



**global witness**

## The US Diamond Sector

### Background

**T**he United States of America (US) is the most important player in the diamond jewellery business because it accounts for over half of global diamond jewellery retail sales. Because of its importance, the US diamond industry, especially the retail sector, has a vital role to play in tackling the problem of conflict diamonds by pressuring downstream suppliers to adopt strong policies. The retail sector is the public face of the industry and has a special responsibility to ensure that it can provide consumers with guarantees that diamonds are not from conflict sources.

The US is by far the largest consumer of diamond jewellery in the world with retail sales in 2005 worth US\$33.7 billion.<sup>1</sup> The US is not a producer of diamonds, but New York serves as a major centre for cutting and distributing high value diamonds and supplying polished diamonds to wholesalers and retailers globally. In 2005 the US imported around US\$900 million of rough diamonds, three-quarters of which came from South Africa, Botswana and the

Democratic Republic of Congo. The US also received rough diamonds from other African countries including Ghana, Guinea and Namibia.<sup>2</sup> However, most diamonds come to the US after having been already cut and polished elsewhere. In 2005 polished diamond imports to the US were worth over US\$15 billion, of which over 90% came from Israel, India and Belgium.<sup>3</sup>

### US Implementation of the Kimberley Process

The US is a participant in the Kimberley Process Certification Scheme. In April 2003, the Clean Diamond Trade Act was passed by the US Congress and signed by President George Bush. Under this Act, the import and export of rough diamonds into the US is prohibited unless it has been controlled through the Kimberley Process. The Department of State and the Treasury Department were appointed to coordinate an inter-agency working group to implement the law, which came into effect on 30 July

### US Polished Diamond Imports 2001-2005 by Country of Origin

	2001	2002	2003	2004	2005	Total
Israel	\$5,097,920,713	\$5,758,784,110	\$6,069,208,133	\$7,132,279,972	\$8,097,052,617	\$32,155,245,545
India	\$1,920,336,859	\$2,635,032,192	\$2,563,525,827	\$2,852,130,475	\$3,079,551,682	\$13,050,577,035
Belgium	\$2,056,239,902	\$2,282,565,936	\$2,591,614,860	\$2,726,490,707	\$2,820,302,202	\$7,219,691,301
Others	\$669,569,063	\$685,982,026	\$712,645,511	\$861,440,883	\$439,505,458	\$3,369,142,941

Compiled from tariff and trade data from the U.S. Department of Commerce and the U.S. International Trade Commission

2003.<sup>5</sup> Those who are found in violation of the Act's requirements face civil and criminal penalties that include fines and imprisonment of up to 10 years.<sup>6</sup>

The US Kimberley Process Authority was set up and run by officials from US trade associations, including the Diamond Dealers Club and the Jewelers Vigilance Committee. It is responsible for facilitating the issuance of the Kimberley Process certificates for exports of rough diamonds and reporting this to the US government. All exporters of rough diamonds are required to file export information through the US Census Bureau's Automated Export System, which is then validated by the government through the issuance of an Internal Transaction Number.<sup>7</sup>

The US Customs and Border Protection is the government agency responsible for enforcing the import provisions of the Clean Diamond Trade Act. Importers of rough diamonds are required to file electronically, including by providing information about the Kimberley Process certificate, which is then reviewed by the US Customs and Border Protection. Physical inspection of imports and exports has been very limited, mainly relying on risk analysis.

## Serious Loopholes in US Diamond Law

A recent Government Accountability Office (GAO) report shows that conflict diamonds may be entering the US because of major weaknesses in the implementation of the Clean Diamond Trade Act, the US law which implements the Kimberley Process Certification Scheme (KPCS). The GAO report states that "because of weaknesses of the system, the United States cannot ensure that illicit rough diamonds are not traded." These weaknesses include a lack of regular physical inspections of rough diamond imports and exports, poor statistics on rough diamonds and no plan for monitoring the Kimberley Process Authority, a private entity run by US diamond trade groups which issues rough diamond certificates. A multi-stakeholder peer review carried out by the Kimberley Process in June 2005 and earlier studies done by Global Witness and Partnership Africa Canada also identified similar problems.<sup>8</sup>

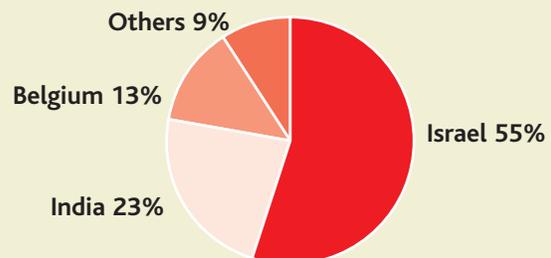
If the US diamond sector is to have any credibility, government oversight of industry must improve. The US,

as the largest consumer of diamond jewellery, has a responsibility to play a leadership role on this issue and to have a robust system of controls in place.

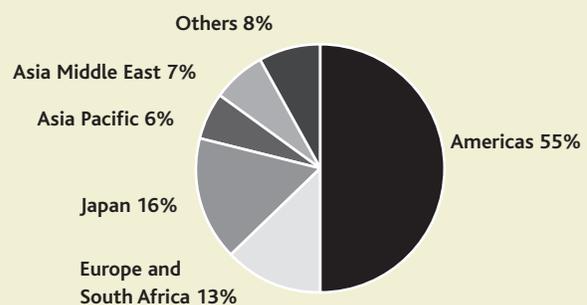
## Anti-Money Laundering Rules

Anti-money laundering requirements are another requirement the US diamond industry must comply with. Under the Patriot Act, dealers and traders in precious metals, stones and jewels are now considered reporting entities in the US and must have put anti-money laundering measures in place by January 1st 2006. With some exceptions, the rules set by the US Treasury relate to any dealer or trader who buys or sells more than US\$50,000 worth of goods which derive more than 50% of their value from precious metals, stones and jewels.<sup>9</sup> Dealers and traders are required to: perform an assessment of the company's risk to money laundering, appoint a compliance officer for anti-money laundering, design and implement an anti-money laundering program, train employees and test the money laundering program periodically.<sup>10</sup>

US Polished Diamond Imports by Country 2001-2005 US\$



Global Retail Sales of Diamond Jewelry 2005 (US\$ billion)



Source: [http://www.idexonline.com/pdf\\_files>IDEX\\_Online-2005\\_Pipeline.pdf](http://www.idexonline.com/pdf_files>IDEX_Online-2005_Pipeline.pdf)

The Patriot Act has huge implications for the diamond jewellery industry, an industry that has traditionally been extremely secretive and prefers to use cash. While recognizing the civil liberty concerns with the Patriot Act, Global Witness believes that the anti-money laundering sections could have a powerful effect on cracking down on the use of diamonds for illicit purposes and for conflict and terrorism. However, the success of these rules depends on widespread compliance by the diamond industry and effective enforcement of these provisions by the Treasury Department.

## The Diamond Industry's Broken Promises

There are several major trade bodies located in the US that have represented the diamond industry on the issue of conflict diamonds. These include the World Diamond Council, which was created to represent all sectors of the diamond trade on the conflict diamond issue and at the Kimberley Process meetings, Jewelers of America and the

Jewelers Vigilance Committee.<sup>11</sup> The Gemological Institute of America is based in California and certifies diamonds for quality, but does not certify diamonds for conflict-free status. Other major diamond trade bodies include the New York Diamond Dealers Club, the International Diamond Manufacturers Association (IDMA), the World Federation of Diamond Bourses (WFDB) and the World Jewelry Confederation (CIBJO).

The US and other international diamond industry bodies have made many promises in support of the Kimberley Process including implementing a system of self-regulation to support a chain of custody from mine to shop front. However, the diamond industry has not kept many of these promises.

Some of these trade bodies have produced educational materials to educate the industry about the Kimberley Process. For example, in 2003 the WDC produced *The Essential Guide to the Kimberley Process* to inform sectors of the industry how to carry out the self-regulation. In 2005, the Jewelers Vigilance Committee issued an Anti-Money Laundering Compliance Kit to help companies comply with the Patriot Act anti-money laundering regulations that have recently come into effect in the US. A new World



Most diamonds that arrive in the US are polished overseas in factories.

Diamond Council website provides education packs for consumers and retailers.

However, little has been done to go beyond these efforts to actively promote adoption of the self-regulation. In addition, trade bodies have done inadequate monitoring to ensure that the self-regulation is being implemented by their members. Instead of focusing on solving the problem, the diamond industry has launched an aggressive public relations campaign vastly overstating the progress made and falsely claiming that conflict diamonds are not a significant problem.

Global Witness has also carried out investigations showing that the US diamond jewellery retail sector has failed to follow through on commitments to combat conflict diamonds and cannot give consumers adequate assurances that diamonds are conflict free. In 2004, using secret cameras, Global Witness went to several US stores to ask them about their policies on conflict diamonds. The retail

sector was chosen because it is the public face of the industry and has a special responsibility to ensure that it can provide consumers with guarantees that diamonds are not from conflict sources. We found that most stores had no policy in place, or had not put basic measures of the self regulation into place.<sup>12</sup> A larger Amnesty International and Global Witness survey published in October 2004 built on this work, and found that across the US, there was a very low level of awareness about conflict diamonds by sales assistants and only 27% of stores visited stated that they had a policy on conflict diamonds.<sup>13</sup>

On Valentines Day 2006 Global Witness and Amnesty International produced a short guide on conflict diamonds for consumers in the US and globally. The guide tells shoppers what they need to know about the trade in conflict diamonds and the questions they need to ask jewellery retailers to try and ensure the diamonds they buy are conflict-free.<sup>14</sup>

## References

- 1 National Jeweler, *DIC: U.S. diamond retail sales up 7 percent*, 3 May 2006.
- 2 United States International Trade Commission <http://dataweb.usitc.gov/>
- 3 United States International Trade Commission <http://dataweb.usitc.gov/>
- 4 'Rough Diamonds Control Regulations', *Federal Register*, 4 August 2003, Vol. 68, No. 149.
- 5 Executive Order Implementing the Clean Diamond Trade Act, July 29, 2003, President George Bush, The White House.
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- 9 <http://www.fincen.gov/antimoneylaundering060305.pdf>
- 10 [http://www.jvclegal.org/t\\_r\\_pack\\_summary.html](http://www.jvclegal.org/t_r_pack_summary.html)
- 11 Jewelers of America and the Jewelers Vigilance Committee are two major US jewelry trade organizations that have endorsed the self-regulation and have carried out some educational activities for its members about the Kimberley Process and the self-regulation.
- 12 Global Witness *Broken Vows: Exposing the "Loupe" holes in the Diamond Industry's Efforts to Prevent the Trade in Conflict Diamonds*, March 2004. <http://www.globalwitness.org/reports/show.php/en.00050.html>
- 13 Amnesty International and Global Witness *Déjà vu: diamond industry still failing to deliver on promises* October 2004 <http://www.globalwitness.org/reports/show.php/en.00062.html>
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