A ROUGH TRADE

The Role of Companies and Governments in the Angolan Conflict

global witness

ANGOLA: A BRIEF OUTLINE

The First War of 1961 to 1975, The War of Independence

Angola has been in conflict since 1961 with massacres in the north of Angola, followed by years of the struggle for independence. In 1975 Portugal, the colonial power abruptly pulls out, and more than half a million people leave Angola in the biggest airlift in history. Prior to this the three nationalist groups that had fought colonial rule begin to fight for control. Cold War politics becomes a major factor as the Soviet Union backs the Marxist MPLA, and the USA and China backs the Maoist, but anti-Marxist, UNITA. The MPLA form a single-party Socialist government in November 1975 which gains widespread diplomatic recognition, although not from the United States and South Africa. Fighting continues for control of territory.

The Second War of 1975 to 1991, Guerra do Mato (War of the Bush)

The civil war continues. In 1987-88 the horrific siege of Cuito Cuanavele marks a dramatic increase in the scale and ferocity of the war. The town is totally destroyed and many thousands die. In 1988 the New York agreement results in a peace treaty with interventionist foreign powers South Africa and Cuba, and foreign troops withdraw. The end of the Cold War has a significant effect on the foreign involvement in Angola, and as superpower patronage begins to dry up both sides need new sources of revenue.

In 1989 the cease-fire breaks down and is followed by some of the most intense fighting of the war. The Bicesse Accords of 1991 create a temporary halt to a war that has already killed between 150,000 and 300,000 in battle. National Elections are held in October 1992 and the MPLA win, but a second presidential run-off election is required as the vote is closely split between MPLA's Eduardo dos Santos and UNITA's Jonas Savimbi. However, the election result is rejected by UNITA before the second election, and it goes back to war.

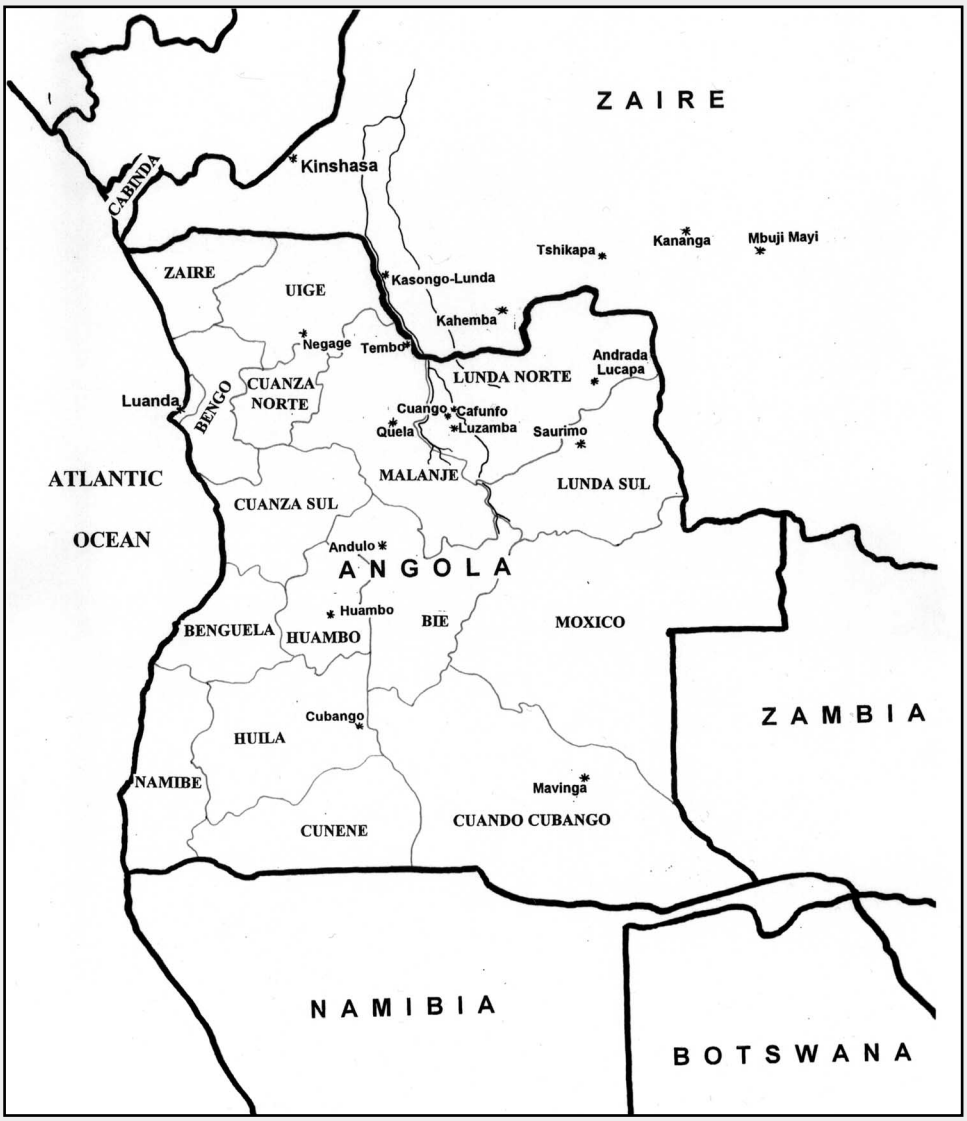
The Third War of late 1992 to late 1994, Guerra das Cidades (War of the Cities)

Some of the worst fighting of the entire conflict takes place, with 182,000 people dying between May and October 1993. The cities of the central high plains, which had been relatively unscathed, are destroyed, and virtually all infrastructure, roads, railways and bridges are destroyed. By late 1993 UNITA controls over 70 per cent of the country, although 1994 sees government troops advancing and UNITA making concessions in the Lusaka peace talks. The Lusaka Protocol is initialled on 31st October 1994 but fighting continues despite promises to the contrary from the government. On 20th November 1994 The Lusaka Protocol is finally signed marking the end of the 'Third War'. A Joint Commission is set up comprising the UN, Government and UNITA representatives with the Troika of the USA, Portugal and Russia as observers. The presidential run-off election is postponed indefinitely.

1995 to 1998

Localised fighting continues during 1995 and 1996 despite the Lusaka Protocol, but negotiations continue. However UNITA continue to violate the cease-fire during 1997, with many of the attacks targeted at civilians, whilst the government also violates the cease-fire. There is a major increase in tension, and in June 1997 the Government captures approximately 10-15 per cent of diamond areas formerly under UNITA control. In October 1997 the UN Security Council imposes a range of sanctions on UNITA, although it does not include diamonds, and three weeks later UNITA starts to cut its contacts with the Government and the United Nations. Tension continues on into 1998 and increases, and by July nearly two-thirds of the provinces are unsafe. Thousands of people are displaced in the process. In July the UN Security Council enacts further sanctions against UNITA, this time including diamonds. Tension escalates and as of early December 1998 the UNITA headquarters of Andulo and Bailundo are surrounded by government forces, whilst UNITA hold UN staff hostage in both towns. A renewal of conflict seems almost inevitable.

(with thanks to CIIR "Peace Postponed: Angola Since the Lusaka Protocol", 1998)[1]



A ROUGH TRADE

THE ROLE OF COMPANIES AND GOVERNMENTS IN THE ANGOLAN CONFLICT

"UNITA keeps control of diamond areas in Northeastern Angola because for the [sic] sake of its own survival." [2]
JONAS SAVIMBI, IN LE FIGARO, MAY 1996.

Victims of war, Lunda Norte, Angola 1992

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Abbreviations

DRC	Democratic Republic of Congo
ENDIAMA	Empresa Nacional de Diamantes de Angola
FAA	Angolan Armed Forces
GURN	Government of Unity and National Reconciliation
HRD	The Diamond High Council, Belgium
MONUA	The UN Observer Mission to Angola
MPLA	Popular Movement for the Liberation of Angola
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNITA	National Union for the Total Independence of Angola
UNSC	United Nations Security Council

INTRODUCTION

This document was written to stimulate debate and action on a well known and much reported issue: the key role that diamonds have played in the Angolan conflict in the last ten years. There is a dangerous acceptance amongst the international community that the mechanics of the trade in diamonds, particularly from UNITA controlled areas, are beyond any real controls. Global Witness investigations show that governments flout the United Nations Security Council (UNSC) embargo on unofficial Angolan diamonds (those not sold under the control of the Angolan government diamond parastatal, Endiama). Furthermore, lack of understanding and government scrutiny of the functioning of the diamond trade has resulted in the absence of any serious examination of corporate culpability, allowing many diamond companies to continue to operate without fear that their actions may be called into question by consumers.

For reasons of safety Global Witness has not identified the numerous individuals involved in the trade, interviewed in the course of investigations.

This document must necessarily concentrate on one factor in the Angolan equation, diamonds, a difficult task given the extreme complexity of the ongoing war in Angola. This document does not seek to play down the political and social issues at stake, nor the way in which the international oil industry has underwritten a government widely seen as corrupt and unaccountable to its own electorate.

"But instead of going to pay for reconstruction efforts after 23 years of civil war, the oil revenues are being used by the MPLA government to fuel its side of the conflict with the rebel Unita movement." BBC News, Online Network 4th November 1998 [3]

But it is important that the role of diamonds in UNITA's continued war and the serious lack of accountability within the diamond trade be exposed and understood so that vital lessons can be learned from the tragedies of the mid 1990's, including the deaths of an estimated 500,000 Angolans who died as a result of the return to civil war in this period. The international community must examine how it has become complicit with diamond barons and what this means for the effectiveness and reputation of the United Nations.

It is time that a business which operates in an arcane way, like a family business, re-assess its operation and accepts that corporate accountability is now an important factor in international business. The South African-British group De Beers and its Central Selling Organisation (CSO), as the major player in the diamond trade, must assume significant responsibility for this. As they say themselves ***"De Beers is committed to a policy of fair dealing and integrity in the conduct of its business. This commitment is based on the belief that business should be conducted honestly, fairly and legally"*** [4]. Leading companies should accept that the rationales used to justify the buying of 'outside goods' (unofficial diamonds) in countries such as Angola and Sierra Leone must be weighed in the balance with the possible and severe implications that such a purchase can have, including the destruction wreaked by conflict, the suffering of millions of people, the deaths of hundreds of thousands, the billions of dollars of lost development and the high cost of conflict resolution.

"The country's revenues are meant for resolving the country's problems," said Fernando Dos Santos, Angola's Internal Security Chief. "It would be ideal to spend them in the social sector. But what use are social projects when Unita are blowing up power lines and bridges." Quoted from BBC News Online 4th November 1998 [3]

RECOMMENDATIONS

- **All member states of the UN should fulfil their reporting obligations under UNSC Res. 1173.**
- **The UNSC should immediately amend UNSC Res. 1173 to require that all diamonds in trade carry a Certificate of Origin (CO) and be subject to independent scrutiny by internationally recognised diamond experts.**
- **The UN Secretary General, in his report to the UNSC, which is due by 15th January 1999, should identify those countries not fully implementing the embargo, and specify actions to be taken to improve implementation.**
- **De Beers and the CSO should publicly clarify what changes to their internal structures they have made to ensure full compliance with UNSC Res. 1173.**
- **De Beers and the CSO, as the most powerful and expert monitor of the diamond industry, should notify the UN and relevant governments and enforcement agencies of any company or trader that offers them Angolan diamonds, so that all documentation can be subject to official scrutiny.**
- **De Beers should revoke sight holder status from any trader found to be dealing in UNITA sourced diamonds.**
- **De Beers and the CSO, as the original shaping force behind the current way in which the industry operates, should lead the necessary process of reform within the industry to address current issues of transparency and business ethics.**
- **Traders that deal in UNITA sourced diamonds should be penalized with confiscation of diamonds, heavy fines and, in Belgium for example, loss of tax concessions. Resulting revenue should be put towards reconstruction in Angola.**
- **Any diamonds originating from Angola's neighbour states should be subject to especially rigorous inspection, as it is known that they are recipients of UNITA sourced diamonds and that forged documentation is rife.**
- **The governments of Angola's neighbours and major diamond trading nations (including Belgium, Israel, South Africa and the UK) should exercise the precautionary principle and prohibit the import of diamonds unless it can be proven that they do not originate from combatants.**
- **The Belgian Government needs to take immediate action to improve the ability of the diamond experts who work with Customs, to identify Angolan diamond imports.**
- **The government of Angola should ensure that official diamond exports are accompanied by internationally recognised COs, stamps and are signed by named authorised officials.**
- **An independent review of the issues surrounding the identification of the country of origin of rough diamonds urgently needs to be carried out.**

SUMMARY

Diamonds and Angola's Recent History

It is well documented that the decline into renewed civil war, following the failure of the 1992 elections, was financed for the major part by natural resources - oil and diamonds. The war cost the lives of at least 500,000 Angolans, with thousands more maimed due to land mines - a continuing blight for the population. Economic chaos suffered by the majority of the population has resulted in the country's steep decline as defined by all internationally accepted social indicators.

Since 1992, UNITA have consistently controlled 60-70% of Angola's diamond production, generating US$ 3.7 billion in revenue, enabling them to maintain their war effort.

UNITA's diamonds reach the major international markets through a worldwide diamond industry that operates with little transparency or scrutiny from the international community

De Beers, the CSO and the Diamond Industry

The De Beers company and its Central Selling Organisation (CSO) have dominated the international diamond industry for the last 60 years; sorting, valuing and selling around 80% of the world's diamond production. Company literature boasts that the cartel structure provided by the CSO is of benefit to all involved in the international diamond trade.

De Beers annual reports during the 1990's clearly state the company's heavy involvement in buying Angolan rough diamonds, at the height of resumed fighting and a time when UNITA controlled the majority of Angola's diamond production. Given that De Beers were, according to their own reports, buying a substantial proportion of Angolan rough diamonds, at a time when a large section of the country's diamond mines were under Unita's control, one could conclude that the drive to keep the lucrative outside market buoyant was a primary concern - despite the consequences this might have for the people of Angola during this period.

The UN Security Council Embargo

In response to the lack of progress over UNITA's implementation of the Lusaka protocol, the UN Security Council passed Resolution 1173 and 1176, which prohibit the direct, or indirect export of unofficial Angolan diamonds - those defined as not accompanied by a Certificate of Origin (CO) issued by the Government of Unity and National Reconciliation (GURN) in Luanda.

Whilst resulting in some reduction of revenue for UNITA, the implementation of UNSC Res. 1176 appears token at best. Investigations reveal that significant diamond exports still take place, mainly by air and in smaller quantities, through countries such as Zambia. Most of the diamonds are sold on the open market in Antwerp and in other countries. Belgium, as home to the world's premier diamond market, bears significant responsibility for this situation.

This illegal trade is made possible through a combination of inadequate control and verification of CO's from the GURN, and the fact that diamonds imported from neighbouring countries do not require any effective verification of source. The latter situation, especially given the involvement of corrupt officials, provides a perfect loophole for the laundering of UNITA sourced diamonds through Angola's neighbouring countries, and on to the international market.

Publicly, the diamond industry declares that it is not possible to identify the source of diamonds. In fact, notable international diamond experts are clear that diamonds are readily identifiable by source - often to the level of the mine they were extracted from. It is clear that the professional capacity of the international diamond industry is such that Angolan sourced rough diamonds are clearly identifiable.

1. THE ROLE OF DIAMONDS IN ANGOLA IN THE 1990'S

"In the mining areas of Lunda Norte, historically the most exploited of the country's range of reserves, diamonds have played an important role in sustaining the conflict since the 1992 elections. UNITA is thought to have reaped about US$1.5 bn from sales of diamonds mined in areas it has controlled during much of this phase of the civil war. In 1995 Angola's total diamond output raised about US$700 m, according to industry sources, of which only US$147 m was accounted for by legal sales by minor producers and the parastatal company Endiama. most of the rest was mined by UNITA and smuggled out unofficially." [5]

ECONOMIST INTELLIGENCE UNIT (EIU) COUNTRY REPORT, 4TH QUARTER 1996.

Illegal diamond mine, Lunda Norte, Angola 1992.

"Oil and diamonds, in particular, have been used to pay for the wars that have plagued the country since the 1960's... Much of Angola's wealth is unaccountably taken up by UNITA and government elites, with little reaching the grassroots." [1]

CIIR PEACE POSTPONED:ANGOLA SINCE THE LUSAKA PROTOCOL, 1998.

"They [UNITA] have occupied the most [sic] productive areas than the government and the same thing (occupation of the diamond rich areas) is being used to buy the arms which they are using on innocent people." [6]

PAULO MAFUNDAMA, ANGOLAN CONSUL GENERAL IN MONGU, ZAMBIA

The importance of diamonds in funding UNITA'S war effort over the last decade is well known and fairly well understood. Diamond revenue became increasingly important for a number of reasons including the political changes in the post-Cold War era. Diamonds have provided the majority of UNITA's funding although gold, coffee and particularly in the late 1980's wildlife products and timber were all sources of funds. Between 1992 and 1998 UNITA obtained an estimated minimum revenue of US$3.72 billion from diamond sales. This does not include revenue from other sources, nor interest generated in overseas bank accounts.

The international trade in diamonds has become a major obstacle to any possible progress towards peace; and has played the major role in enabling UNITA to restock its munitions and maintain a flow of supplies which in turn has enabled it to disregard the 1992 election results and to avoid meeting its obligations under the Lusaka Protocol.

The workings of the international diamond trade are opaque and difficult to penetrate. However, it is clear that 80 per cent of the trade is controlled by De Beers through the CSO. It is also clear that the key role of the outside (unofficial) market in controlling the world price of diamonds needs to be re-examined.

To the millions of Angolans who have survived the repeated years of conflict and the estimated 300,000 that died violently between late 1992 and 1995, the workings of the international diamond trade may seem an abstraction, but the revenue that UNITA has been able to generate from diamonds and the direct and indirect impacts of this revenue are real enough.

The income generated from of UNITA's diamond sales, as with much of the diamond business as it currently operates, is impossible to record with absolute precision but it can be approximated as follows:

1998	US$200m [7]
1997	US$700 m [8]
1996	US$700 m [8]
1995	US$320 m [9]
1994	US$600 m [10]
1993	US$600 m [10]
1992	US$600 m [10]

SOCIAL INDICATORS

"With a mortality rate of almost 30% among children under the age of five, Angola ranks among the world's worst for this critical health indicator." [11]

KOFI ANNAN, UN SECRETARY GENERAL, 23 NOVEMBER 1998. S/1998/1110 REPORT TO THE SECURITY COUNCIL ON THE UNITED NATIONS MISSION IN ANGOLA (MONUA)

"Two-thirds of the Angolan population live on less than a dollar a day." [12]

PRESIDENT EDUARDO DOS SANTOS, DIÁRIO DE NOTICIAS, 20TH APRIL 1997.

"During the conflict, from 1992 - 1994, 27% of the children in Bie lost their parents, 89% were exposed to bombardments and 66% saw landmines blowing people up." [13]

CCF REPORT, OCTOBER 1998.

It is difficult to adequately convey the enormity of the human tragedy that has befallen the people of Angola. Over 20 years of continuous conflict has resulted in hundreds of thousands of deaths and a population suffering one of the world's highest rates of landmine victims. The physical and psychological suffering continues. The following few statistics gives only a bare outline of the daily crises faced by Angolans.

1997 HUMAN DEVELOPMENT INDEX RANKED ANGOLA 157TH OUT OF 175 COUNTRIES [14]	
POPULATION LIVING IN ABSOLUTE & RELATIVE POVERTY [14]	82.5%
INFANT MORTALITY RATE FOR CHILDREN UNDER 5*	320 per 1000
DISABLED LAND MINE VICTIMS [16]	200,000
LIFE EXPECTANCY*	42 YEARS
INTERNALLY DISPLACED PERSONS*	1.2MILLION
POPULATION WITHOUT ACCESS TO FRESH WATER*	53.9%
POPULATION WITH ACCESS TO HEALTH CARE [15] *(UNICEF estimates)*	35%
PEOPLE REQUIRING FOOD AID*	3.2MILLION
RATE OF ILLITERACY*	50.9%

(Source: UCAH) **** - UNDP Human Development Report Angola 1997.***

"In the men's ward Augusto Jocinto is lying on a piece of cardboard covered by a blanket stained with pus seeping out of the stump that was once his left leg. He is shaking so badly that he can hardly form complete sentences. Augusto was airlifted from the eastern city of Luena four months ago after a landmine ripped his leg off while he was searching for some manioc in an abandoned field.

"Did he not know that there were mines around? 'Yes, but I had no choice. I have a wife and a baby son and we had no food. We knew there were mines, but our stomachs were empty.' Augusto does not have any money to buy medicines or proper bandages. He has no idea what has become of his wife and son." [17]

KARL MAIER, 'ANGOLA- PROMISES AND LIES', 1996

2. THE DIAMOND INDUSTRY, DE BEERS AND THE CSO

"In recent years De Beers has limited its involvement to buying up government-produced and smuggled gems on the world's diamond exchanges and across the border in Zaire, in an attempt to prevent the flow of Angolan gems from destabilising world prices."[18]

EIU 3RD QUARTER 1996

"De Beers is committed to a policy of fair dealing and integrity in the conduct of its business. This commitment is based on the belief that business should be conducted honestly, fairly and legally. To this end, the Company's Code of Business Conduct and Ethics requires employees to maintain the highest ethical standards in ensuring that business practices are conducted in a manner which in all reasonable circumstances is above reproach."[19]

DE BEERS 1997 ANNUAL REPORT.

"What we would hope to happen in Angola is for peace to be properly established, for there to be a proper peaceful settlement between the MPLA and UNITA."[20]

NICKY OPPENHEIMER, CHAIRMAN, DE BEERS, INTERVIEW, 22ND DECEMBER 1997, DE BEERS WEBSITE.

"The De Beers diamond cartel and other international dealers are buying gems mined in rebel-held territory in violation of Angolan law."[21]

HUMAN RIGHTS WATCH ANGOLA REPORT 1994.

"De Beers has admitted spending US$500 million to buy legally and illegally mined diamonds originating in Angola in 1992 in 'open market transaction'."[21]

HUMAN RIGHTS WATCH ANGOLA REPORT 1994.

"What is true is that diamonds are a family business and a complete anomaly in the world of today."[20]

NICKY OPPENHEIMER, CHAIRMAN, DE BEERS, INTERVIEW, 22ND DECEMBER 1997, DE BEERS WEBSITE.

The diamond business, which has been dominated by De Beers and the CSO since the 1930s, operates with an extraordinary lack of accountability, as the methods of operation are widely accepted by many in the international community, and the underlying ethics are not questioned.

CSO Head Office, London UK.

Similarly there is an unquestioning acceptance of the way in which the outside market operates. The case has been made, and repeatedly stated by De Beers and the CSO that ***"Our outside buying operations are a vital ingredient of our management of the world market for rough gem diamonds."***[22]. These operations are a system of buying offices and individuals located in countries where diamonds originate, such as Angola, Guinea and the DRC[23], in others which are key routes for unofficial diamonds such as the DRC[23] and in end markets such as Antwerp[23]. Of the diamonds bought on behalf of the CSO the majority are taken to London[24] and either stockpiled or sold on to De Beers sightholders *(see DIY guide to diamond trading)*. Another key factor has been the number of middlemen involved in the trading process. This makes it extremely difficult to accurately trace the movement of diamonds around the world.

This system has resulted in unaccountability and created an opaque screen, enabling the diamond industry to buy diamonds regardless of ethical considerations, such as its suppliers could be combatants and/or terrorists in warring countries.

Another key factor relating to acceptance of the outside market is that of identification. De Beers claim it is not possible to identify many of the rough diamonds that their buyers are offered[25] . The reasons given include the difficulty of identifying parcels of diamonds containing mixed stones from several countries as there can be strong similarities. However Angola's diamonds are some of the best in the world and are very distinctive. This poses a problem for people seeking to mix them with stones from other countries to avoid identification, particularly as significant quantities of similar stones are required. This is further complicated by the volumes of stones leaving Angola. For example diamond production in Zaire is predominantly of a lesser quality, the stones are flattish in shape and greenish in colour: thus both shape and colour are different from much of the Angolan production. It is difficult to understand how buying offices of international companies, that were operating in the DRC up to 1997, could confuse such diverse stones on such a continuing basis. The director of one Diamond Trading School in South Africa noted that one could identify a mixed parcel from the shape of the stones.[26] Other traders have also privately stated that it is possible to

"The UNITA rebel movement in Angola is helping to fund to guerrilla war by selling hundreds of thousands of pounds' worth of illegally mined diamonds to international buyers."[27]

THE GUARDIAN 4TH MARCH 1993.

The article goes onto describe a US$400,000 payment received by UNITA officials for a diamond deal in late January 1993, and to quote a dealer in Tshikapa in the Democratic Republic of Congo (DRC) ***"I would say about one-third of all the diamonds we handle comes from across the border and they all end up in the hands of De Beers. It knows where they come from, that's De Beers' job."***

The article quotes a statement by Tom Tweedy, a spokesman for De Beers, ***"The buying offices are open to all comers and unless an offerer of diamonds openly showed his affiliation we wouldn't be aware of it. We have no arrangement with Unita to buy diamonds illegally exported from Angola."***

The article also notes that ***"Dealers in Tshikapa say that although De Beers maintains that the first it knows of any transaction is when it views the diamonds it is about to purchase, the cartel usually has knowledge of important deals from an early stage, because it wants to ensure high quality gems do not stray into competitors' hands. Others in the industry say De Beers cannot be in any doubt about the source of diamonds, which experts can determine."***

The article also quotes the Tshikapa diamond dealer as noting that ***"The cross-border trade has been on for a long time, but we used to deal with individuals. Many were Zaireans we knew who acted as traffickers from the diggers. Now they come with Angolans who don't speak French. The Angolans come in uniforms and there are always Zairean soldiers - officers - with them. The Zaireans do the negotiating but the Angolans take the money. we know who we are dealing with: it's Unita."***

Tshikapa is 110 kms from the border opposite the Angolan province of Lunda Norte, under UNITA control in 1993.

identify parcels of unmixed diamonds to the mine they originate from, and that it is possible to identify gems from specific countries. De Beers however have stated to Global Witness that ***"...if you are sitting in Tel Aviv or Moscow or New York whatever the potential for positive identification you have not a clue where they came from. Just to be clear if he [diamond seller] says they are Scottish diamonds [there are no diamond mines in Scotland], you take his word for it...".***[25] ***"...they could be diamonds from the moon."***[25]. It would seem that an independent review of diamond identification issues is required (it is generally accepted that polished stones cannot be identified).

De Beers through the CSO buys up approximately 80% of the rough diamonds that reach the 'outside' market[24]. It is well established that De Beers through the CSO has consistently bought up Angolan gem quality diamonds of the type which dominate Angolan supply[4,22,23] (approximately 80-90% of Angola's production is gem quality)[28] and this has been the case all through the 1990's. Indeed in 1992 De Beers boasted ***"That we should have been able to buy some two thirds of the increased supply from Angola is testimony not only to our financial strength but to the infrastructure and experienced personnel we have in place."***[29]. The problem has been that for much of this time the majority of the diamond areas have been under the control of UNITA.

"Although revenue has plummeted, the leader of UNITA, Jonas Savimbi, still has access to significant stock of diamonds, which he continues to sell on international markets, and even to use in barter trade with arms dealers."[30]

EIU COUNTRY REPORT, 1ST QUARTER 1998.

The Role of De Beers and the CSO in the Diamond Business

"De Beers has been involved in all aspects of the diamond business for more than 100 years. Today, it is the largest diamond mining company in the world, producing about half of the world's gem diamonds by value from its mines in South Africa and, in partnership with government, in Botswana and Namibia.

"Through agreements with the major diamond producing nations, the De Beers Central Selling Organisation (CSO) sorts, values and sells about 80 per cent of the world's annual production of rough diamonds.

"De Beers undertakes the advertising and promotion of diamond jewellery on behalf of the entire diamond industry - spending many millions of dollars annually in 28 countries, in close co-operation with the jewellery trade [close to US$200 million annually according to the 1997 Annual Report].[19] ***De Beers' support for the diamond industry brings very significant benefits to every diamond producing nation."***[24]

DE BEERS AND THE DIAMOND INDUSTRY

The corporate structure of De Beers is complex with a variety of subsidiary companies involved in different aspects of the business, for example Codiam in Antwerp carry out much of the buying[31]. De Beers is essentially divided into two main companies: De Beers Consolidated Mines Ltd, registered in Kimberly, South Africa which manages the arrangements De Beers has with major diamond producing countries particularly South Africa, Botswana and Namibia; and De Beers Centenary AG, registered in Lucerne, Switzerland, which controls around 80% of the world's diamond sales through the CSO[19].

De Beers mines, including those in Botswana, Namibia and South Africa produce half the world's rough gem stones calculated by value; Russia produces about a quarter, valued at US$1.2 billion; Angola produces an estimated US$700 million of rough diamonds. The Angolan production is a significant force affecting the world market.

The CSO

"The Central Selling Organisation, or CSO, was established by De Beers and its associates in the 1930's to create a reliable and enduring system to balance supply and demand, and prevent wild fluctuations in the market for diamonds. This single channel marketing system remains fundamental to the stability and prosperity of the entire diamond industry today..."[24]

DE BEERS AND THE DIAMOND INDUSTRY.

Outside buying

"Outside Buying. The CSO buys diamonds in substantial volumes on the open market, both in Africa and in the diamond centres, through its extensive network of buying offices, staffed by young diamond buyers often working in difficult conditions. Purchases in 1996 reached record levels largely owing to the increased Angolan production. Angolan diamonds tend to be in the categories that are in demand, although in the main these buying activities are a mechanism to support the market."[4]

JULIAN OLGIVIE THOMPSON IN THE CHAIRMAN'S STATEMENT, DE BEERS 1996 ANNUAL REPORT.

The *Year by Year* tables *(see over page)* show the operation of the international diamond business and the impact that diamond revenue can have in one country in a relatively short period of time.

The issue of natural resources and their use to fund conflicts is of major importance on the African continent, and its importance is set to grow. The process of pushing companies towards corporate accountability over their operations is already well developed in other extractive industries, for example Shell and RTZ. Diamond companies need to develop new ways of operating that will ensure that combatants in conflict zones, such as Angola, Sierra Leone and Guinea are not able to derive revenue from diamond sales.

It is very easy for companies to respond that it is not possible to alter the way in which they do business, but this response, especially when set against the scale of recurring tragedies across the African continent, is no longer acceptable. This is not to underestimate the scale of the challenge nor the great difficulties that will need to be overcome. There is a clear role for De Beers and the CSO to take the lead on this process of transformation because given the scale of their involvement in, and control of the industry, no progress can be made without their willing participation. Indeed as the organisation which set up the CSO to deal with a crisis in production and supply in the late 1920's and 1930's, it is now time for it to face up to a new crisis in the diamond business; that of how to reform the industry to keep in step with the vital changes in the late 20th Century in how corporates carry out their business. De Beers should endeavour to live up to its own rhetoric on corporate ethics.

The CSO's sales of rough diamonds for the last ten year's are shown below:[34]

1987	US$3,075 million
1988	US$4,172 million
1989	US$4,086 million
1990	US$4,167 million
1991	US$3,927 million
1992	US$3,417 million
1993	US$4,366 million
1994	US$4,250 million
1995	US$4,351 million
1996	US$4,834 million
1997	US$4,640 million

BUSINESS IS BUSINESS

As Global Witness investigations into the trade in rough diamonds from Angola show, the lack of transparency and corporate responsibility in the diamond industry has been central to the continued financing of UNITA, and hence the fuelling of civil war in Angola. If transparent and responsible business practices had been in place, as claimed in corporate statements, this situation would not have arisen. Bilateral and Multilateral institutions such as the International Monetary Fund (IMF), World Bank, Organisation for Economic Community and Development (OECD) and the World Trade Organisation (WTO) now consider transparency and corporate responsibility to be essential to all areas of business.

However the International Chamber of Commerce - ICC, WTO and OECD all refuse to accept a need for legally binding codes of conduct for multinationals. As this document details, it is the inability of the diamond industry to adhere to its own corporate codes of conduct that has contributed to the continuation of the conflict in Angola. It is internationally accepted that the sale of rough diamonds by Unita has been an integral factor in the continuation of the conflict. Yet the diamond industry has done nothing to ensure that they are transparent or accountable. The diamond industry does not have to deal with public scrutiny in the way that many multinationals now have to.

"Accountability imposes discipline on management; firms that have to justify their actions publicly are less likely to take actions of which their shareholders and creditors might disapprove." [35]

SOURCE: IMF MANUAL OF TRANSPARENCY, 1998.

"There is no one concerned with diamonds, whether as producer, dealer, cutter, jeweller or customer who does not benefit from it. It benefits not only the shareholders of diamond companies, but also the miners they employ and the communities that are dependent on their operations. We are very conscious of our responsibilities not only to our shareholders, to the industry as a whole and to the consuming public, but also to the governments of the countries in which we operate." [22]

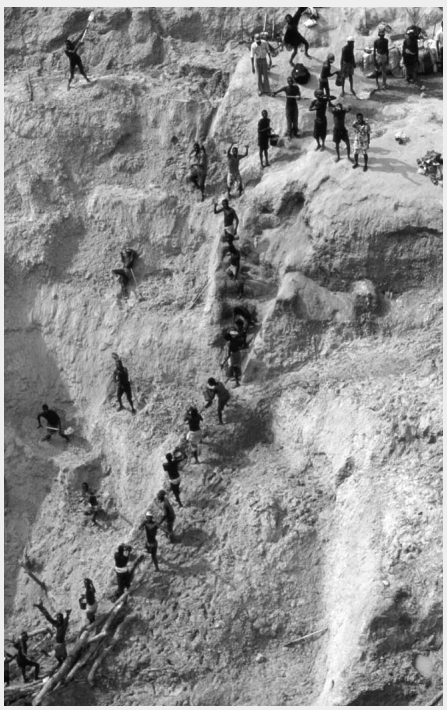
HARRY OPPENHEIMER, DE BEERS 1995 ANNUAL REPORT.

"The Corporation (Anglo American) and the companies with which it is associated strive to create wealth and to contribute to sustainable development by operating their businesses with due regard for economic, social, cultural and environmental concerns." [36]

ENVIRONMENTAL POLICY DOCUMENT OF ANGLO AMERICAN CORPORATION FEBRUARY 1998.

The diamond industry must include themselves in the debate on transparency and accountability if they are to be taken seriously. There are numerous examples of companies that have done too little too late and are now spending millions of dollars in order to preserve their corporate reputation. John Browne, CEO of BP , (member of the Corporate Advisory council of the US - Angola Chamber of Commerce), is clear that responsibility in business is key:

Illegal diamond mine, Lunda Norte, Angola 1992



© H Logan/Network Photographers

"So business has a key role to play. But it must do it responsibly. With economic development must come environmental stewardship and social responsibility and there must be a new acceptance of this responsibility." [37]

JOHN BROWNE CEO BP AT AMNESTY INTERNATIONAL DUBLIN 26TH SEPTEMBER 1997.

Nicky Oppenheimer recently stated, ***"I do hope people will think that we are open and prepared to answer real questions and tell them what we are up to as far as we are able."*** [38] It remains to be seen how serious about 'openness' Nicky Oppenheimer will be.

YEAR BY YEAR

THE ANGOLAN CONFLICT

APRIL 1990 TO MAY 1991

"Some of the fiercest fighting of the entire war." [1]

APRIL 1991

The Bicesse Accords bring a temporary halt to the conflict which killed between 100,000 and 350,000 in the previous twelve months. [1]

SEPTEMBER 1992

National Elections are held, the MPLA win, but do not attain the 50% majority required, and UNITA return to war in October 1992.

OCTOBER 1992 TO NOVEMBER 1994

An estimated 300,000 people died as a result of the fighting.

"This extremely destructive conflict was notable for systemic violation of the laws of war by both the government and the UNITA rebels. Indiscriminate shelling of starving besieged cities by UNITA resulted in massive destruction, and the loss of untold numbers of civilian lives. Indiscriminate bombing by the government also took a high civilian toll, as did landmines, starvation and disease. It is estimated that 300,000 Angolans - 3 per cent of the population - died as a result of the fighting between October 1992 and late 1994; probably more than in the preceding 16 years of war." [1]

1993

"The United Nations reported that between May and October 1993 as many as 1,000 people were dying every day in Angola - more than in any other conflict in the world at the time." [1]

This totals 184,000 people.

1994

31st October the Lusaka Protocol is initialled, marking the end of the 'Third War'.

1995

Localised fighting continues.

1996

Fighting continues in diamond areas.

"UNITA appeared determined to maintain its grip on its remaining diamond assets in 1996. Neither side was prepared to concede this lucrative asset." [1]

1997

There is an increase in serious violations of the ceasefire, many of which are attacks on civilians, this is carried out by both UNITA and the Government. The diamond producing areas, including Lunda Norte, suffer. In June FAA capture an estimated 10 to 15 percent of UNITA's diamond producing areas. On 29th October, the UNSC unanimously adopts Resolution 1135, which imposes a range of sanction measures on UNITA, which includes freezing of UNITA bank accounts and closing their offices abroad. [1]

1998

There is an escalation in tension as attacks by both sides increase. Both FAA and UNITA lay landmines around their positions [39]. As of early December FAA forces have surrounded Bailundo and Andulo and many within the country and outside observers are predicting imminent full scale conflict.

YEAR BY YEAR

STATEMENTS FROM DE BEERS' ANNUAL REPORTS

1991

"Diamonds have continued to be delivered to the CSO in terms of the contract covering production from the Cuango area on behalf of the Angolan state diamond mining company, Endiama. An unfortunate side-effect of the cease fire in Angola is that the activities of unlicensed diggers in both the Cuango and Lucapa/Andrada areas have increased, and that theft appears to be taking place on a large scale, depriving the government of revenue and foreign exchange and, in so far as the CSO is concerned, weakening the market." [40]

CHAIRMAN'S STATEMENT, DE BEERS 1991 ANNUAL REPORT.

1992

"Secondly, the surge in illicit production and theft of diamonds from Angola, as diggers rushed in to the alluvial areas when the rains ended and rivers subsided, proved far greater than anyone had expected, substantially increasing the quantity of diamonds being offered on the open market. The combined effect of these developments was to curtail demand for rough diamonds from the CSO below the level forecast for 1992." [29]

CHAIRMAN'S STATEMENT, 1992 DE BEERS ANNUAL REPORT.

[It is interesting to note that although there was a large inrush of garimpeiros (illegal miners), with thousands coming from the DRC (former-Zaire), the areas remained under the control of UNITA, which continued to benefit from the sales]

The Report goes on to state:

"That we should have been able to buy some two thirds of the increased supply from Angola is testimony not only to our financial strength but to the infrastructure and experienced personnel we have in place."

CHAIRMAN'S STATEMENT.

"CSO sales at the first three sights of the year have been very good, though influenced by exceptional factors, principally the scarcity of diamonds coming out of Angola as a result of the rainy season and the resumption of civil war..."

CHAIRMAN'S STATEMENT.

It goes on to detail other factors which had an impact.

The report later, when describing retail markets, notes:

"The difference between that [sic] stable retail performance and the decline in CSO sales of rough diamonds was attributable principally to de-stocking in major markets, especially Japan, and to increased sales outside the CSO of illicit production from Angola."

1993

"Our discussions with the Angolan government will, it is hoped, lead to important decisions on buying, prospecting, mining, and marketing that could make a major contribution to economic recovery when peace is fully restored." [23]

CHAIRMAN'S STATEMENT, DE BEERS 1993 ANNUAL REPORT.

Further on it notes:

"Demand for rough diamonds from the CSO was extremely strong in the first quarter thanks to improved confidence in rough markets. This followed the measures taken by the CSO in the second half of 1992 to restrict sales while at the same time making substantial purchases of diamonds (mainly Angolan) on the open market." [23]

CSO COMBINED REVIEW WITHIN THE ANNUAL REPORT.

It goes on to note:

"In early 1993 fewer diamonds were coming out of Angola because of the resumption of the civil war and the onset of the rainy season."

The Combined Review goes on to note other events:

"All of these factors contributed to the good sales achieved by the CSO."

"De Beers provides substantial support, both financially and in kind, to educational, health, social and cultural projects aimed mainly at improving the living conditions and opportunities of underprivileged people in South Africa."

DE BEERS 1993 ANNUAL REPORT.

"Buying offices have been operating successfully in Antwerp, Angola, Zaire, Guinea." [23]

CHAIRMAN'S STATEMENT, DE BEERS 1993 ANNUAL REPORT.

1994

"The CSO's purchases of outside goods through its offices in Antwerp and Africa continued in 1994 at about the same level as in 1993, that is to say considerably lower than in 1992. Occupation of the main diamond areas in Angola by UNITA led to diminished activity by illicit diggers and lower quantities of rough reaching the market. A new law was brought into force in January 1995 prohibiting individuals from holding rough diamonds, to help reassert government control of the industry through the state corporation Endiama." [28]

CSO COMBINED REVIEW WITHIN THE ANNUAL REPORT

1995

"The CSO's purchases of diamonds on the open market in Antwerp, Tel Aviv and in Africa, helped by the establishment of buying offices in Angola, were at higher levels than the previous year, owing mainly to the larger quantity of Angolan goods coming on to the market in the second half of 1995."

"..the substantially increased production of Angolan diamonds - mainly in the higher value gem qualities - coming on the outside market, of which the CSO successfully bought up about two-thirds." [22]

CHAIRMAN'S STATEMENT, DE BEERS 1995 ANNUAL REPORT.

1996

"In Angola we were able to commence only limited aerial exploration of our three prospecting areas. We hope that peace will soon be restored and so allow the full exploration programme to proceed." [4]

CHAIRMAN'S STATEMENT, DE BEERS 1996 ANNUAL REPORT.

However the same Chairman's Statement declares:

"...the increasing outflow of Angolan diamonds to the major cutting centres, much of which De Beers was able to purchase through its outside buying offices."

This, at a time when UNITA controlled the majority of Angola's diamond areas.

1997

"The much quoted remark of my grandfather Sir Ernest Oppenheimer remains as true a reflection of the Company's intentions today as it was 40 years ago when he said: The aims of this group have been - and they still remain - to earn profits but to earn them in such a way as to make a real and permanent contribution to the well-being of the people and to the development of southern Africa." [19]

NICKY OPPENHEIMER, CHAIRMAN'S STATEMENT, DE BEERS 1997 ANNUAL REPORT.

"..supplies from Angola continued to decline as a result of both the security situation and the higher than normal seasonal rainfall.." [19]

DE BEERS 1997 ANNUAL REPORT.

1998

"In 1996, the country [Angola] produced between 1 and 1.2 billion dollars' worth of diamonds. In 1997, production fell to between 800 million and 1 billion, and this year we are expecting a further drop....Two thirds of production in 1996 and 1997 came from a region where resources have been exhausted. In order for work to begin again, dams must be built across the river. Some companies are still mining alluvial deposits and we are continuing to buy any available diamonds, but there are fewer of them." [41]

MR GARY RALFE, MANAGING DIRECTOR OF DE BEERS, 11TH MAY 1998 IN INVESTIR MAGAZINE.

3. THE UN SECURITY COUNCIL EMBARGO ON UNOFFICIAL ANGOLAN DIAMONDS

This section includes two Case Studies relating to the funding of the conflict in Angola and the implementation of the UN embargo.

"Over a month after European Union ministers backed up U.N. Security Council sanctions against UNITA with a ruling of their own on July 18 the move has had no discernable impact. At least that's what followers of Jonas Savimbi's organization are saying, and diamond circles and European diplomats tend to agree....The ban on imports of Angolan diamonds without certificates of origin raises a laugh among UNITA stalwarts." [42]
AFRICA ENERGY & MINING, NO:235, 9TH SEPTEMBER 1998.

"Dealers in Antwerp told Diamantaire that the UN move, designed to cut UNITA's economic lifeline, would not make the slightest difference to supplies of Angolan rough coming into Belgium, which is the main market....One dealer, who wished to remain anonymous, said: '...when buyers smuggle the rough out of Angola and land them in Belgium, they declare the origin of the goods as Congolese or South African and the Customs cannot tell where they are from'." [43]
ANTWERP CONFIDENTIAL, AUGUST 1998.

The UN Security Council Embargoes

On June 24th 1998, the UN Security Council (UNSC) adopted UNSC Resolution 1176 which activated UNSC Resolution 1173. Amongst a number of measures, it prohibited the direct or indirect export of unofficial Angolan diamonds, defined as those not accompanied by a Certificate of Origin issued by Government of Unity and National Reconciliation (GURN).[44]

On the 8th July 1998 the European Union announced that it had formally adopted the UNSC sanctions, thus they became binding on all 15 member states. The regulations which implemented the decision of the EU Council of Ministers were adopted on the 28th July 1998[45].

Observers have noted (including Human Rights Watch) that there has been a subsequent decrease of supplies to UNITA, including munitions, although a major factor in this has been the highly aggressive military policy of the GURN in surrounding countries.

The extension of State Administration in Angola, although nominal in some cases, did result in a decrease in UNITA diamond exports during 1998, but overall the impact of the embargo has been minimal and resulted in changes of export logistics rather than major alterations in volume. Diamond traders and analysts confirm that the embargo has not had a major impact on trade. The traders have simply altered the routes and obtained deceptive paperwork from obliging countries[31]. It appears that land routes, some of which are small-scale, have been more affected by the embargo than the major exports which often involve the use of small planes from surrounding countries and further afield, which continue to fly into UNITA areas[43]. The trade continues to South Africa[46,47].

The UNSC does appear to have realised that it must address the issue, for on 3rd December 1998 UNSC Resolution 1213 states, amongst a series of points, ***"Paragraph 9: Urges all Member States to support the peace process in Angola through full and immediate implementation of the measures against UNITA contained in resolutions 864 (1993), 1127 (1997) and 1173 (1998), and expresses its readiness to consider appropriate reinforcing steps in accordance with the recommendations contained in the report referred to in paragraph 13 below;"*** [48]. The report in question is due to be submitted by the Secretary-General by the 15th January 1999 and is to address the status of the peace process and the future role of the UN and its MONUA force. It also repeats a request, made in UNSC resolution 1202 of 15th October 1998 which asks ***"..for recommendations regarding technical and other ways for Member States to improve the implementation of the measures referred to in Paragraph 9."*** [49].

Whilst the continuing and heightened focusing of the UNSC on the implementation of the embargoes is to be welcomed, there are areas of concern. The recent track record on implementation of UNSC embargo by member states has not been as impressive as it should be. Countries, including Belgium and Israel (as of 4th December 1998) have failed to notify the relevant UN committee of their implementation of UNSC Resolution 1173; a serious failing which has resulted in little public censure. It is worth noting that Israel has a strong demand for Angolan type rough stones and that much of the stones processed in Israel are bought on the open market.[50]

The possible working of the embargo is further rendered difficult by the very open system of diamond import and export. At present only Angolan diamonds require an official Certificate of Origin[51] (also problematic, see *Case Study One: Belgium*), whilst diamonds from other countries require only a customs declaration and some supporting paperwork. This is an obvious loophole and could be addressed.

Switzerland, which is not a member of the UN and so not bound by UN embargoes, on 25th November 1998[77], rather belatedly enacted embargoes against UNITA. There is a legal traffic in diamonds between Switzerland, the UK and elsewhere, not least because De Beers Centenary AG are based there. There is also some import of unofficial Angolan

"Decides that, notwithstanding paragraph14 of resolution 1173 (1998), the measures specified in paragraphs 11 and 12 shall come into force without further notice at 01.00 Eastern Daylight Time on 1 July 1998, unless the Security Council decides, on the basis of a report by the Secretary-General, that UNITA has fully complied with all its obligations under paragraph 2 of resolution of 1173 (1998)." [44]

This relates to UNSC Resolution 1173 of 12th June 1998[52], S/RES/1173 (1998) which, under section B, details four issues:

"12. Decides also that all States shall take the necessary measures:

(a) to prevent all official contacts with the UNITA leadership in areas of Angola to which State Administration has not been extended, except for those by representatives of the GURN, of the United Nations and of the Observer States to the Lusaka Protocol;

(b) to prohibit the direct or indirect import from Angola to their territory of all diamonds that are not controlled through the Certificate of Origin regime of the GURN;

(c) to prohibit, upon notification by the Chairman of the Committee created pursuant to resolution 864 (1993) to all Member States of guidelines approved by that Committee, the sale or supply to persons or entities of Angola to which State administration has not been extended, by their nationals or from their territory, or using their flag vessels or aircraft, of equipment used in mining or mining services;

(d) to prohibit, upon notification by the Chairman of the Committee created pursuant to resolution 864 (1993) to all Member States of guidelines approved by that Committee, the sale or supply to persons or entities of Angola to which State administration has not been extended, by their nationals or from their territory, or using their flag vessels or aircraft, of motorized vehicles or watercraft or spare parts for such vehicles, or ground or waterborne transportation services;"

diamonds into Switzerland, although the scale of this trade is not clear[31].

There is another obvious loophole that the current embargo fails to address which is that of laundering unofficial Angolan rough into trade by polishing it first.[31]

The UN should immediately censure those countries that have so far failed to comply with UNSC 1173 and 1176, and to further censure those countries actively evading the terms and spirit of the resolutions. These countries include Belgium and Zambia which should be subject to immediate visits by suitable UN teams with a mandate to investigate and to report back to the UNSC Committee. The visits should then be repeated in April or May of 1999 after the end of the rains in Angola, which have a major impact on diamond extraction and supply.

National government must also take action to ensure that companies operating in their territory comply fully with the embargo. Countries with significant flows of 'outside' goods, including the UK, South Africa, Belgium and Israel should be placed under UN scrutiny.

CASE STUDY ONE: BELGIUM

ANTWERP, the Belgian centre of the diamond trade, is a key player in the international diamond business with more than half the world consumption of rough, polished and industrial diamonds passing through the city. It has the largest community of dealers, and more than 50% of all CSO sightholders live in Antwerp. There are four diamond bourses where much of the diamond trading is carried out.

At time of going to press, the Belgian authorities have yet to notify the UNSC of their compliance with UNSC Resolutions 1173 and 1176, but have taken some action over imports from Angola. However, they have failed to close a number of loopholes in the import control system which has resulted in Antwerp continuing to be a major importer of Angolan rough diamonds. Although De Beers is a major buyer of rough diamonds in Antwerp, at present it is too early to assess their compliance with the UNSC embargo of July 1998. As one of the world's key diamond trading centres, Antwerp must be aware that its full compliance with the UNSC embargo would be crucial to its success.

The Belgian government is failing in its obligations to the UN by tolerating the Angolan government's ambiguous import documentation and procedures.

"The Belgian government encourages the trade through a generous system of tax breaks. All diamond exports are exempt from taxes, and most diamond imports are exempt from import duties. A Value Added tax of 21% is payable but there is a unique system of VAT exemption for imported diamonds." [53]

There is a Diamond High Council (HRD) in Antwerp which was set up to:

"..serve and defend the interests of the whole diamond sector...[its] activities are conducted for the general benefit of the Belgian diamond trade and industry. Its administration and management are solely entitled to act in the name of the whole Belgian diamond trade." [54]

KOMPASS DIAMONDS 1998 BELGIUM.

The HRD contains a department called:

"The Diamond Office [which] is unique in the world and acts as a customs broker for the import and export of diamonds and handles all the paperwork for this process - a considerable service to the diamond companies." [54]

REPÚBLICA DE ANGOLA

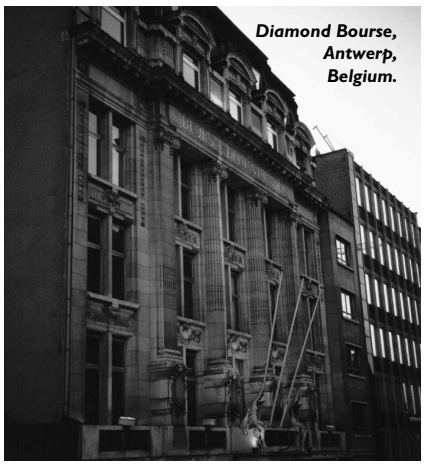
Ministério do Comércio

36

CERTIFICADO DE ORIGEM E QUALIDADE

Certificate of Origin and Quality — Certificat d'Origine et Qualité

Angolan Certificate of Origin for diamonds.



Diamond Bourse, Antwerp, Belgium.

In 1992 Channel 4's *Dispatches* broadcast 'Not Quite Forever', a documentary about De Beers which included an interview with a buyer working for the company in Antwerp:

"My role here is to buy as many rough diamonds as I can that come on the market at an agreed price by the head office in London...We are always busy - our level of activity will obviously fluctuate, depending on the actual current state of the diamond market. When the market tends to be weaker, we tend to be busier, and when the market is strong...we're not quite so busy..." [56]

The buyer goes on to confirm that the majority of the diamonds brought to his office are Angolan, and admits in an average week to buying US$3-5 million of Angolan diamonds during 1992.

When asked what is the most spent in a week the buyer replies ***"It would be somewhere in the region of about US$40 million dollars."*** [56]

This was at a time of renewed and very intense fighting following the elections of late 1992.

When diamonds are imported into, or exported from, Belgium the goods are declared at the Diamond Office, which works in co-operation with Belgian Customs on the import, export and verification of diamonds. There is an expertise department where all parcels of diamonds entering or leaving the country are checked on behalf of the Ministry of Economic Affairs under supervision from an officer from the Licensing Department.[53]

There are normally ten diamond experts on duty at any one time who check all diamond parcels for weights and value. In 1995 an average of 312 parcels a day were processed, meaning that each expert would have had to check approximately thirty parcels of varying sizes per day[55]. Thus technically every diamond entering Antwerp is checked by an expert.

Angolan diamonds, which are being imported into Belgium, are being mis-described as originating from other countries. The experts who work on behalf of the Ministry of Economic Affairs to check the parcels are failing to spot the mis-described parcels. It would seem this is because they are generalists and cannot necessarily identify the Angolan gems. The Belgian government needs to take immediate action to train the experts, or find others who can assist in implementing the UN embargo.

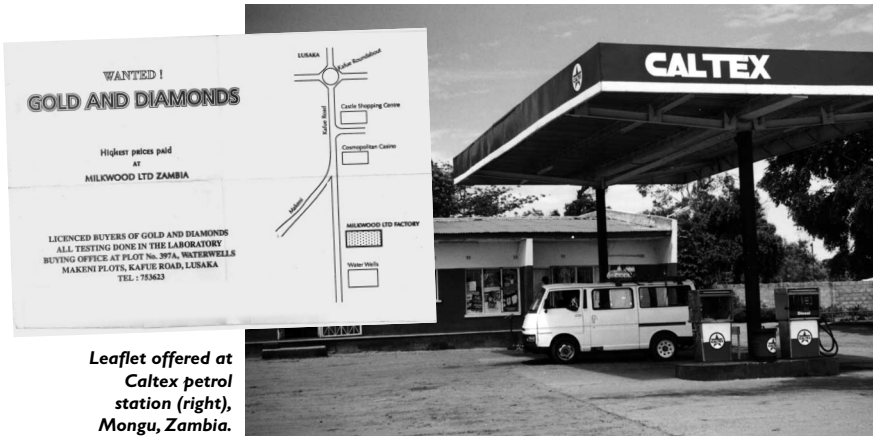
There are further problems caused by the Angolan government's failure to operate a rigorous system of controls because:

- the Angolan Certificates of Origin (COs) do not include a printed name nor title under the signature;
- the COs are signed by a number of different people who cannot be readily identified;
- the Angolan government has not responded to requests from the Belgian Government for a list of approved signatories to the COs;
- the Angolan government has not defined what constitutes an official stamp, and COs have different types of stamps;
- the name of the exporting company is on the CO but not on the Import License which allows for confusion over who is actually receiving the goods

The importance of the diamond industry to the Belgian economy is a counter-incentive to a rigorous application of the embargo.

CASE STUDY TWO: ZAMBIA

ZAMBIA'S importance as a diamond route for UNITA increased with the fall of Mobutu and the incursion of Angolan army troops into the DRC which initially closed off the traditional and major route from UNITA territories through DRC to Kinshasa. Historically Zambia has supported UNITA, with the presence of Angolan refugee camps in which there was an element of UNITA infiltration[57]. This changed due to pressure and threats from the Angolan government following detailed reports of major arms shipments transiting through Zambia.[58]



Leaflet offered at Caltex petrol station (right), Mongu, Zambia.

Global Witness investigations have shown that obtaining, laundering and exporting Angolan diamonds remains a relatively simple process in Zambia, with the facilitation of government officials. The Zambian government note in their export information on gemstones, ***"Changing customer requirements offer opportunity for marketing expansion. Certain products are prepared in a certain way in order just to meet the customer specifications. This results in different marketing areas..."***[59]

Global Witness investigations reveal that the Zambian Ministry of Mines and its Geological Survey are not only happy to provide false Certificates of Origin but are clear that ***"Basically all diamonds here are Angolan."***[60]

How Zambia is undermining the UNSC embargo

It is difficult to ascertain the scale and value of the Zambian trade in Angolan diamonds, although it does seem to have decreased during 1998.[31] It is likely that most of the current trade is small-scale with a large number of people handling relatively small amounts of stones.

The UN embargo does appear to have reduced supplies of medicines and other important items to UNITA but in Zambia this has become a mechanism used to drive down the price of UNITA diamonds, as the value of barter goods increases.[31] However, of great concern is that there is a well established structure in place for handling quantities of diamonds, and that official collusion continues despite international pressure, and threats from Angola[61]. A visit of Angolan and Zambian officials to Mongu and other areas in March 1998 has not stopped the flow of diamonds.[62]

The process of laundering unofficial Angolan diamonds falls into three stages:

The first is to acquire Zambian government authorisation to purchase precious and semi-precious stones. The document required is a Gemstones Sales Certificate which is valid for one year and permits the possession and export of gemstones. It is obtainable from the Ministry of Mines and costs 200,000 Zambian Kwacha (about US$100 depending on the exchange rate), and is easy to obtain.

The second stage, the acquisition of diamonds is somewhat more expensive and risky. Diamonds can be purchased at first hand by entering Angola, usually with the compliance of Zambian border officials, or by hiring guides acting as purchasers. The purchasing process can take up to two weeks as buyers may have to walk to the right area in Angola, obtain the diamonds and walk back. Mavinga, in Cuando Cubango province, is a popular destination[31] and UNITA are currently encouraging significant buying activity in the area, as well as permitting 30-40 small concessions to operate[47].

Mavinga was handed over to the State Administration on 21st October 1997 and De Beers, which has a concession in the area, set up a small base camp for prospecting[8] but most of it was reclaimed by UNITA in the following months. It is possible to obtain diamonds from the Lundas in the Northeast of Angola but these are difficult to access from the Southeast of Zambia.

The guides would normally have existing UNITA contacts in the diamond producing areas. Alternatively parcels can be bought in Zambia: the three towns of Senanga, Mongu and Zambezi, south east of the Zambian-Angolan border are all recognised sources for the acquisition of diamonds. Angolans and Zambians based here are prepared to act as guides or arrange for diamonds to be brought out of Angola. In November 1998 one company, Milkwood Ltd Zambia, were distributing leaflets in Mongu, advertising for both diamonds and gold *(see picture above)*[63]. The company is Lusaka based and buys on a regular basis in Mongu. The diamonds come through the border crossings of Shangombo, Kalabo and Mwinilunga.

Diamond prices vary greatly depending on where the sale is taking place and who is buying. In cash terms diamonds are cheaper in Angola at approximately US$100 upwards per carat although UNITA seem to keen to encourage barter for medicine, clothes, electrical equipment and other supplies. Again rates given for barter vary widely from a couple of pairs of trousers for a small diamond or a 'Sharp' cassette player for a larger stone from an individual seller, to the agreement of orders in advance with UNITA officials for quantities of medicines and other supplies to be brought in by a four-wheel drive vehicle, whilst placing a counter order for diamonds at the same time. In Mwinilunga and Zambezi there is an established barter of diamonds for cattle[64]. There is also a very small-scale pattern of fish trading, with Angolans carrying 20 to 30 kgs at a time to Zambia, a journey of several days, and selling the fish for soap, clothes and goats which will then be taken back to areas such as the Lundas or Luau, where a goat can be worth up to US$300, and exchanged for dollars or diamonds

The third stage is somewhat easier than the second, and less fraught with risk, namely that of acquiring the necessary paperwork to turn the unofficial diamonds into a legal commodity and thus exportable under the terms of the UNSC embargo. It can then be accepted by the import authorities of any country that do not raise questions about the high gem value diamonds that appear to originate from a country which has virtually no production.

Such countries include the USA, Britain, the Netherlands, Belgium, South Africa and Israel.[31] Other countries with an interest in so-called 'Zambian' diamonds are Saudi Arabia, Hong Kong and Japan, although there has been a decline in Far Eastern demand due to the economic problems in the region. According to one international trader the export documents will sometimes include the phrase "Likely of Angolan origin" but that does not hinder exports.[31]

The diamonds are evaluated by the office of the Geological Survey, and the resultant 'Valuation Certificate' details a description of the stones, grade, quantity, colour and valuation in US dollars. The document is examined, certified and signed by two officials. The official noted that it was their usual custom to undervalue stones due to the high rate of tax, ***"We understand...[so we] normally don't put stones at the highest value."***[60] He noted that a small amount of South African, Botswanan and Namibian diamonds were being brought into Zambia to obtain Zambian export documents.

The Valuation Certificate is required by The Mines Development Department which then issues a clearance document, the 'Authorisation to export rough gemstones'. This goes to Customs, and is stamped for approval by both them and the Development Department. Once the documentation is complete the stones can be legally exported.

4. A BRIEF OVERVIEW OF THE TRADE IN ANGOLAN DIAMONDS

Background: Diamond Industry in Angola

Angola is one of the few countries where gem quality stones, those of the highest value, consistently predominate; comprising 70% - 80% of total production in 1998. In terms of world production only 5-10% of the worlds gems are of gem quality[65]. There are nine colours to the diamond quality scale and Angolan diamonds are generally in the top three. Diamonds from different areas and different mines generally have distinctive characteristics such as fissures, cracks and colours.[66]

Diamonds are extremely plentiful in Angola with significant current alluvial production, requiring surface mining or diving in rivers, carried out by unskilled workers without machines. There is also potential for kimberlite mines, which are deep subterranean volcanic pipes requiring a large investment to get any return.

Much of the mining in Angola is carried out by garimpeiros (illegal miners) in very poor and dangerous conditions. They are often in semi-permanent debt to the comptoirs (buyers) and to those who provide basic mining equipment. In many cases the garimpeiros are little better than bonded labour, and have few rights. They often work on a 50:50 finders agreement with UNITA, or whoever is in control of the mining area.

Endiama

Endiama (Empresa Nacional de Diamantes de Angola) is the parastatal which agrees diamond concessions, and is actively involved in diamond mining. It is also responsible for issuing licenses to buyers, permitting them to buy unofficial production in Luanda and in the provinces. It receives a tax of 2.5% on all official diamond exports[67]. Export licensing however, is handled by the Ministry of Trade, which is responsible for keeping the Ministry of Mines and Geology informed[67].

In recent months Endiama has increased the number of companies licensed to buy unofficial Angolan production[31]. There are at least four well known companies with such permission: De Beers, Steinmetz, Oderbrecht and Almazy Rossii-Sakha.

This increased capacity to buy up unofficial diamond production will help solve the problem of substantial non-UNITA unofficial production, much of which is said to be linked to key FAA generals[68]. This need to ensure that some of the unofficial production is sold could also account for the failure of the Angolan government to impose more rigorous controls over its system of Certificates of Origin.

UNITA

UNITA have been key players in Angolan diamond production and hence in the international diamond business, since the late 1980's. They have retained a predominant but shifting control over many of the major diamond areas, such as the Cuango river valley and the Lundas, both important areas of production. Between 1992 and 1994 UNITA controlled 90% of Angolan diamond exports[50].

In 1995 UNITA lost control of many areas and its percentage of exports changed. During 1996 and 1997 UNITA was producing about two-thirds of all diamonds mined in Angola[69]. During 1998 the return of former UNITA areas to State Administration took place, a condition of the 1994 Lusaka Protocol.

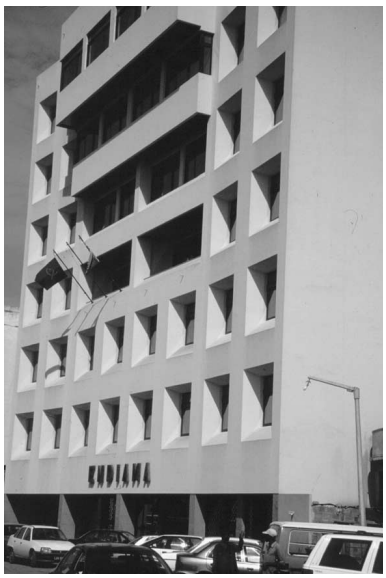
UNITA's withdrawal from key areas such as the lower Cuango Valley has had a major impact on its level of production, with revenue estimated to be US$200 million for 1998; a major decline from previous years.

FAA

The generals of the Angolan Armed Forces (FAA) have played an active role in diamond production in Angola, and their involvement is an open secret. It is widely said that the revenue from the diamonds is a key part of the FAA generals loyalty[31]. Companies such as Tricorn, which operates with ITM Mining in the Northeast of Angola, are connected to De Matos, the Chief of Staff of the Angolan army and other officials[68]. In many cases diamond companies are closely co-operating with security companies in which FAA generals are also involved, for example, Alpha 5[31]. Diamond traders in Antwerp have claimed that FAA generals are also involved in selling diamonds on UNITA's behalf, although it is possible they simply use the same middlemen as UNITA.[42]

Companies active in Angola

A wide range of companies are operating in Angola, buying, prospecting and mining. Many make use of security firms due to the insecurity, and some of these firms are either mercenaries or companies associated with mercenaries. This issue has been well covered in press. Some of the major companies operating in Angola include De Beers, Steinmetz, Almazy Rossii-Sakha, Oderbrecht.



Left: Endiama building, Luanda, Angola

Right: Alfa 5, Luanda, Angola

Diamond Export Routes from Angola

UNITA diamond export routes from Angola used to be well established and well known with a large percentage being taken to the DRC, to buying offices in Mbuji-Mayi, in East Kasai province and Kinshasa. This began to change with the territorial aggressions of the Angolan government and Kabila's take-over of the DRC, although diamonds, after an initial hiatus, continued to move through the DRC.

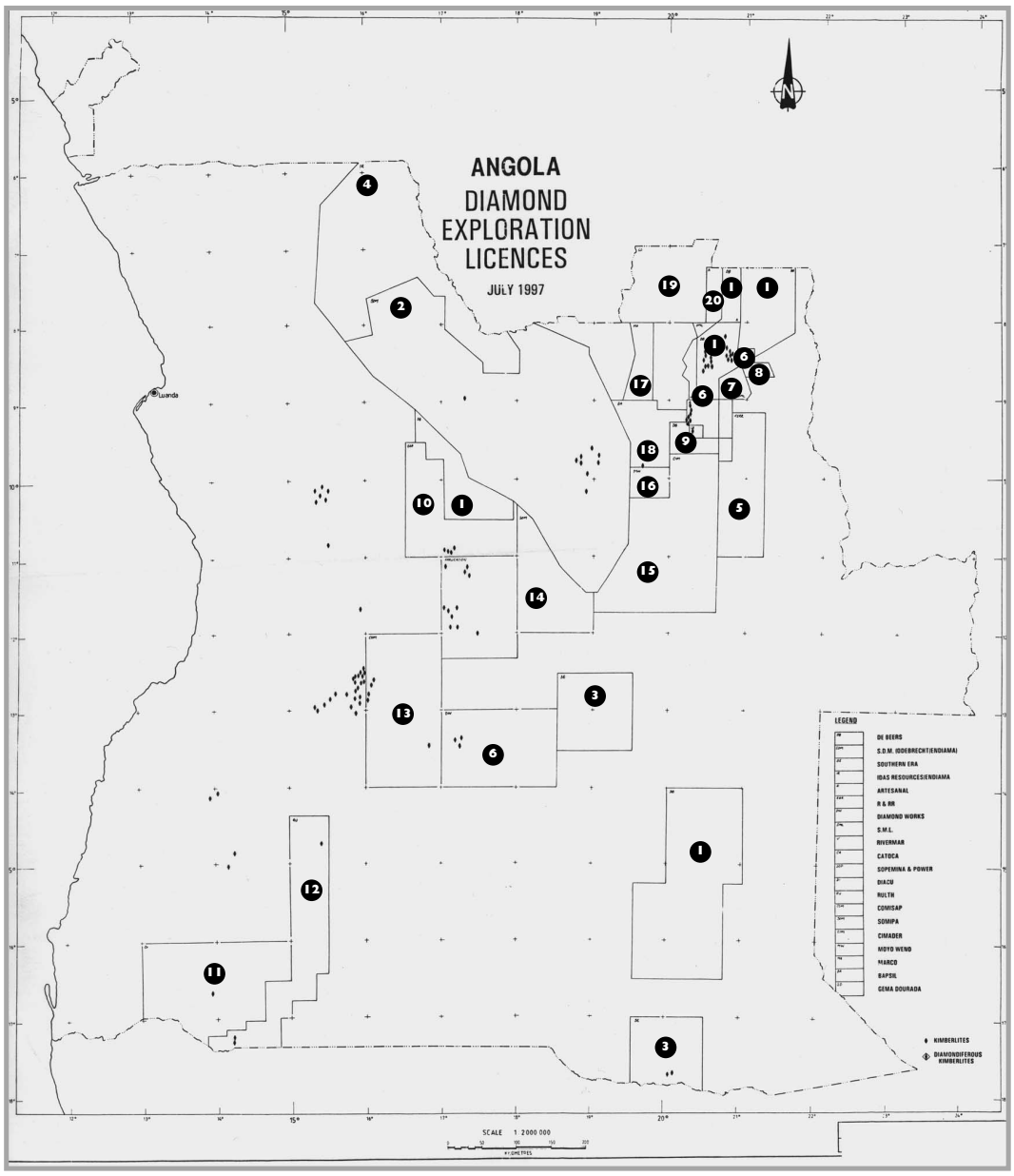
More recently the Republic of Congo-Brazzaville, another route for Angolan diamonds, has seen a steep reduction in the amount of rough diamonds being traded[42]. Other traditional routes involved flights from South Africa, sometimes via Namibia[31], and flights to Europe and Israel via countries friendly to Savimbi and UNITA in Central, West and North Africa. These countries include Ivory Coast, Morocco and the Central African Republic[61]. Export routes continue through Zambia.[31]

The UNSC embargo has further changed export routes so that whilst many of the traditional routes, particularly those to South Africa, Europe and Israel, continue, there is also a regular switching of routes, sometimes on a monthly basis according to some observers[70,71]. It is possible that the radar installation supplied by the United States, as part of their non-lethal military support to the Angolan government, at Lubango in Huila Province, in southern Angola may also have caused export and supply routes to re-route[72]. There are also reports of diamonds being smuggled to Antwerp via Burundi in exchange for arms[73].

In essence smuggling and mis-declaration of diamonds will continue so long as major buyers are willing to buy the product, claiming that it is impossible to tell the origin of diamonds if the parcels are mixed. Were this ever used as a defence for breaking the UN embargo, it would never work for the obvious reason that in 1996 and 1997 Angola supplied approximately US$1 billion of rough diamonds to De Beers. This accounts for approximately 20% of De Beers stated sales for both years. With these figures one can only wonder what Angolan diamonds are being mixed with to avoid their identification.

Another problem is that of the buyer's acceptance of provenance because only Angolan diamonds require a Certificate of Origin.

The risk is that if UNITA repeats its successful strategies of the past, regaining full control of Angola's key diamond areas, then on the current level of embargo implementation, UN member states will continue failing to prevent UNITA gaining revenue - meaning Angola's conflict could continue for years.



Map courtesy of Human Rights Watch

Diamond mining companies operating in Angola

1 ***De Beers***
2 ***SDM (Oderbrecht/Endiama)***
3 ***Southern Era***
4 ***IDAS Resources/Endiama***
5 ***R & RR***
6 ***Diamond Works***
7 ***S.M.L.***
8 ***Rivermar***
9 ***Catoca***
10 ***Sopemina & Power***
11 ***Diacu***
12 ***Rulth***
13 ***Comisap***
14 ***Somipa***
15 ***Cimader***
16 ***Moyo Weno***
17 ***Marco***
18 ***Bapsil***
19 ***Gem Dourada***
20 ***Artesanal***

CONCLUSION

Angola, as a mineral rich country, is a very valuable prize for its own leading political (and warring) factions, numerous multinational corporations and the governments of their home countries. Clearly, the welfare of the Angolan people has taken second place in the concerns of all these players who are prepared to tolerate or ignore the ravages of corruption and a resource funded war in order to obtain a share of Angola's wealth.

The long drawn out peace process, which has seen over 500,000 deaths since 1989, is once again collapsing. If this happens, the MPLA, which controls the offshore oil wealth, and UNITA will fight for control of diamond rich territory. Only the MPLA can legally benefit from such control, but UNITA will undoubtedly find ready buyers for their diamonds, as they have done throughout the whole conflict.

The international community already recognises this state of affairs and, through the UN, has placed an embargo on UNITA's diamond trade. In reality key UN member states such as Belgium are doing very little to enforce the UN embargo. In this they are wittingly or unwittingly providing the diamond industry with the wherewithal to exploit legal loopholes should they wish to, and to maintain the multi-million dollar trade.

De Beers and the CSO, the public and well groomed face of an industry with little transparency, has gone on the record many times promoting their corporate ethos of a transparent trade that benefits the populations of the diamond producing countries. In their own annual reports they admit that during the 1990's they were buying hundreds of millions of dollars worth of diamonds which originated from Angola. During the same time period, UNITA held much of the diamond producing territory of Angola. Furthermore, the individual diamond traders and trading houses who are the essential link between diamond producers and buyers appear to pay little heed to the legal or ethical considerations of purchasing diamonds from combatants.

It is imperative that De Beers and the CSO as the major force in the world diamond trade, and the member states of the UN, act decisively to end once and for all the trade that is the life blood of a guerrilla organisation. If they fail to do this they are standing in the way of the peace that the people and country of Angola so desperately need.

Given the scale of the conflict in Angola, it is highly surprising that the 1998 embargo was the first legal embargo to seek to limit UNITA's diamond trade. Prior to this De Beers and the CSO were not acting illegally in buying diamonds of UNITA origin, and as yet it is too early to ascertain how fully De Beers have complied with the UNSC embargo. It is a fact that the outside market is a key part of the international business, which is where there has been such a high uptake of Angolan diamonds, and that as the trade currently operates it is difficult to see how the embargo can be fully implemented; however it is encouraging to note that De Beers do have pre-existing corporate statements on ethics and transparency, and so Global Witness challenges De Beers to tackle this complicated and necessary process of change to drag the diamond business into the next century and ensure that key issues of concern such as public scrutiny, accountability and ethical considerations are put in place.

"De Beers points out that the existence of an open market for diamonds, whatever their origin, prevents the trade from being pushed underground and maintains the price. Nonetheless, this trade has funded three wars in Africa, in Sierra Leone, Angola and Liberia." [74]

CHRIS GORDON, MAIL & GUARDIAN, 22ND AUGUST 1997.

"Angola has become a gigantic corpse filled with diamonds and bleeding oil." [75]

PEDRO ROSA MENDES, RDP AFRICA, OCTOBER 1997.

"Meanwhile, UNITA was extracting far larger quantities and the movement increasingly relied on diamonds for funding. In 1996 UNITA mined some 70% of Angola's total US$1bn - US$1.2bn production. The rest was mined by the government and non-UNITA illegal diggers. De Beers mopped up roughly two thirds of the official and non-official production in 1996 through buying offices in Angola, Zaire and Antwerp." [69]

EIU COUNTRY PROFILE 1997-1998.

"The aims of this group have been - and they still remain - to earn profits but to earn them in such a way as to make a real and permanent contribution to the well-being of the people and to the development of southern Africa." [19]

NICKY OPPENHEIMER, CHAIRMAN DE BEERS, 1997 ANNUAL REPORT.

"...De Beers cannot afford not to be in Angola. For now, it is reduced to vacuuming up the diamonds that leak out out, either in Antwerp, or at its three Angolan buying offices. 'It's uncontrolled, it's very hard work. We have to go round the world chasing them,' laments James McLuskie, who shuttles between Angola and Johannesburg for De Beers. De Beers still spends about US$520 million a year on buying some three-quarters of Angola's output - much of it from rebel held areas." [76]

THE ECONOMIST, 14TH SEPTEMBER 1996.

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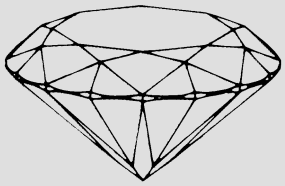

Do-It-Yourself Diamond Trading Guide

Carat	Unit of measurement of a diamond, there are five carats to one gramme. Diamonds vary from a fraction of one carat upto a very rare couple of thousand. In trade a stone of 60 carats wuld be considered large.
The 4 c's	Colour, clarity, cut, carat. These four factors are considered when valuing a stone.
Colour	Diamonds come in a wide range of hues, tints and colours; they can be described as whitish, yellowish, greenish, brownish, pinkish, bluish and so on. Stones from different countries can vary in colour.
Inclusions	The particles and matter sometimes found within a diamond.
Rough	Rough diamonds are unworked, and in their natural state
Official	The diamond market operated through the CSO; it includes production market from government run mines in Namibia and Botswana.
Unofficial	This is the part of the market that buys rough diamonds outside of the market CSO.
Outside market	The unofficial market.
Polished	The term used to describe stones when they have been worked. Up to fifty per cent of the diamond can be lost when polished, depending on the shape of the stone.
Gem quality	The highest quality of diamond, which is normally in high demand and commands top prices.
Parcel	This is a quantity of diamonds, and can vary from 10 carats up to thousands of carats
Mixed parcel	This is parcel of rough diamonds from more than one country.
Run of mine	All the diamonds are from the same mine.
Garimpeiros	Illegal miners; usuallly artesanal.
Comptoir	Small-scale diamond buyers, who act as middlemen.
Kimberlite	The name of a type of diamond and the type of mine it is extracted from, which has deep subterranean volcanic pipes.
Alluvial	The name of a type of diamond and the type of shallow mine it is extracted from, with diamonds found in river beds and in shallow deposits. A form of mine that can be exploited by artesanel techniques.
Sights	Approximately ten sights a year are held by the CSO at which Sightholders are allocated a quota of diamonds for purchase at a price determined by De Beers. Sightholders are chosen by De Beers and numbers are strictly limited; there are less than 200 sightholders worldwide.

***GLOBAL WITNESS** is a British based non-governmental organisation which focuses on the links between environmental and human rights abuses, especially the impacts of natural resource exploitation upon countries and their people. Using pioneering investigative techniques Global Witness compiles information and evidence to be used in lobbying and to raise awareness. Global Witness' information is used to brief governments, inter-governmental organisations, NGOs and the media. Global Witness has no political affiliation.*

This new campaign to expose the lack of corporate accountability in the international diamond trade, expands upon the work Global Witness initiated in 1995, in Cambodia. Here, illegal timber exploitation has funded the Khmer Rouge/Royal Government civil war, the leading political parties, their allied military factions and elite business supporters. Global Witness' work in this area has illustrated that natural resource exploitation can undermine democracy, fuel corruption, seriously impact on agriculture, provoke abuses of human rights and undermine national stability, in addition to causing severe environmental degradation.

Global Witness' analysis of this US$200 million a year timber trade (the National Budget for 1998 is US$419 million) remains the single most reliable source of information on the issue and has raised it from one of tangential concern to what the IMF in 1997 stated was "...the single most critical issue facing Cambodia". Global Witness' exposées of the Thai/Khmer Rouge timber trade, the signing of extra-constitutional concessions and illegal timber exports has resulted in forestry being a pivotal part of Cambodia's political agenda. The 1995 closure of the Thai/Cambodia border to log imports deprived the Khmer Rouge of between US$10-20 million per year; the completion of four major World bank funded Technical Assistance projects has paved the way for complete forest policy reform: both are direct results of Global Witness' information gathering and lobbying.

Global Witness' previous publications

(also available on our website: http://www.oneworld.org/globalwitness/)

"Going Places — Cambodia's Future on the Move"
published March 1998

"Just Deserts for Cambodia — Deforestation & the Co-Prime Ministers' Legacy to the Country"
published June 1997

"A Tug of War — the Struggle to Protect Cambodia's Forests"
published March 1997

"Cambodia, Where Money Grows on Trees — Continuing Abuses of Cambodia's Forest Policy"
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"RGC Forest Policy & Practice — the Case for Positive Conditionality"
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"Corruption, War & Forest Policy — the Unsustainable Exploitation of Cambodia's Forests"
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"Thai-Khmer Rouge Links & the Illegal Trade in Cambodia's Timber"
published July 1995

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published March 1995

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