

Conflict Diamonds

UK jewellery retailers still not doing enough

SUMMARY OF UK RESULTS OF GLOBAL WITNESS AND AMNESTY INTERNATIONAL SURVEY

Executive Summary

This survey conducted by Global Witness and Amnesty International UK between December 2006 and February 2007, shows that most top-selling UK jewellers still lack adequate policies to effectively combat the trade in conflict diamonds, also known as blood diamonds. The survey queried 42 of the most prominent diamond retailers in the UK.¹

Although most companies adhere to the industry's minimal system of self-regulation, these are not effective in preventing the trade in blood diamonds, and more needs to be done by industry leaders to ensure that diamonds no longer fuel conflict.

The key findings are:

- ◆ Although a majority of companies surveyed (69 %) provided written responses to Global Witness/ Amnesty International UK, 11 companies who failed to respond are among the top 50 jewellery retailers in the UK by market share. Four of these companies had annual sales of over £20 million in 2005-2006, including Cartier, Graff Diamonds, and Fraser Hart.² Leading UK retailers such as John Lewis and House of Fraser also failed to respond to the survey.
- ◆ 79% of respondents did not report having any type of auditing procedures in place to audit compliance with the Kimberley Process. A majority of respondents (96%) stated that they have adopted the system of warranties, a system of self-regulation agreed to by the diamond industry to help stop the trade in conflict diamonds. While welcoming this, Global Witness and Amnesty International have continuously called on companies to go beyond these industry standards and implement third-party auditing measures that are essential to make the warranty system credible and effective. We consider third-party auditing to be a fundamental component in an effective policy to combat blood diamonds.
- ◆ Many top-selling companies including Debenhams, Goldsmiths Plc, and Garrard & Co (the Royal Jeweller), provided insufficient information for us to be able to evaluate the effectiveness of measures taken to combat the trade in conflict diamonds.
- ◆ Only 38 % of companies surveyed post information on their website about their policy on conflict diamonds.

- ◆ The survey also noted that a few industry leaders such as Signet (including subsidiaries Ernest Jones, H Samuel and Leslie Davis) and Tiffany & Co. have reported taking stronger measures to combat conflict diamonds, going beyond the warranty system and introducing rigorous auditing procedures.

This survey is being released amidst reports of diamond smuggling and as conflict diamonds from West Africa are reaching the international diamond marketplace. Credible reports of illegal diamond trafficking from Zimbabwe, Venezuela, and Ivory Coast clearly highlight the loopholes in the Kimberley Process, the government-run diamond certification scheme designed to eliminate the trade in conflict diamonds.

Global Witness and Amnesty International UK call for the following measures:

- ◆ All sectors of the diamond industry, including the jewellery retail sector, should implement third-party audit measures and responsible sourcing policies;
- ◆ Jewellers should post their policies on conflict diamonds on their websites and should offer copies of their policies to customers;
- ◆ The European Commission and UK Government should carry out stricter oversight of the diamond industry and strengthen enforcement of the Kimberley Process.



There must be receipts for every purchase or sale of diamonds along the diamond pipeline in order to ensure an effective chain of control.

Introduction

This report presents the results of the Global Witness (GW) and Amnesty International UK (AI UK) 2007 survey evaluating the effectiveness of the UK jewellery retail sector's implementation of a self-regulation system to combat blood diamonds and support the Kimberley Process, the government-run international diamond certification scheme aimed at preventing the trade in conflict diamonds.

In parallel to the Kimberley Process, the diamond industry in 2003 committed to a system of self-regulation aimed at increasing consumer confidence and ensuring that conflict diamonds cannot enter the legitimate trade. According to this system of warranties, diamond retailers must require that suppliers provide warranty statements on all sales and purchase invoices for rough and polished diamonds.

This system of warranties will not achieve the aim of eradicating conflict diamonds as long as it is not monitored and backed up by management systems, including internal and external auditing and responsible sourcing policies. Global Witness and Amnesty International have continuously called on companies to go beyond minimum requirements and implement credible and effective procedures. While some of the companies surveyed have done this, most have failed to demonstrate effective policies to prevent the trade in conflict diamonds.

This report follows up a survey that was conducted by Global Witness and Amnesty International in 2004 showing that major players in the UK and US diamond jewellery retail sector were falling short in implementing the basic measures of the self-regulation. That survey also concluded that a large section of the diamond industry was still responding to the conflict diamond issue with a public relations campaign to play down the issue and boost consumer confidence. (For more information, see the Global Witness and Amnesty International report: *Déjà vu: Diamond Industry Still*

Failing to Deliver on Promises, October 2004, www.globalwitness.org.)

The latest Global Witness/ Amnesty International UK survey of UK retailers was carried out during a challenging time for the diamond industry. Diamonds have fuelled devastating wars in Sierra Leone, Angola, Democratic Republic of the Congo and Liberia, with over 4 million³ people dying as a result of these conflicts. But blood diamonds are not only a problem of the past. In September and December 2006, the United Nations (UN) reported that conflict diamonds mined in the rebel-held areas of Ivory Coast were reaching international diamond markets, despite a UN embargo on all Ivorian diamonds.⁴

Furthermore, there are credible reports of diamond smuggling from Zimbabwe into South Africa, in violation of the Kimberley Process certification scheme. Venezuelan rough diamonds are also being illegally smuggled into the US, Belgium, Guyana, and other countries.⁵

These cases clearly demonstrate that, although the Kimberley Process makes it more difficult for diamonds from rebel-held areas to reach international markets, there are serious loopholes in the scheme. Poor government controls and enforcement are allowing blood diamonds to be certified as conflict-free. Unscrupulous diamond traders are knowingly violating the Kimberley Process and national laws.

Governments have failed to hold members of the industry accountable and have not implemented effective oversight of the industry to ensure compliance. The lack of willingness by governments to find and expel unscrupulous members of the trade allows these traders to operate with impunity. Industry leaders contacted in the survey have a responsibility to use their purchasing power to put pressure further up the supply chain to crack down on unscrupulous traders.

As GW and AI UK previously documented in their report *Déjà vu* and in other reports, the diamond industry has failed to systematically monitor whether companies are meeting the requirements of the self-regulation (please see section below on Flaws with the Voluntary System).

This survey was also conducted at the time of the release of the Hollywood film “Blood Diamond.” In anticipation of the release, the diamond industry spearheaded a multi-million dollar public relations campaign in the summer of 2006 to counter any negative publicity from the film. The industry developed an education pack for diamond retailers, aimed at preparing jewellers to answer consumer questions about conflict diamonds prompted by the publicity surrounding the film. The pack informs retailers about what their obligations are to meet the self-regulation and how they should respond to customers who ask questions about blood diamonds.⁶

Educational efforts are important, however some of these initiatives seem focused on ensuring that retailers and others in the industry know what to tell consumers and other members of the public to maintain their sales, rather than ensuring that these efforts are backed by concrete policy and auditing measures. A training guide for store managers, that is part of the education pack, states that: “As a manager, you play a crucial part in communicating the industry’s position to your staff and eventually to the general public. Misinformed or uninformed employees will only hinder our cause and may result in lost sales. That is why you must make learning about conflict diamonds a priority – for both you, and your staff.”⁷

What diamond jewellery retailers and the diamond industry agreed to do

As a result of international pressure to stop the trade in conflict diamonds, in January 2003, major diamond trade associations globally agreed to adopt a voluntary system of self-regulation. The World Diamond Council (WDC), the industry lobby group formed by the diamond industry to tackle the issue

of conflict diamonds, is responsible for promoting adoption of the voluntary system across the industry. Other trade bodies have also endorsed the voluntary system, including the British Jewellers' Association (BJA) and the National Association of Goldsmiths (NAG).

The Essential Guide to Implementing the Kimberley Process, published by the World Diamond Council, outlines what retailers and other sectors of the diamond industry should do in order to meet the self-regulation requirements. Under this system, diamond companies should:

- ◆ Implement a code of conduct to prevent the buying or selling of conflict diamonds.
- ◆ Implement a system of written warranties requiring that all invoices for the sale of diamonds and jewellery containing diamonds include a written warranty that they are conflict-free; keep records of the warranty invoices given and received; and ensure that the system is “audited and reconciled on an annual basis by the company’s own auditors.”⁸
- ◆ Educate company employees about the industry’s policies and government regulations to combat the trade in conflict diamonds.

Jewellery retailers are required to “insist that their suppliers provide warranties for all diamonds polished after January 1, 2003”⁹ and are advised to inform their suppliers in writing that they require a warranty and to retain these warranties for 5 years. However, retailers are not required to undertake independent auditing of the system of warranties, even though independent auditing measures are required for other sectors of the diamond industry, including mining companies, rough diamond buyers, rough diamond dealers, polishers and manufacturers, and polished diamond dealers and manufacturers.

Global Witness and Amnesty International UK have long expressed concerns about the weaknesses in the system of self-regulation, including the lack of

adequate auditing measures and the need for more monitoring by trade associations to ensure the system is widely adopted by all members (please see section below on Flaws with the Voluntary System).

UK Government efforts to combat conflict diamonds

The UK government, represented by the European Commission, is a participant in the Kimberley Process, and the European Commission, chairs the Kimberley Process in 2007. European governments have a central role to play in strengthening the Kimberley Process and encouraging and monitoring effective implementation of the scheme within all sectors of the diamond industry. The European Union is the largest importer of rough diamonds, and received 39% of world production in 2005, worth over £7 billion.¹¹ Most of the world’s diamonds are sent to Antwerp, where they are traded.

The UK government has been conducting spot checks of companies to monitor compliance with the Kimberley Process. These measures must continue in order to ensure systematic and periodic monitoring of imports and exports of rough diamonds and audits of diamond companies, to guarantee compliance with the Kimberley Process. More proactive enforcement of the Kimberley Process requirements must also be carried out to prevent smuggling of diamonds into trading centres such as the UK or Belgium.

Flaws with the voluntary system

In the 2004 survey, Global Witness and Amnesty International UK exposed serious shortcomings in the voluntary system of warranties. The major flaw lies in the fact that the self-regulation relies merely on a statement on an invoice that is not verifiable or backed up by meaningful policies to prevent the purchase of diamonds from conflict sources.

In order for the system to be credible, it is crucial that all sectors of the diamond pipeline, including the retail sector, implement management systems to ensure effective operation of their policies,



Global Witness

Artisanal diamond diggers in Ghana.

including responsible diamond sourcing, staff training, internal audit¹² and control procedures and independent auditing.

For large retailers that have the financial resources and the purchasing power, these management systems should be certified through third-party monitoring (not just by the company's own financial auditors but by an independent organisation to evaluate the system) to help ensure that the policy is effective in preventing trade in conflict diamonds.

The voluntary system of warranties does not require these additional measures. Responsibility for putting a stop to the trade in conflict diamonds lies both with trade bodies and with individual companies. Retailers must go beyond the minimum requirements set out by industry bodies if they are serious about their commitment to the Kimberley Process and to providing consumers with genuine guarantees that the diamonds they buy are conflict-free.

How the 2007 survey was carried out

Global Witness and Amnesty International UK began a survey of major diamond jewellery retailers in the UK on 11 December, 2006 and re-issued to a broader group of companies on 5 February, 2007 due to a very low level of response to the first

letter. A questionnaire was also sent out with the letter on 5 February to provide companies with an easier response format. The aim of the survey is to evaluate whether leading retailers have put key policies in place which we believe are necessary to combat conflict diamonds and support the Kimberley Process.

The survey was also carried out by Global Witness and Amnesty International in the US in December 2006 and January 2007. The results are available at www.globalwitness.org.

In the UK, Global Witness and Amnesty International UK surveyed a total of 42 top-selling diamond jewellery retailers. Twenty eight of these companies are within the top 50 jewellery retail companies in the UK by market share as defined by the *Plimsoll Portfolio Analysis (Retail Jewellery) 2007*. Fourteen companies represent well-known high-street brands, according to lists compiled by GW/ AIUK. The companies surveyed are mostly large and medium-sized retailers with annual sales of over £10 million, however some smaller retailers were also included in order to provide a range of different-sized companies.

Top-selling retailers have a responsibility to exhibit leadership in combating the trade in conflict diamonds, in sourcing diamonds in a responsible



An expert sorting and valuing rough diamonds before they are exported. Authorities must also have this expertise.

manner and in giving consumers meaningful assurances that the diamonds they buy are conflict-free. These retailers have the ability to put significant pressure on their suppliers and those further up the diamond jewellery supply chain to take proactive measures to prevent dealing in blood diamonds.

A major focus of the survey was to determine whether retailers have gone beyond the voluntary measures by implementing independent auditing, responsible sourcing policies and other measures to ensure an effective policy to combat the trade in conflict diamonds.

Global Witness and Amnesty International UK sent letters and questionnaires addressed to the management of 42 companies requesting information about each company's policy on conflict diamonds and implementation of the system of warranties. The letter asked the companies to provide information on the following:

1. The company's policy to combat blood diamonds and actions taken to prevent blood diamonds being smuggled from the Ivory Coast.
2. How the system of warranties is implemented by the company and their suppliers, including independent auditing measures.
3. The company's policy for sourcing diamonds from conflict-free sources and for ensuring that suppliers are responsibly sourcing diamonds.

4. Actions taken by the company to ensure that this policy is effective.
5. Samples of any policies, warranties, procedures and independent auditing measures, along with examples of the practical measures for their implementation, and any further information that may be relevant.

The deadline for responding was extended by one month and all companies were followed up by telephone or fax to bring the letter to their attention and to enquire about the status of their efforts to respond. Most companies included in the initial survey in December, were contacted at least four times, but all companies were contacted at least twice.

Response from the diamond industry

The 2007 survey has attracted a great deal of attention and concern from the diamond industry, especially given that it was conducted in the wake of the industry's public relations campaign to convince consumers that the conflict diamond problem has largely been solved. The World Diamond Council issued a press release on 22 December, 2006 encouraging retailers to participate in the survey. Eli Izhakoff, Chairman of the WDC, stated that "only through industry-wide participation in the Kimberley Process and the System of Warranties can we achieve our goal of zero tolerance towards blood diamonds."¹³

The British Jewellers' Association (BJA) and the National Association of Goldsmiths (NAG), the main UK trade associations groups in the UK, support the system of warranties and encourage their members to adhere to it. "All members of the British Jewellers' Association are bound by a Code of Ethics which requires them to seek a warranty as to the provenance of their diamonds," says BJA chief executive Geoff Field.

Jewelers of America, a trade association representing more than 11,000 jewellery stores in the US, has expressed concerns that the questions asked in the

survey go beyond the requirements that retailers are expected to meet.¹⁴ However, Global Witness and Amnesty International UK believe that retailers must do more than is required, since the voluntary system alone is inadequate to combat the trade in conflict diamonds. This should entail not just accepting a written warranty from suppliers but requiring additional information about their suppliers' policies and auditing measures and only using suppliers that have effective policies in place.

Some jewellers have adopted such additional measures, recognising that the standard currently required by the voluntary self-regulation is not enough to ensure an end to the conflict diamond problem, and demonstrating that these demands will not create an unreasonable burden. Unfortunately, the vast majority of retailers have not taken such steps.

SURVEY RESULTS:

Response from retailers

29 out of 42 (69%) companies that were sent letters responded to Global Witness and Amnesty International in writing about their policies to combat blood diamonds. This represents an improvement from the level of response to the 2004 survey, where only 52% of companies sent information. However 10 out of 13 companies who failed to respond are among the top 50 jewellery retailers in the UK by market share, and 4 of these each had annual sales of over £20 million in 2005-2006, including Cartier, Graff Diamonds, and Fraser Hart.¹⁵ Other retailers that did not respond to the survey include: John Lewis, House of Fraser, Fraser Hart, Hancocks and Folli Follie.

The failure of these companies to respond raises questions as to how seriously they take commitments to combat the trade in blood diamonds. The majority of the companies that did not respond to the survey do not mention a policy on conflict diamonds on their website.

Meeting the voluntary system of warranties

28 out of 29 retailers that sent written responses to Global Witness and Amnesty International stated clearly that they had adopted the system of warranties. However, some companies provided very little information on how the system of warranties is implemented. It is disappointing that top-selling, well-known companies such as Goldsmiths, Debenhams and Garrard & Co (the Royal Jeweller) gave insufficient information about their implementation of the system of warranties to assess how effective their policy is.

A few other companies did stand out for providing more detailed information on how they implement the system of warranties, outlining procedures for notifying suppliers to provide written guarantees on invoices, maintenance of records and education of employees.

Only 13 out of 29 (45%) companies that responded provided samples of invoices from suppliers, guarantees or company policies enforcing such procedures. It is important for companies to outline not just that they have adopted the system of warranties, but how it is being implemented and what auditing measures are taken to ensure that it is implemented effectively. This information should be made publicly available and include samples of invoices and other documents to demonstrate to customers in a clear manner how the system of warranties is being implemented so that it is not just a public relations exercise.

Companies with effective policies

Only 9 out of 29 (34%) retailers that sent written responses to Global Witness and Amnesty International are implementing measures beyond the minimum voluntary requirements to combat blood diamonds. As highlighted above, Global Witness and Amnesty International UK believe that simply adopting the system of warranties does not constitute an effective policy to combat blood diamonds. **A mere 21% of respondents report having an auditing system in place** to help verify



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Before being polished and made into jewellery, rough, uncut diamonds must be valued and sorted.

that suppliers are responsibly sourcing diamonds over and above the written warranty. Only two companies that responded specifically reported that they commissioned a third-party audit. We believe that a policy that is not backed by auditing measures to ensure effective implementation will not achieve the eradication of conflict diamonds for the reasons set out above. Doing due diligence with suppliers is a basic step that should be taken by all sectors of the trade to ensure that diamonds never again fuel conflict.

Other measures taken vary and include annually renewing their conflict-free guarantees with suppliers; independent audits; pro-actively providing customer information; and visiting supplier production sites.

Signet (representing subsidiaries Ernest Jones, H Samuel and Leslie Davis) and Tiffany & Co described the most comprehensive policies, including internal and third-party auditing procedures, proactive measures for responsibly sourcing diamonds and materials to describe these policies, including on the companies' websites.

Transparency about company policies to combat blood diamonds

Global Witness and Amnesty International UK searched the websites of all retailers surveyed to determine whether their policy on conflict diamonds was described on the website. **Only 16 out of 42 (38%) companies surveyed had some type of policy described on their website.** Consumers and the public have a right to access information on a company's policy on blood diamonds and to receive adequate assurances that the diamonds they buy are conflict-free. Retailers should make their policies against the trade in blood diamonds accessible to consumers and the public.

Each company should develop a clear statement describing the policy and its implementation that can be given to interested consumers or members of the public. In addition, the policy should be described on a company's website in an accessible place and include a mechanism for consumers to ask questions.

CONCLUSION AND RECOMMENDATIONS

The diamond industry must go beyond the voluntary standards agreed upon to eradicate conflict diamonds. The survey results show that there are a few industry leaders in the UK jewellery retail sector working to achieve this, but that most large companies are not doing enough. It also calls into question how seriously other sectors of the diamond industry further up the chain are implementing policies to combat blood diamonds.

We believe this demonstrates that a voluntary system will not bring a wholesale change within the diamond industry. Instead of relying on the good intentions of companies, governments need to ensure more effective oversight of all sectors of the diamond industry to ensure the eradication of the trade in blood diamonds.

Global Witness and Amnesty International UK therefore call for the following measures:

- ◆ All sectors of the diamond industry, including the jewellery retail sector, should implement third-party audit measures and responsible sourcing policies;
- ◆ Jewellers should post their policies on conflict diamonds on their websites and offer copies of their policies to customers;
- ◆ The European Commission and UK Government should carry out stricter oversight over the diamond industry and strengthen enforcement of the Kimberley Process.

Global Witness and Amnesty International would welcome hearing from companies that have not responded or have changed their policies and will post amendments to this survey on relevant sections of our websites.

ENDNOTES

- 1 Companies were selected according to a 2007 Plimsoll market research survey highlighting the top UK retail jewellery companies by market share, and from lists of widely-recognised high street names compiled by Global Witness/ Amnesty International.
- 2 This information was taken from *The UK Retail Jewellers Industry*, Plimsoll Portfolio Analysis, January 2007.
- 3 Figure based on compilation of data from United Nations reports and International Crisis Group reports.
- 4 UN Panel of Experts Reports on Côte d'Ivoire, September and December, 2006.
- 5 See report by Partnership Africa Canada, *The Lost World, Diamond Mining and Smuggling in Venezuela*, 2006.
- 6 See www.diamondfacts.org to view the education packet.
- 7 See the World Diamond Council's confidence pack, training guide at www.diamondfacts.org.
- 8 *The Essential Guide to Implementing the Kimberley Process*, World Diamond Council, 2003.
- 9 *The Essential Guide to Implementing the Kimberley Process*, World Diamond Council, 2003, page 8.
- 10 *The Essential Guide to Implementing the Kimberley Process*, World Diamond Council, 2003.
- 11 Rough diamond statistics 2005, Kimberley Process, www.kimberleyprocess.com.
- 12 Global Witness and Amnesty International UK believe that an internal audit involves the development and implementation of internal procedures, spot checks and reviews to ensure that a company's policy to combat conflict diamonds is effectively implemented in practice. An internal audit goes beyond simple implementation and review of the system of warranties.
- 13 *World Diamond Council Encourages Retailer Participation in NGO Survey*, World Diamond Council press release, New York, December 22, 2006.
- 14 Letter from JA President/ CEO Matthew Runci to Global Witness and Amnesty International, December 21, 2006.
- 15 This information was taken from *The UK Retail Jewellers Industry*, Plimsoll Portfolio Analysis, January 2007.

Detailed results of this survey, including tables detailing company responses in the UK, can be found at:

www.globalwitness.org
www.amnesty.org.uk/diamonds
www.blooddiamondaction.org



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