbabwe or other sources subject to U.S. legal restrictions. Our supplier of these diamonds has provided us with a similar assurance of origin."

2. Legitimate diamond and jewelry trade associations including but not limited to RJC, JA, JVC, AGS, WFDB, IDMA, CIBJO, AWDC, GJEPC, SDA, and SRDSIL should require their members to make full disclosure when selling diamonds originating from sanctioned entities. Disclosure should be in writing on the invoice and similar to requirements for treated and synthetic diamonds. Members that fail to make proper disclosure should be publicly expelled from the organizations.
3. U.S. and other legitimate trade organizations, companies, and individuals should immediately and publicly withdraw from membership in the World Diamond Council (WDC). The WDC should issue public statements clarifying the limitations of the WDC System of Warranties and modify their diamondfacts.org website to remove false and misleading information.
4. The Jewelers Vigilance Committee (JVC) should issue clarifications regarding their position that it is legal for U.S. companies to buy diamonds sourced from OFAC sanctioned entities indirectly in secondary markets. The JVC should align their position with Jewelers of America. The JVC should withdraw from the WDC.
5. Conditions for the legitimization of Zimbabwean Diamonds should be established based on the following criteria:
 - a. Cessation of all human rights violations
 - b. Accountability and disclosure of diamond resource ownership production and revenue
 - c. Compliance with all government regulatory and payment obligations
 - d. Exclusion of sanctioned persons and entities from the diamond supply chain
 - e. Reliable independent auditing of human rights, financial and legal compliance
6. A meeting of U.S. diamond industry stakeholders should take place to discuss supporting and promoting competitive ethical source diamond certification systems and the Responsible Jewelry Council's (RJC) Chain of Custody (CoC) certification for diamonds. Discussion should take place about how the U.S. industry should be independently represented in the KP and other international forums, with consideration given to expanding the role of Jewelers of America (JA). The U.S. trade should also communicate to Washington the need to continue sanctions against Zimbabwe.

This special report is an extension of an original article "Business Ethics 101" that appeared in the December 2012 issue of the Rapaport Magazine.

Additional articles and information about the Rapaport Group's position regarding moral clarity is available at diamonds.net/reports/moral-clarity



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Case No. ZI-362

Mr. Martin Rapaport
Chairman
Rapaport Group
133 East Warm Springs Rd, Suite 100
Las Vegas, NV 89119

Dear Mr. Rapaport:

This responds to your letter dated June 30, 2010, on behalf of Rapaport U.S.A., a U.S. company which you explain "provides added-value services for the diamond industry." You request guidance on the applicability of authorities administered by the Office of Foreign Assets Control ("OFAC") to the purchase by a U.S. person of diamonds from certain companies located in Zimbabwe and/or their investors. First, you advise that Mbada Diamond Mining (alternatively Condurango), Zimbabwe ("Mbada"), is reportedly owned by Robert Mhlanga; the Zimbabwe Mining Development Corporation; and Grandwell Holdings, Mauritius, which is owned by New Reclamation Group Pty Ltd-Reclam, South Africa. Second, you advise that Canadile Miners, Zimbabwe ("Canadile"), is reportedly owned by Zimbabwe Mining Development Corporation and Core Mining and Mineral Resources Ltd, South Africa.

The Zimbabwe Sanctions Regulations (the "ZSR"), 31 C.F.R. Part 541, Executive Order 13288 of March 6, 2003, Executive Order 13391 of November 22, 2005, and Executive Order 13469 of July 25, 2008 (collectively, the "Executive Orders"), prohibit U.S. persons, wherever located, from engaging in any transaction or dealing in any property in which any person whose property and interests in property are blocked pursuant to the ZSR or the Executive Orders ("blocked person") has an interest. The ZSR and the Executive Orders also prohibit any transaction within the United States or by a U.S. person that evades or avoids, has the purpose of evading or avoiding, or attempts to violate any of the prohibitions of the ZSR or the Executive Orders. Property subject to blocking pursuant to the ZSR or the Executive Orders is broadly defined to include any property, tangible or intangible, or any interest therein, including present, future or contingent interests. A property interest subject to blocking includes interests of any nature whatsoever, direct or indirect. OFAC's *Guidance on Entities Owned by Persons Whose Property and Interests in Property Are Blocked*, issued February 14, 2008 (copy enclosed), provides that a person whose property and interests in property are blocked pursuant to the ZSR or the Executive Orders is considered to have an interest in all property and interests in property of an entity in which it owns, directly or indirectly, a 50% or greater interest. The property and interests in property of such an entity are blocked regardless of whether the entity itself is listed in an annex to the Executive Orders or designated pursuant to the ZSR or the Executive Orders. Zimbabwe Mining Development Corporation was designated on July 25, 2008, pursuant to Executive Order 13469, and its property and interests in property are blocked. Furthermore, if Zimbabwe Mining Development Corporation or any other blocked person owns, directly or

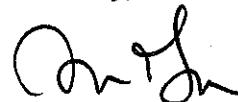
indirectly, a 50% or greater interest in Mbada or Canadile , any assets of such entities that are within U.S. jurisdiction (within the United States or within the possession or control of U.S. persons) are blocked, and a U.S. person generally may not engage in any transactions with such entities, including the purchase of diamonds, unless authorized by OFAC.

You also seek guidance on whether a U.S. person may purchase diamonds from other foreign companies which have purchased diamonds from Mbada or Canadile. Please be advised that a U.S. person may not procure goods, services or technology, including diamonds, from a blocked person directly or indirectly (including through a third-party intermediary). Please also be advised that the prohibitions on transactions involving blocked property apply to transactions by a U.S. person in a location outside the United States with respect to property in which the U.S. person knows, or has reason to know, a person whose property and interests in property are blocked has or has had an interest since the effective date of the blocking. *See* ZSR, § 541.406. Therefore, a U.S. person generally cannot purchase diamonds from a foreign company if the U.S. person knows, or has reason to know, that a blocked person has or has had an interest in the diamonds since the effective date of the blocking.

Based on the limited information you have provided, we are unable to provide more detailed guidance or confirm whether such transactions would violate the ZSR or Executive Orders. Please note that this guidance is limited to laws and regulations administered by OFAC.

If you have any further questions regarding the Zimbabwe sanctions program, please contact OFAC's Licensing Division at (202) 622-2480. Additional information about U.S. sanctions programs may be found at our official website at <http://www.treas.gov/offices/enforcement/ofac/>.

Sincerely,



August 12, 2010

Andrea Gacki
Assistant Director for Licensing
Office of Foreign Assets Control

eNEWS&VIEWS

Fall 2010 / Volume CIX No.4

The Office of Foreign Assets Control and Marange Diamonds

The legal aspects of trade in diamonds from Marange in the US

**By; Cecilia L. Gardner, Esq.
President and CEO**

In recent weeks, a large quantity of rough diamonds extracted starting in May 2010 from the Marange region of Zimbabwe were sold to diamond trading companies and exported from Zimbabwe. These diamonds were approved by a monitor from the Kimberley Process, and declared to be fully compliant with all KP standards.

The mining companies that extracted the diamonds and exported them from Zimbabwe are believed to be 50% owned by one or more entities listed on the US Office of Foreign Assets Control list of "specially designated nationals" ("SDN"). According to US laws, because these listed companies are the subject of US sanctioning laws, or are suspected of supporting terrorism or engaging in money laundering, it is prohibited in the U.S. to engage in direct transactions with these companies or entities, or companies that may not be on the list but are 50% or more owned by a listed company. Such transactions may lead to transactions being blocked by US banks or in some circumstances, civil or criminal sanctions against the parties engaging in the transactions.

This leads to the question: Are US diamond dealers prevented by law in engaging in **indirect** transactions buying or selling these diamonds on the secondary market because they were first sold as rough by companies that are 50% or more owned by an OFAC listed Zimbabwe company?

Let's pose a hypothetical so we are all on the same page: Company Z (a 50% owned affiliate of an OFAC listed company in Zimbabwe) sells rough diamonds extracted after May 28, 2010[1] to a company located in India. The payment for the diamonds from the company in India to the affiliate in Zimbabwe is completed in a currency other than US dollars[2], and after payment, the diamonds are compliantly exported to the Indian company with authentic Zimbabwe KP certificates stamped and signed by the KP monitor, as required. The Indian company receives the rough diamonds, cuts and polishes them, and then offers them for sale. A US diamond manufacturing company seeks to purchase the polished diamonds for export from India to the U.S. and intends to pay for them by a wire transfer in US dollars to the company in India. The company in India on its invoice truthfully provides the relevant KP warranty that the diamonds invoiced were traded consistently with all KP requirements and any UN resolutions addressing conflict diamonds. In this scenario, is the U.S. entity buying the polished diamonds from the company in India risking violation of any US provision of law by accepting the imports, or by paying for these diamonds in US dollars? Could this transaction be blocked?

In general, the answer is no - there is no apparent violation of US law, and the transaction should not ordinarily be blocked. While any attorney would be very hesitant to answer questions based on hypothetical facts, JVC has been asked to answer this question so frequently in the past weeks we thought it would be advisable to provide some clarity on the subject - with one very strong caveat: if you have doubts, consult with your company's counsel before engaging in the transaction.

JVC does not provide legal advice. But here, we can provide some guidance based on our interpretation of the OFAC rules. The OFAC rules apply to direct U.S. company to OFAC listed company transactions, or transactions to an OFAC listed company using US dollars transmitted through US clearing banks. If the transaction is on the secondary market, not a transaction directly between a US company and a listed company (or a 50% owned affiliate of the listed company) then the transaction should not be blocked nor would it violate any US laws. It should be noted that the transaction between the listed company and the Indian company could have been blocked if the transaction used US dollars - since a US clearing bank would have to have been involved in a transaction. But the subsequent transaction between a US company and an unlisted Indian company reselling the polished diamonds should not ordinarily be blocked since there is no direct transaction with a listed company.

You will note that there is one issue that JVC has not addressed in this article - the ethical calculation one might apply generally to the purchase of diamonds from Marange. This is a subject for another day. JVC's focus and expertise is legal compliance, which is the subject of this article.

Any questions or comments? Please contact me at cig@jvclegal.org, or visit the JVC web site - www.jvclegal.org.

[1] May 28, 2010 is the date after which the KP monitor declared that diamond production by the two new producers in Marange were fully compliant with KP minimum standards.

[2] Under US banking law, if the payment transaction from India to the company in Zimbabwe were in US dollars, the transaction would have to be cleared by a US bank, and thus could have been subject to blocking.



Jewelers of America Position on Zimbabwe Diamonds

Excerpt:

Jewelers of America is fully committed to the responsible sourcing of diamonds.

We are deeply concerned about alleged human rights abuses in the Marange region of Zimbabwe, as well as the impact of legal issues surrounding diamond production from this region.

In November 2011, the Kimberley Process (KP) agreed to allow the export of diamonds from Marange. Jewelers of America believed the KP was at risk of collapse if it did not resolve the impasse around the exportation of these goods.

The agreement on Marange will keep important controls in place that protect the global industry from conflict diamonds, while establishing conditions for approval of further exports, thereby clearing the way for the KP to undertake institutional reforms that will better enable it to discharge its mission in the future.

However, it presents a unique challenge for U.S. companies and those who do business with them, as well as the U.S.-based offices of foreign companies. This is because the U.S. Department of Treasury's Office of Foreign Assets Control (OFAC) enforces legal sanctions that prohibit all dealings, both directly and through third-parties, with the Zimbabwean entities that own or control the Marange region diamond mines and the diamonds exported by these entities.

As a result, Jewelers of America advises members to exercise appropriate due diligence with business partners, including taking additional precautionary measures for inventory protection in order to ensure compliance with U.S. law and maintain consumer confidence in diamonds. Specifically, Jewelers of America members should continue to require their suppliers to provide additional written reassurances, beyond the World Diamond Council's (WDC) System of Warranties statement, that the diamonds they supply have not been obtained in violation of applicable national laws and/or sanctions and have not originated from Marange, Zimbabwe.

SAMPLE LETTER TO SUPPLIER

INSTRUCTIONS FOR USE

We suggest that you copy and paste the following letter onto your company letterhead. Send to all your loose diamond and diamond jewelry suppliers, and ensure you receive a response from all.

[INSERT YOUR LETTERHEAD HERE]

Dear _____,

The Kimberley Process Certification Scheme (KPCS) has authorized the shipment of diamonds from the Marange region of Zimbabwe. These goods can now be exported using KP Certificates and eventually receive World Diamond Council (WDC) System of Warranties (SoW) statements. **However, as a U.S. company we are prohibited from purchasing these goods -- either directly or indirectly -- under U.S. law, even if they have KP-related assurances.** This is because the U.S. Department of Treasury's Office of Foreign Assets Control (OFAC) enforces legal sanctions that prohibit all dealings, both directly and through third-parties, with the Zimbabwean entities that own or control the Marange region diamond mines and the diamonds exported by these entities.

Violations of the OFAC sanctions can result in major fines on our business and untold reputational damage. Therefore, we must require -- as a condition of doing business with **[JA Member Company Name]** -- that in addition to the WDC SoW statement assuring conflict-free status, you provide the following written assurance on all diamond and diamond jewelry invoices:

To the best of [Supplier Company Name's] knowledge, the diamonds herein invoiced have not originated from the Marange region of Zimbabwe. The supplier of these diamonds to [Supplier Company Name] has provided a similar assurance of non-Marange origin to [Supplier Company Name].

Sincerely,

[YOUR SIGNATURE]

United States Congressional Record

SHARING AN ARTICLE FROM MARTIN RAPAPORT: ``GUILT TRIP'' -- HON. TONY P. HALL (Extensions of Remarks - May 19, 2000)

[Page: E784] [GPO's PDF](#)

HON. TONY P. HALL OF OHIO IN THE HOUSE OF REPRESENTATIVES Friday, May 19, 2000

- Mr. HALL of Ohio. Mr. Speaker, today I share with our colleagues a moving plea written by one of the most respected experts in the diamond industry to other members of the industry.
- Martin Rapaport, publisher of one of the top trade publications, traveled to Sierra Leone in the weeks before United Nations peacekeepers were captured. His article, ``Guilt Trip," was written to propose a solution to the mayhem war diamonds fuel. It needs no embellishing, and I excerpt it here for my colleagues' review:

I don't know how to tell this story. There are no words to describe what I have seen in Sierra Leone. My mind tells me to block out the really bad stuff, to deny the impossible reality. But the images of the amputee camp haunt me and the voices of the victims cry out. 'Tell them what has happened to us,' say the survivors. 'Show them what the diamonds have done to us.'

``I am angry. I am upset. I am afraid that my words will not be strong enough to convey the suffering and injustice I have witnessed. How do I tell you about Maria, a pretty eight-month-old baby whose arm has been hacked off by the rebels? How can I fully describe the amputee camp with 1,400 people living in huts made of plastic sheets, babies in cardboard boxes, food cooked in open fires on the ground, no electricity or plumbing--everywhere you look someone is missing an arm, a leg or both. What can I say about the tens of thousands that live in displaced persons camps without adequate medicine, food, clothing and shelter.

Friends, members of the diamond trade. Please, stop and think for a minute. Read my words. Perhaps what is happening in Sierra Leone is our problem. Perhaps it is our business.

Sierra Leone is a beautiful country. It has a cornucopia of natural resources and a population that includes many well educated, highly intelligent people. In spite of the wars, which have decimated the population and destroyed the basic infrastructure of the country, the people of Sierra Leone are industrious and kind-hearted. During my visit last week, the capital, Freetown, was bustling with people trying to rebuild their lives and their country.

While there is much to be hopeful and optimistic about, the peace process is moving too slowly. The diamonds are holding up the peace process. The war in Sierra Leone is about power. It is about who controls the country, how they control it and what they do with their

control. There is a strong perception that he who controls the diamonds will control the country.

Simply put, Sierra Leone's diamond industry is totally black market, underground, illegal and corrupt. Hundreds of millions of dollars of Sierra Leone diamonds are being traded on the world markets without any benefit going to the government, or people, of Sierra Leone.

The bastards are not just stealing Sierra Leone's diamonds, they are trading them for guns. Guns which are used to kill people to keep the war going, which assures that the government will not be able to control the illegal trade, assuring that the bad guys can continue to steal the diamonds. The real challenge facing Sierra Leone and the world diamond trade, is how to stop this horrific murderous cycle of illegal diamond activity.

The problems of Sierra Leone are so great and discouraging that one hesitates to suggest solutions..... [but] the situation in Africa is such that we must adopt a pro-active attitude towards the resolution of problems. We cannot sit back and write off the problems of Africa as unsolvable--the human suffering is simply too great.

The diamond industry must address the fact that illegal diamonds from Sierra Leone and other war zones are in fact finding their way into the diamond marketplace. While the industry in general cannot solve Sierra Leone's problems it can, and must, take realistic measures to assure that illegal diamonds are excluded from the marketplace.

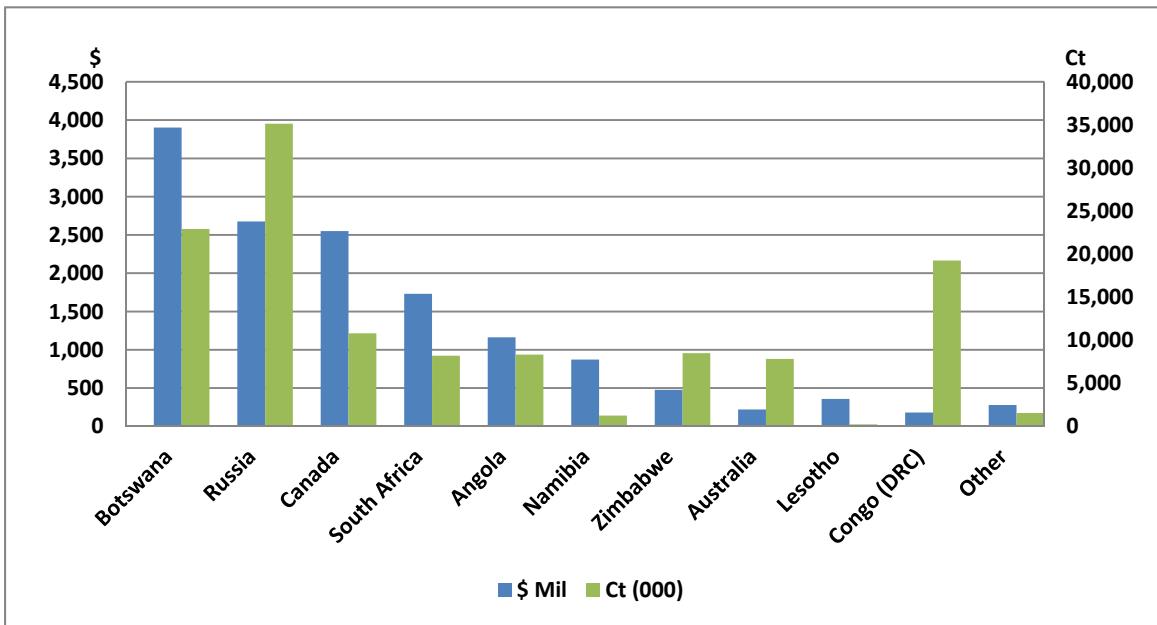
The bottom line is that our industry must stop dealing with questionable diamonds. Consider the market for stolen diamonds and jewelry. Now we all know that these markets exist in a limited way, but no decent, legitimate or even semi-honest diamond dealer would ever consider buying stolen diamonds. When you buy a stolen diamond you encourage the thieves to go out and steal another diamond. You endanger your own life and you destroy the security of your business.

Would we walk around saying there is no way to tell if a diamond is stolen and just let the thieves market prosper? By the way--how is it that our industry is able to self-regulate in a reasonable manner against thieves, but not against conflict diamonds? Is the life of a black in Sierra Leone worth less than the life of a diamond dealer or jeweler in the U.S.?

- Mr. Speaker, I met Mr. Rapaport before I went to Sierra Leone last year, and I have heard the industry's admiration for him. He and his colleagues are savvy, clever business people. I am confident they not only can figure out how to stop war diamonds from enriching butchers--but, more importantly, how to turn diamonds' economic potential into a positive force for the African people who so need that.
- I applaud Mr. Rapaport for making his trip to Sierra Leone and for eloquently appealing to the diamond industry to find a solution to this urgent problem. And I urge my colleagues to join me in pressing for a targeted solution to the diamond smuggling that is destroying Sierra Leone's democracy and its people.
- Please join Sierra Leone's democratic government, the U.S. diamond industry, and some of our most thoughtful colleagues in supporting H. Con. Res. 323.

2011 Global Rough Production by Country

Zimbabwe and Congo accounted for 22.4% of carat production but only 4.6% of global market value. Meanwhile Botswana and Russia accounted for a balanced 46.8% of production and 45.7% of market value.



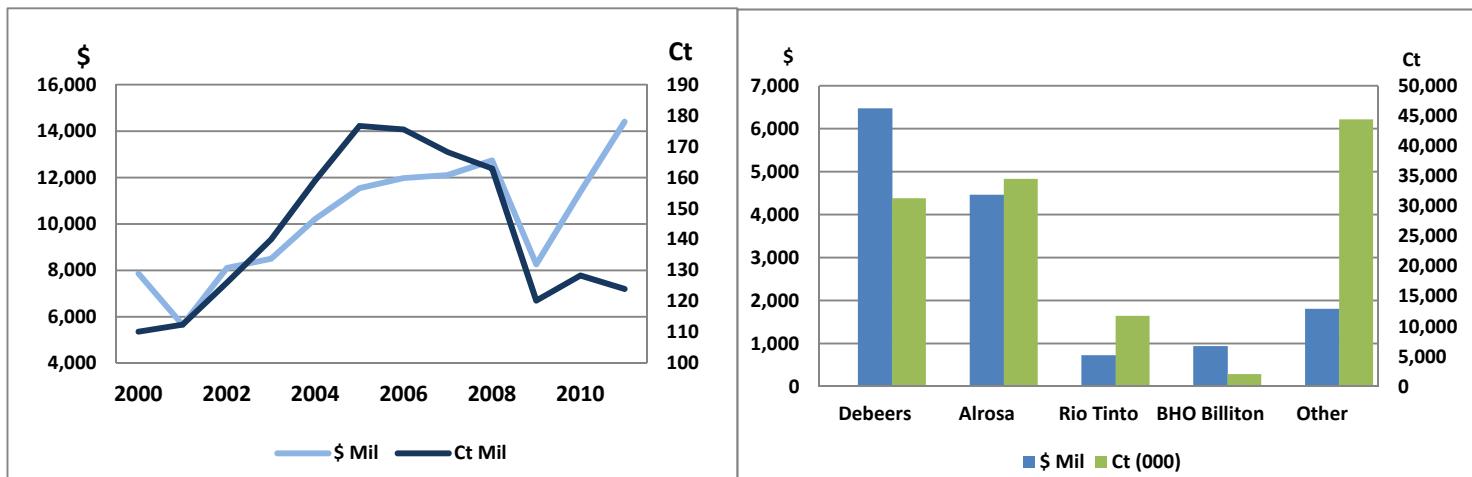
Diamond Producers			Production 2011			Production 2010			2010 to 2011 Changes		
Country	Rank	Share \$	\$ Mil	Ct Mil	\$/ct	\$ Mil	Ct Mil	In \$/ct	US \$	Ct	\$/Ct
Botswana	1	27%	\$3,902	22.905	\$170	\$2,586	22.018	\$117	51%	4%	45%
Russia	2	19%	\$2,675	35.140	\$76	\$2,382	34.857	\$68	12%	1%	11%
Canada	3	18%	\$2,551	10.795	\$236	\$2,305	11.804	\$195	11%	-9%	21%
South Africa	4	12%	\$1,730	8.205	\$211	\$1,194	8.863	\$135	45%	-7%	56%
Angola	5	8%	\$1,163	8.329	\$140	\$976	8.362	\$117	19%	0%	20%
Namibia	6	6%	\$873	1.256	\$695	\$744	1.693	\$440	17%	-26%	58%
Zimbabwe	7	3%	\$476	8.503	\$56	\$340	8.435	\$40	40%	1%	39%
Lesotho	8	2%	\$359	0.224	\$1,602	\$198	0.109	\$1,817	82%	106%	-12%
Australia	9	2%	\$221	7.830	\$28	\$252	9.976	\$25	-12%	-22%	12%
Congo (DRC)	10	1%	\$180	19.249	\$9	\$174	20.166	\$9	3%	-5%	8%
Other		2%	\$278	1.555	\$179	\$241	2.033	\$118	16%	-24%	51%
World Total		100%	\$14,407	123.990	\$116	\$11,393	128.315	\$89	26%	-3%	31%

Source: Kimberly Process

Rapaport Mining Statistics

2011 Rough Production by Company

Production value rose 74% (from \$8K to \$14K), while quantity of rough production remained stable between 2009 and 2011. Diamond companies continued to stockpile rough and raise prices throughout the global economic crisis, claiming they were holding out for stronger markets ahead.



Diamond Mining			Production 2011			Production 2010			Changes from 2010 to 2011		
Company	Rank	Share \$	\$ Mil	Ct Mil	\$/ct	\$ Mil	Ct Mil	\$/ct	US \$	Ct	\$/ct
De Beers	1	45%	6,473	31.29	207	5,082	33	154	27%	-5%	34%
Alrosa	2	31%	4,461	34.50	129	2,895	34	84	54%	1%	53%
BHP Billiton	3	7%	940	2.07	455	945	3	326	-1%	-29%	40%
Rio Tinto	4	5%	727	11.73	62	682	14	49	7%	-15%	25%
ZMDC	5	3%	407	8.10	50	322	8	40	26%	1%	25%
Other		10%	1,392	36.30	38	1,474	36	41	-6%	0%	-6%
Total		100%	14,400	123.99	116	11,400	128	89	26%	-3%	31%

Source: Rapaport Estimate

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