

The diamond industry essay



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Mankind has been captivated by diamonds for centuries. Delicate beauty, magnificence, and eternal traits made diamonds the ultimate representation of love and affection (Diamond Facts. Org, “ About Diamonds”).

Adding to man’s fascination are the legends and symbolisms associated with the most coveted stone among gems. Residents of India, for example, considered diamonds as lucky charms and Indian men wears diamonds to suggest their masculinity and valor (Hoge Raad voor Diamant). For the more romantic people, diamonds symbolizes the conclusion of the relationship between partners. This tradition possibly emanated from the notion that arrows used by Cupid, the Roman God of Love, to reconcile lovers is tipped with diamonds (Hoge Raad voor Diamant).

Legends and symbolism aside, diamonds declared its position as the main symbol of love when Austrian Archduke Maximilian gave his fiance the first diamond engagement ring during the 15th century. The ring was placed on the finger where the love vein was believed to pass the heart, the fourth finger of the left hand (Pomeroi). Nowadays, people’s perception on diamonds extends to the commemoration of personal achievements, child birth and anniversaries (Hoge Raad voor Diamant). Among member countries of the diamond community, fascination of man in diamonds is the core rationale for intensified efforts to develop and expand the industry. Satisfying the demand for diamonds requires a continuous supply of the material in every stage of the production process; from mining to marketing of the finished product. Based on this premise, it is imperative to address primarily the source of diamonds before engaging in other aspects of the diamond industry.

As the colloquial phrase “no diamond means no diamond industry” suggests, the diamond industry is significantly dependent on the supply of diamonds. There are several major countries that produce diamonds. They include Canada, Russia, Australia and South America which together contributes around 35% of world diamond production. Major African diamond-producing nations, contributing around 65% of total production, include Botswana, South Africa, Namibia, Angola, Congo and Sierra Leone (Diamond Facts. Org, “About Diamonds”). Since Africa, by far, is the largest producer of diamonds, studies on impacts of the diamond industry should relate first to African countries.

The economic, social, and political structures of a country are general fields directly affected by the diamond industry. Differences between economic, social, and political standings between South Africa and Sierra Leone made these African nations perfect candidates for studying the impacts of the diamond industry. The diamond industry was built by De Beers both literally and figuratively. The discovery of huge diamond deposits in Orange River, South Africa in 1870 compelled major investors in the diamond mining sector to form the Consolidated Mines, Ltd. The company was incorporated in 1888 in South Africa and thus began the domination of De Beers over the diamond industry (Epstein1). As the largest player in the diamond market, De Beers made noteworthy impacts on the economic conditions of African countries especially South Africa and to a certain extent in Sierra Leone (De Beers Group).

Most of these impacts were centered on funding health services and social development projects as well as training and skills development programs. In <https://assignbuster.com/the-diamond-industry-essay/>

In addition, De Beers also contributed to building infrastructures, opening business opportunities and creating jobs in South Africa (De Beers Group). Immaculate as the diamond and its industry may seem, there is a dark side behind the excellent attributes. Fuel for war, instigator of human rights violations, regulator of smuggling and promoter of corruption are among these dire features. Brought about by bad politics, economic difficulties, and over-all poor management, Sierra Leone and South Africa have had their share of the negative aspect of the diamond industry. Because of rebellion and wars, the diamond industry in these countries suffered from drawbacks and was not spared from illegal activities of rebel groups and its allies (Brima1).

Rough diamonds were exploited and arms were bought from profit worth billions of dollars. Diamonds utilized for this purpose were called conflict diamonds or blood diamonds (Pomeroi). The proliferation of diamonds as a source of finance for armed conflict instigated the rebels' employment of rural people in diamond mining. But without concern for humanitarian principles, much death and suffering were forced upon the people by this illegal activity.

Because of this situation, the United Nations Security Council was instructed to impose sanctions to prohibit the import and export of diamonds in countries under conflict (United Nations 2). In addition, an international certification scheme called the “ Kimberly Process” was formalized in May 2002 to help protect legal trades of rough diamonds by removing conflict diamonds in the market and subsequently stopping atrocities among people working in the diamond mines (Pomeroi). With the help of the international <https://assignbuster.com/the-diamond-industry-essay/>

community especially the United Nations and key players in the diamond industry including De Beers and the African countries concerned, agreements for the termination of hostilities, removing of arms from fighters, and reconstruction of national unity went underway (United Nations 5). Regardless of the negative images attached to the diamond industry, proof of the diamond's exceptionality to provide economic growth and development is noticeable in most government economic policies of African countries.

In South Africa and Sierra Leone, economic policies put emphasis on mineral resource extraction particularly diamonds, to reduce poverty on the premise that mining is the sole industry that can easily and significantly contribute to economic recovery (Brima1). By tackling head on the problems associated with the diamond industry, large gains, not only in the economic side, but also in the social and political arena can be achieved. By critically analyzing available data on Sierra Leone and South Africa, it is anticipated that the diamond industry is an integral and indispensable part of these countries and that the benefits from diamonds far outweigh the negative implications attached to the diamond industry. The importance of the diamond industry can be best described by the acknowledgments of African world leaders whose respective countries actively participated in and benefited from the industry. In 1999, Nelson Mandela expressed the crucial value of the diamond industry to the economy of South Africa and its contribution to human rights issues. Moreover, with the help of the diamond industry, Mandela mentioned that the struggle against HIV/AIDS is being conducted by African countries through funding services for education and counseling,

programs for testing and treatment, and building of clinics and hospitals (Diamond Facts.

Org, “ The Facts”). In 2004, South African President Thabo Mbeki recognized the role of the diamond industry in augmenting the general economic welfare of countries and communities. Mbeki noted that diamonds are sources of employment, tax revenue, foreign exchange, and other investments (Diamond Facts. Org, “ The Facts”). In 2006, President Festus Mogae of the Republic of Botswana recognized the position of the diamond industry as a major factor in achieving excellent economic accomplishments. In his speech, Mogae generalized that people benefits from diamond revenues since diamonds can provide food and water, healthcare services, shelter and better living environment (Diamond Facts.

Org, “ The Facts”). There is no doubt on the potential of the diamond industry to provide benefits and elevate economic and social status of Sierra Leone and South Africa. However, just like in any other industries, problems arise. Perhaps the greatest problem the diamond industry faced was the issue on conflict diamonds. Conflict diamonds started in the war in Angola in 1992.

Jonas Savimbi, the leader of UNITA or Uniao Nacional para a Independencia Total de Angola, focused his attention to the vast diamond fields of Angola to find new ways to finance his army and expand his smuggling business (The International Consortium of Investigative Journalists 4). By 1993, Savimbi had the largest diamond smuggling network in the world. And among his associates was South Africa’s De Decker Diamonds, a company that

admitted selling diamonds to De Beers. This pattern of laundering diamonds was replicated in other countries especially Sierra Leone (Diamond Facts. Org, “ The Facts”).

In 1998, because of the brutal conflict in Sierra Leone, the United Nations started investigating about conflict diamonds and the UN Security Council began imposing sanctions on diamond transactions of countries in conflict. This brought the attention of the global diamond community to the issue of conflict diamonds (ICIJ 4). In 2000, Global Witness, a nongovernmental organization based in London, introduced the term “ blood diamond” to further highlight the issue on conflict diamonds (ICIJ 4). Meanwhile, South Africa initiated the Kimberly Process, a certification scheme to stop the flow of conflict diamonds, in response to the highlighted attention on conflict diamonds and also to protect the country’s diamond industry (ICIJ 5). The issue took on greater implications when, in 2001, media reports provided evidences connecting conflict diamonds to the Al Qaeda attack on the United States (ICIJ 4). Because of the extent and magnitude covered by the issue on conflict diamonds, efforts to control and eliminate this problem through the Kimberly Process required the cooperation of not only South Africa but the entire global community.

The United Nations, the international diamond industry and nongovernmental organizations including Partnership Africa Canada, Amnesty International and Global Witness were among the participants. For the first time, a global industry joined forces with governments, the United Nations, and social organizations to deal with a humanitarian issue (Diamond Facts. Org, “ The Facts”). The Kimberly Process was initiated in May 2000. By <https://assignbuster.com/the-diamond-industry-essay/>

December 2000, a unanimous vote by all the members of the United Nations General Assembly to support the Kimberly process was passed (ICIJ 4). By January 2003, the Kimberly Process Certification Scheme was accepted and made into national law by 52 governments.

As of August 2007, membership of the Kimberly Process totaled 74 countries, including Sierra Leone, thus guaranteeing a 99% conflict-free global rough diamond production (Diamond Facts. Org, “ The Facts”). The Kimberly Process presented an international structure where diamonds’ origins are identified and recorded under the backing of the World Diamond Council (ICIJ 5). Rough diamonds crossing international border must come with a government-validated Kimberly Process Certificate and should be enclosed in tamper-resistant containers. Every certificate should be resistant to faking, uniquely numbered and must contain description of shipment contents.

Only members of the Kimberly Process are allowed to import and export rough diamonds and should exclusively deal Kimberly-certified diamonds. Contents of the shipment should be checked with the Kimberly Certificate by the importing country’s customs. It is illegal to export or import uncertified rough diamonds. Confiscation or rejection of parcels and possibly criminal case will be imposed to violators of the procedures (Rapaport 4). The success of the Kimberly Process will be gauged not only on how many of the conflict diamonds are prevented from moving into the international market but also in its effectiveness in checking the proliferation of conflict diamonds from the source of the diamonds itself. In South Africa, though this country was never implicated in the production of conflict diamonds, there were rumors in 2002

that the country was a major laundering center for illicit diamonds especially in Kimberly.

This was largely due to sudden resurgence of new diamond discoveries in areas already regarded for years as dry in terms of diamond production. Local diggers suddenly started turning up harvests comparable to a small mine's production where it used to have only a few carats a month (International Consortium of Investigative Journalists 1). Another reason why the rumor came up was the relative ease by which diamonds were dealt with in the Kimberly Diamond Exchange. Simple invoices were considered adequate for dealers to sell diamonds.

No consideration for the origin of the diamond was needed to deal the precious stone. As long as dealers supplying diamonds to the Kimberly Diamond Exchange provide invoices, it is considered legal. Added to this predicament is the difficulty in proving or disproving the origin of the diamond. Although investigations were conducted in Kimberly, there have been no charges filed against anyone dealing in conflict diamonds (ICIJ 2).

Possibly the most efficient fuel for the rumor is the government regulatory board's ineptness to do their duty resulting to laundering of illicit diamonds (ICIJ 3). Monitoring and regulating South Africa's diamond mining and exportation is supposed to be the South African Diamond Board's responsibility (ICIJ 3). The board neglected their duties when Chris Potgeiter, a shareholder and main contributor in the De Beers exchange Center, declared diamond sales worth \$40 million from areas bought from De Beers in 1997. But the areas in question contained no such wealth as described

from De Beers' prospecting notes (ICIJ 3). In Addition, during the period from 1999 to 2001, there were reports that diamond buyers or bourses dealt \$360 to \$490 million worth of diamonds to the United States. But those diamonds were not examined by the South African Diamond Board which suggested that illicit diamonds were being laundered through the bourse (ICIJ 7).

Where diamond authorities were concerned, more often than not, De Beers was most likely connected with the actions of the agencies concerned because of its status in the diamond industry. It is common knowledge that De Beers was the sole entity that started the diamond industry in South Africa. Its influence grew as the industry expanded through time. People in key positions in South African diamond institutions were most likely have direct or indirect link to De Beers. For this reason, doubts emerged whether De Beers was honest on its claim that the company was never touched by conflict diamonds (ICIJ 5). Among the arguments presented, the most intriguing was the cozy relationship between the South African Diamond Board and De Beers.

The members of the board and head of various committees were close to the company (ICIJ 8). Allegedly, De Beers used their political influence for the benefit of the company. Benny Steinmetz, one of the most favored sightholders or the elite dealers of De Beers, was influential in South African politics. Steinmetz had connections with South African member of Congress Tokyo Sexwale who, in turn, was a business partner of De Beers (ICIJ 6). Other circumstances that questioned the integrity of De Beers were focused on the diamonds that De Beers purchased from Angola during this country's war until its end in 1998 (ICIJ 6).

De Beers' obscured operating procedures made it almost impossible to determine that source of diamond once these diamonds were mixed in its vault and thus made the allegation impossible to prove (ICIJ 6). When the Kimberly process was formed, it was headed by Abbey Chikane of the South African Diamond Board. Chikane had a close relationship with De Beers (ICIJ 8). Because of this situation, speculations on De Beers' real motives in being active in the Kimberly process erupted. The general assumption was that De Beers was using the Kimberly process to secure hold on the diamond industry because of the growing competition (ICIJ 7).

Moreover, the report of the General Accounting Office, the investigative arm of the US Congress, that the Kimberly process was essentially flawed, provided further doubt on the effectiveness of the Kimberly Process to address the problem of conflict diamonds (ICIJ 5). Because of media coverage, De Beers took a sudden change of course and started contributing to the mandate of the Kimberly process. De Beers' created the concept of "branded diamonds" where the diamonds were engraved with the De Beers logo that signified that the stone was from a conflict-free source (ICIJ 5). De Beers also had taken steps to detach the company from blood diamonds by stopping the purchase of diamonds from previously warring countries unless the purchase guaranteed that no conflict diamonds would find its way to the system (ICIJ 5). Additionally, by cooperating with the United Nations, De Beers actively raised awareness to eliminate the movement of conflict diamonds (ICIJ 9).

Validity of the African leaders' declaration of the diamonds' key position in uplifting economic and social status can be reflected from several economic

indicators. Of significant value for the evaluation of the economic and social status of Sierra Leone and South Africa are records on diamond production, contribution of diamond production to exports, Gross Domestic Product (GDP) and Human Development Index (HDI) (Globalis). Diamond export, in the case of Sierra Leone and South Africa, is dependent on these countries' diamond production, which in turn, is a function of the GDP. Gross Domestic Product (GDP) is an economic indicator where national income and output are measured. Generally, GDP indicates the standard of living of people based on the economy of the nation (Investopedia).

On the other hand, the Human Development Index is a combined measure of three vital components of human development. These essential components include education level, health and standard of living (Globalis). Benefits to national economies are manifested on the rankings of countries in the Human Development Index (Diamond Facts. Org, “ Making a Difference”). Over all diamond production estimates in Sierra Leone are almost unattainable since no geological survey of alluvial sites in Sierra Leone has been conducted (Levin 6).

However, since 2002, Sierra Leone's diamond exports performed an increasing trend. Records show that in 2005, Sierra Leone's diamond export reached more than \$140 million. This figure is significantly better than 2004's \$126 million diamond export. Diamond mining in the artisanal sector of Sierra Leona accounts for 90% of the total diamond export (Gberie, “ Money Trail” 1). Of the total diamond export in 2004 and 2005, more than \$112 million and \$116 million is credited to legal artisanal diamonds respectively, as shown in Table 4 (Levin 20).

Exceptional to South Africa are the sources of its diamonds. All three possible sources of diamonds are present in this country. Of the total South African diamond production, 90% came from kimberlite deposits, 9.2% came from alluvial fields and 0.

8% came from undersea mines (Hazleton 14). In 2002, South Africa's estimated rough diamond production amounted to 11.2 million carats. 10.

8 million carats of which is from kimberlite fields and the remaining 400,000 estimated carats came from small mines (Hazleton 14). Another unique situation in the diamond industry of South Africa is the role of De Beers. Almost 95% by value of all diamonds mined in South Africa belonged to De Beers (Hazleton 2). In 2000, about 10.

3 million carats covering 95.4% of the total diamond production came from companies owned or co-owned by De Beers (Hazleton 15). Based on the report from the Rapaport International Diamond Conference of 2007, Africa contributes 65% of the world's rough diamond production in 2006; of which South Africa ranked fourth and Sierra Leone ranked tenth with 11% and 1% of the market share respectively as shown in Table 1 (Rapaport Group 26). In 2006, the market share percentage of African countries is \$8.

5 billion worth of diamonds per year with South Africa and other African countries including Sierra Leone translating to \$1.5 billion and \$0.6 billion respectively (Diamond Facts. Org, "Making a Difference"). Ranking of African countries based on 2005 GDP estimates showed that South Africa ranks first with \$12,160 while Sierra Leone is among the lowest with \$903 as shown in Figure 1 (Diamond Facts. Org, "Making a Difference").

South Africa demonstrated a progressive increase in its GDP per capita from 1975 to 2002. In contrast, Sierra Leone showed progress in its GDP from 1975 to 1990 but took on a downward trend from 1990 to 2000. However, in 2002, Sierra Leone demonstrated an upward trend again with \$520 as compared to 2000's \$470 GDP as shown in Table 2 (Globalis). Though South Africa demonstrated a progressive increase in GDP, the contribution of the diamond industry to GDP amounted to 0.88% only.

Nevertheless, due to high value of diamonds, the industry represented 8% of South Africa's total value in exports (Hazleton 15). In the United Nation's 2005 Human Development Index, South Africa obtained the highest rank with 0.658 points. On the other hand, Sierra Leone is among the lowest with 0.298 points as shown in Figure 2 (Diamond Facts.

Org, " Making a Difference"). Sierra Leone is consistently at the lowest ranking in HDI from 1991 to 2001 (Hazleton 20). The reason behind the poor performance was the violent civil war that descended upon Sierra Leone between those years. Adding to Sierra Leone's predicament was the banning of rough diamond imports from Sierra Leone by the United Nations Security Council (Diamond Facts. Org, " The Facts"). Diamonds are expected to contribute significantly to the economy by creating jobs.

The global diamond industry directly or indirectly employed 10 million people worldwide (Diamond Facts. Org, " Making a Difference"). In South Africa, 28,000 people are employed in mining to jewelry fabrication and retailing of diamonds (Diamond Facts. Org, " Making a Difference"). This figure represents 0.10% of the formal labor sector of South Africa (Hazleton 15).

Companies mining diamonds in Sierra Leone include Koidu Holdings and African Diamonds plc. Koidu Holdings pledged to share 20% of its profits with the national social safety net and the local community where it mines. The action of this company is a perfect example of a positive social impact (Diamond Facts. Org, “ The Facts”). Between March 2005 and March 2006, South Africa’s Namaqualand Diamond Fund Trust received \$4.

8 million for funding community development projects. The benefactor, Trans Hex Group, is a mining and exploration company that supports social development projects for social empowerment and sustainability (Diamond Facts. Org, “ The Facts”).