

# Australian diamonds and the Kimberley Process

Each year around US\$12 billion<sup>1</sup> of rough diamonds, mined from around the globe, are cut, polished and sold in a retail market worth nearly US\$70 billion.<sup>2</sup> The flow of transactions taking the diamonds from mine to market is known as 'the diamond industry pipeline'. Australia is one of the world's largest producers of rough diamonds and is responsible for a large number of the diamonds sold into the pipeline each year. In 2006-07, Australia's exports of rough diamonds were \$565 million.

During the 1990s, it became apparent that the industry pipeline was contaminated by diamonds—known as 'conflict diamonds'—that had been sold to finance African rebel movements. In response, the United Nations-backed Kimberley Process Certification Scheme was established to act as a worldwide certification scheme for rough diamonds.

## The global diamond trade and the industry pipeline

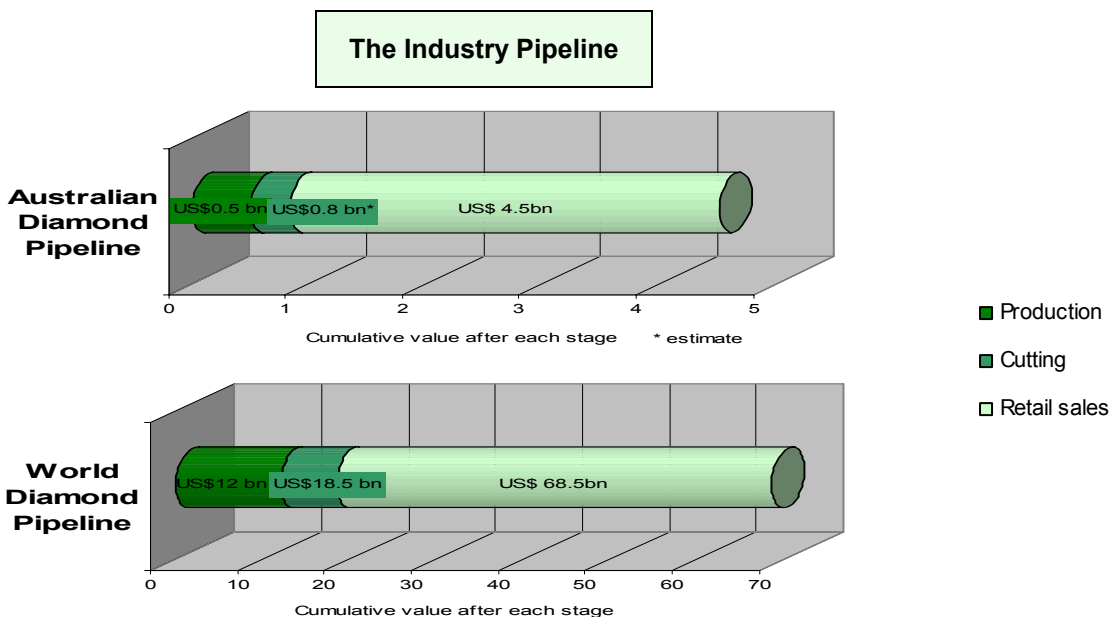
Diamond is the hardest substance known to man. This makes it useful industrially as a cutting tool. Diamonds might also reveal clues to the early geological evolution of the Earth following the recent discovery of diamonds dated at nearly 4 billion years old.<sup>3</sup> Yet by far the most lucrative use for a diamond is as an adornment. Retail sales of diamond jewellery were almost US\$70 billion in 2006.

Around half of the world's rough (mined and unprocessed) diamonds come from Africa, worth over US\$7 billion. African rough diamonds are generally of higher-quality than those from other parts of the world. Lesotho rough diamonds have an average production value of US\$740<sup>4</sup> per carat. Rough diamonds from Angola, the Central African Republic, Namibia, Sierra Leone and Togo have an average production value greater than US\$100 per carat, compared with a global

average of just under US\$70 per carat. Other key rough diamond producers are Russia<sup>5</sup> and Australia.

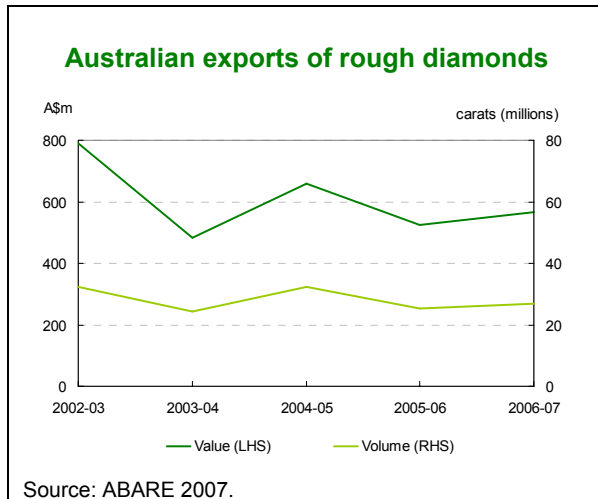
From the mining stage, rough diamonds go to cutting and polishing centres to be transformed into gems. Historically, they have travelled to London, Antwerp, Israel, and India. All are trading hubs for the world's diamantaires and dominant cutting and polishing centres within the industry. South Africa also has a substantial cutting and polishing industry. India's industry employs around a million people.<sup>6</sup> China is emerging as a cutting and polishing centre as well, with 25,000 people working in more than 80 factories.<sup>7</sup>

The final stage of the diamond pipeline is the consumer market. The largest market for diamond jewellery is the United States, making up about half of total world retail sales of diamond jewellery.<sup>8</sup> Other key markets are in Europe, Japan and increasingly, China, India and the Middle East.



### Australia's diamond trade

Australia is the world's third-largest producer of rough diamonds.<sup>9</sup> The rough diamonds it produces are typically of lower-quality than world standards, making Australia only the seventh-largest producer on a value basis.<sup>10</sup> Australia has four diamond producing companies—Argyle Diamonds, Kimberley Diamond Company NL, Blina Diamonds and North Australian Diamonds. The majority of rough diamond production in Australia is exported. In 2006-07, Australia exported 27 million carats of rough diamonds valued at \$565 million.



Australia's cutting and polishing activities are limited. Argyle Diamonds, Australia's (and the world's) largest supplier of rough diamonds, estimates that 90 per cent of its diamonds go to the Indian manufacturing industry, after being sold by its marketing office in Antwerp. From there, they are destined for retail markets throughout the world, selling for an estimated US\$4-5 billion a year.<sup>11</sup>

Australia also sits at the end of the diamond pipeline with a vibrant consumer market of its own. Seventy-three per cent of Australian women own at least one piece of diamond jewellery, according to a De Beers survey.<sup>12</sup>

### The diamond trade and African conflict

The diamond trade affects the livelihoods of millions throughout the world. Unfortunately, a number of rebel movements in Africa exploited the nature of the diamond trade to finance their wars against legitimate governments and great hardship and misfortune was brought upon some of Africa's diamond-rich, but undeveloped, countries. The term 'conflict diamond' was popularised to describe the rough diamonds used to finance rebel groups. Angola, Sierra Leone, Liberia, Cote d'Ivoire and the Democratic Republic of the Congo were all hurt by conflict diamonds.

### Australia's diamond producers

#### Argyle Diamonds

Argyle Diamonds is the world's largest supplier of rough diamonds.<sup>13</sup> Five per cent of the diamonds it produces from its mine in the East Kimberley Region of Western Australia are gem-quality, 70 per cent are near-gem-quality and the remaining 25 per cent are destined for industrial purposes. Its gem- and near-gem-quality diamonds account for 95 per cent of its sales revenue. Argyle also produces the famous 'pink diamonds'. These are sold by tender each year, fetching around US\$100,000 per carat. However, pink diamonds are truly one in a million—for every million carats of rough diamonds Argyle digs up, one carat is suitable for sale in the pink diamond tender.<sup>14</sup>

#### Blina Diamonds

Blina is a diamond explorer operating close to Kimberley Diamond Company's Ellendale mine. It is majority-owned by Kimberley Diamond Company. Recent digging at the Ellendale 9 North Project, an alluvial diamond deposit, extracted an 8.15 carat, intense fancy-yellow gemstone valued at US\$58,000. The largest stone Blina has recovered weighed almost 10 carats. In 2005-06, Blina's diamonds sold for an average of US\$190 per carat.<sup>15</sup>

#### Kimberley Diamond Company

The Kimberley Diamond Company's Ellendale operation produces mainly gem- and near-gem-quality rough diamonds (about 80 per cent of its total production). It has the second-highest price per carat of any of the world's hard rock (underground) diamond mines. The 153,000 carats of diamonds it sold direct to the market in 2005-06 went for an average US\$173 per carat. Its signature stone is the Fancy Yellow Diamond which is found in only 2-3 per cent of total world diamonds.<sup>16</sup> At the time of writing, Kimberley Diamond Company was the subject of a takeover bid from London-based Gem Diamonds.

#### North Australian Diamonds

North Australian Diamonds bought the mining lease for the Merlin Diamond Mine in the Northern Territory in 2004. The largest diamond ever recovered in Australia was from the Merlin Diamond Mine. It weighed 104.73 carats and was valued at US\$525,000. More recently, the company's staged redevelopment of the Merlin Diamond Field recovered a 10.60 carat, white octahedral diamond which sold for US\$153,170. North Australian Diamonds have recovered in excess of 18,000 carats to date.

The United Nations (UN) responded by placing embargoes on diamond exports from Angola, Sierra Leone and Liberia.<sup>17</sup> Sanctions were introduced to stop countries accepting rough diamond imports from these countries that were not accompanied by a certificate confirming that the diamonds were mined legitimately and the proceeds from the sale were not being used to finance rebel activities. However, this export certification scheme was unsuccessful. In 1998, it was revealed that The National Union for the Total Independence of Angola (UNITA) was using proceeds from the sale of rough diamonds mined in UNITA-controlled territory to fund the ongoing war against the Angolan government, despite the existence of UN sanctions.<sup>18</sup> Diamonds were smuggled to neighbouring countries before being shipped to their destination. For example, in the late 1990s, Liberia exported millions of dollars worth of diamonds in excess of its production capacity.<sup>19</sup>

While it was clear a certification scheme that applied to only a few countries could not work, it was thought that a scheme covering all diamond importing, exporting and producing countries could prove effective. This proposal, first aired in Kimberley, South Africa, gave rise to the Kimberley Process Certification Scheme (KPCS) - a joint initiative of governments, civil society and the diamond industry. The KPCS asked rough diamond exporters to attach a Kimberley Process certificate to their export shipments which would be verified by the importing countries' authorities when received.

The KPCS was endorsed by the UN General Assembly (UNGA), which in Resolution 55/56 of December 2000 declared its support for 'the implementation of the certification scheme as soon as possible, recognising the urgency of the situation from a humanitarian and security standpoint.' The KPCS was also supported by the UN Security Council (UNSC) through UNSC Resolution 1459 (2003). Kimberley Process participants also sought and were granted a waiver from World Trade Organization rules for measures applied under the KPCS.

The KPCS was officially launched by ministers in Interlaken, Switzerland in November 2002 and KPCS participants implemented the Scheme from the beginning of 2003. Australia is an original member of the KPCS.

### **The impact of the KPCS on the conflict diamond trade**

Those involved in the KPCS recently reviewed its operation. The review found that the Scheme had exceeded the expectations of participants and observers. It said,

'the KPCS is an example of international cooperation at its best. In the first three years of its operation it has proved remarkably successful, to the point that the vast majority of production and international trade of rough diamonds are moved through official Kimberley channels.'<sup>20</sup>

### **KPCS Participants<sup>21</sup>**

Angola	Armenia
Australia	Bangladesh
Belarus	Botswana
Brazil	Canada
Central African Rep	China
Cote d'Ivoire	Croatia
Dem. Rep. of the Congo	European Com
Ghana	Guinea
Guyana	India
Indonesia	Israel
Japan	Laos
Lebanon	Lesotho
Liberia	Malaysia
Mauritius	Namibia
New Zealand	Norway
Rep of Korea	Russian Fed
Sierra Leone	Singapore
South Africa	Sri Lanka
Switzerland	Tanzania
Thailand	Togo
Turkey	Ukraine
United Arab Emirates	United States
Venezuela	Vietnam
Zimbabwe	

While it is difficult to put a precise figure on the extent to which the KPCS has curbed the illicit diamond trade<sup>22</sup>, the review suggested that the KPCS had assisted in reducing the percentage of rough diamonds used as conflict diamonds to 0.2 per cent of total world production.<sup>23</sup> At the height of the diamond-funded conflicts of the 1990s and early-2000s, it is generally believed that this figure was at least four per cent.

### **Australia's participation in the KPCS**

Australia implements its KPCS obligations through customs legislation and regulations. Essentially, rough diamonds cannot be imported to, or exported from, Australia unless they are shipped in a tamper-resistant container accompanied by a Kimberley Process Certificate. The diamonds must be coming from, or on their way to, another KPCS participant country. Australia also has in place an absolute prohibition on the importation of rough diamonds from Cote d'Ivoire, in accordance with UNSC Resolution 1643 (2005).

The KPCS requires participants to nominate importing and exporting authorities. In Australia, the Department of Industry, Tourism and Resources (DITR) has been designated as the export authority and the Australian Customs Service (Customs) has been designated the import authority. Responsibility for the overall implementation of the KPCS in Australia lies with the Department of Foreign Affairs and Trade.

### **Export procedures**

DITR administers a two-tier export system for 'frequent' and 'occasional' exporters. A company wanting to export rough diamonds frequently can apply for a one year licence. If successful, the company is pre-issued with sequentially numbered stocks of partially-complete Kimberley Process Certificates. The company has responsibility for ensuring the rest of the Certificate is completed prior to export. Export permits are also available on a shipment-by-shipment basis for those who have a 'one-off' or sporadic need to export rough diamonds. Once an exporter's application is approved, DITR issues a Kimberley Process Certificate valid for 60 days. Customs enforces the export control at the Australian border.

### **Import procedures**

On the import side, Customs ensures a Kimberley Process Certificate accompanies import shipments and that the diamonds are coming from a participant country. Customs ensures shipments comply with the regulations and seeks to encourage compliance by working cooperatively with importers to facilitate trade.

### **Peer review**

The KPCS includes a peer review system of assessment of participants' implementation of the

Scheme. A review team comprising Canadian and Indian government officials visited Australia in May 2007. The team's report concluded that Australia was meeting its obligations under the KPCS.

### **Experience to date**

The Australian Government considers that the KPCS, in conjunction with other international efforts, has contributed to building peace in areas of long-standing conflict in Africa. The KPCS has enabled Australia to contribute to the development of a legitimate and sustainable worldwide trading regime in rough diamonds that includes Africa's many diamond-producing nations. The KPCS has resulted in more 'official' diamond exports and, consequently, higher government revenue for countries previously blighted by conflict diamonds. This helps construct sustainable peace.

Experience has shown that Australia itself is not completely divorced from the illicit diamond trade. Since the KPCS commenced, Customs has detected instances of KPCS non-compliant imports and in some cases, diamonds were seized.

The KPCS procedures Australia has in place are designed to minimise the burden on Australian diamond producers. They have been implemented in consultation with industry and with its full support. The approach taken by both DITR (in authorising exports of rough diamonds) and Customs (in controlling imports of rough diamonds) is consistent with the Australian Government's broader agenda of reducing regulatory burden on businesses and reducing unnecessary compliance costs.

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*This article benefited from comments and suggestions made by Bruce Soar, Director, International and Economic Finance Section.*

## End notes

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<sup>1</sup> Based on 2006 production statistics published by the Kimberley Process Certification Scheme.

<sup>2</sup> [http://www.idexonline.com/pdf\\_files/IDEX\\_Online-Pipeline\\_Poster\\_2006.pdf](http://www.idexonline.com/pdf_files/IDEX_Online-Pipeline_Poster_2006.pdf)

<sup>3</sup> AAP (2007), 'Ancient diamonds found in WA', 23 August 2007.

<sup>4</sup> Source: 2006 production statistics published by the Kimberley Process Certification Scheme.

<sup>5</sup> Russia accounted for around one-fifth of global production by volume and value in 2006.

<sup>6</sup> De Beers Group (2000), written testimony before the US Congress House Committee on International Relations Subcommittee on Africa, Washington DC, cited in Campbell (2004), 'Blood Diamonds', Basic Books, p128.

<sup>7</sup> Rio Tinto Diamonds (2006), 'Annual Review 2006', p28.

<sup>8</sup> [http://www.idexonline.com/pdf\\_files/IDEX\\_Online-Pipeline\\_Poster\\_2006.pdf](http://www.idexonline.com/pdf_files/IDEX_Online-Pipeline_Poster_2006.pdf)

<sup>9</sup> Based on 2005 and 2006 production statistics published by the Kimberley Process Certification Scheme.

<sup>10</sup> Based on 2006 production statistics published by the Kimberley Process Certification Scheme.

<sup>11</sup> Rio Tinto Diamonds (2006), p9.

<sup>12</sup> Cited in The Age (2003), 'Bangles and Branding', 8 January 2003.

<sup>13</sup> [http://www.argylediamonds.com.au/about\\_profile.asp](http://www.argylediamonds.com.au/about_profile.asp)

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<sup>14</sup> All figures are sourced from <http://www.argylediamonds.com.au>

<sup>15</sup> <http://www.blinadiamonds.com.au>

<sup>16</sup> All figures are sourced from <http://www.kimberleydiamondco.com.au>

<sup>17</sup> UNSCR 1173 (1998) required all UN members to prohibit the importation of Angolan diamonds unless they were accompanied with a certificate of origin issued by the Angolan government. UNSCR 1306 (2000) imposed similar sanctions on Sierra Leone diamonds, while UNSCR 1343 imposed sanctions on the import/export of Liberian rough diamonds.

<sup>18</sup> See Global Witness (1998), 'A Rough Trade – The Role of Companies and Governments in the Angolan Conflict', Global Witness Ltd.

<sup>19</sup> UNSC 1195 (2000), pp22-25.

<sup>20</sup> KPCS (2006), 'The Kimberley Process Certification Scheme Third Year Review - 2006', p3.

<sup>21</sup> Chinese Taipei, as a 'rough diamond-trading entity', has also met the minimum requirements of the KPCS.

<sup>22</sup> Presumably most diamond smugglers would conjecture that a key requirement for smuggling diamonds is not to be caught.

<sup>23</sup> KPCS (2006), p18.

<sup>24</sup> Based on 2006 export volume statistics published by the Kimberley Process Certification Scheme.