

CHAPTER 3

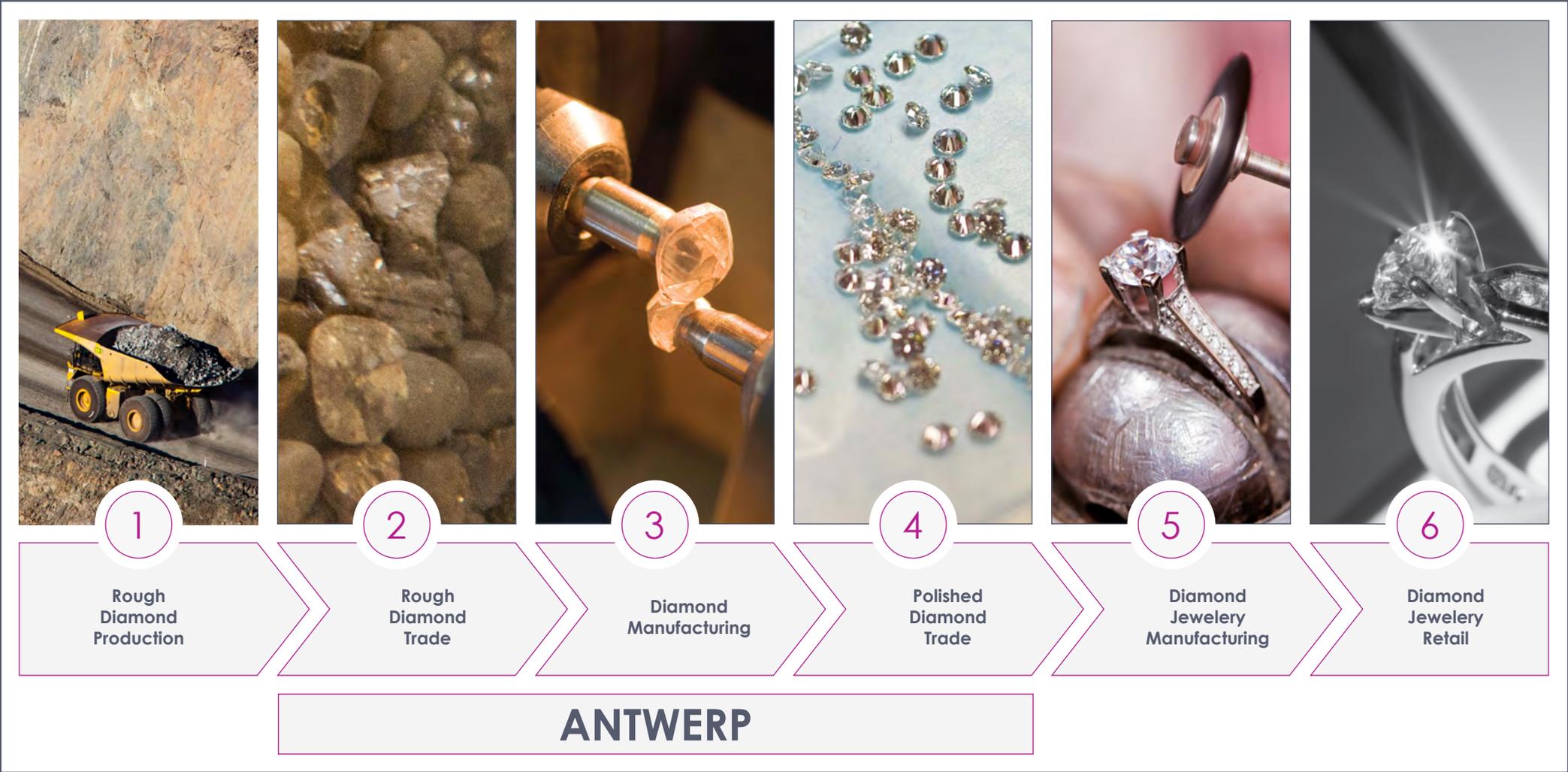
INTEGRITY AND RESPONSIBILITY IN THE DIAMOND SUPPLY CHAIN

Integrity & Responsibility

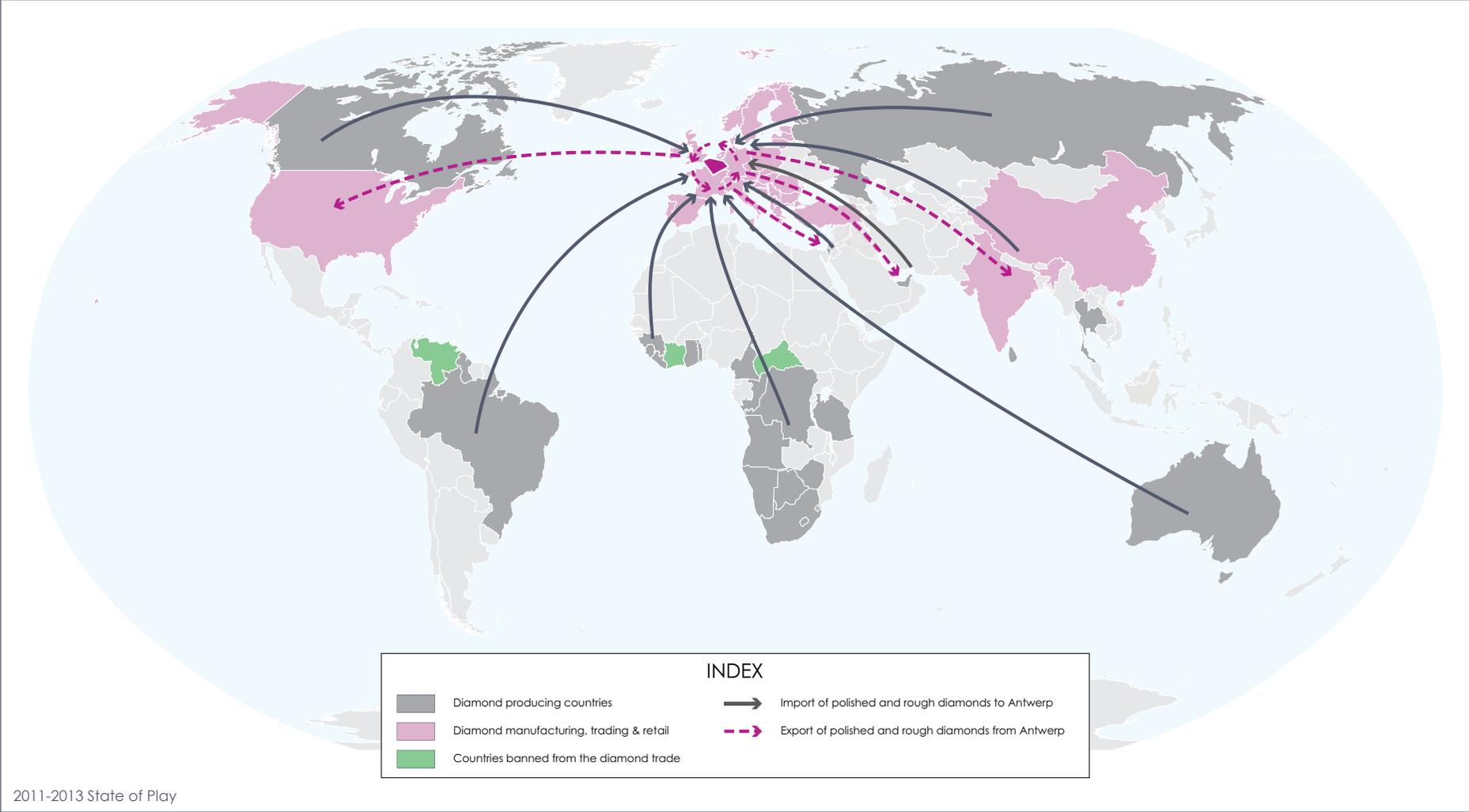


Global value chain of the diamond industry

Looking at the entire diamond value chain, from the prospecting and mining phase to the final diamond jewel, it is clear that Antwerp takes a prominent place in the middle segment of this chain. Antwerp specializes in trading rough diamonds, processing them into polished diamonds and trading these polished diamonds. The activities in the middle segment of the diamond value chain are for a large part facilitated by a large number of specialized diamond banks located in Antwerp.



The growing middle class in emerging economies and the establishment of new polishing centres in South and Southeast Asia, results in more global and varied value chains. Antwerp is central in the value chain and therefore makes up part of this growing number of chains.



All these supply chains can potentially be a source of infringements and could have negative impacts, such as: the violation of fundamental human rights, transgressing national or international working standards, impact on the environment, corruption and the like. It is important that all parties in the value chain take on the responsibility to prevent and reduce these impacts.

FROM MINE TO JEWEL

The challenge in tracing a diamond's path



A diamond's path starts from the mine from which a rough diamond is mined to places where the diamond is traded, cut and polished and subsequently traded again and finally ends up in the diamond jewelry that is sold to the end user. This could lead to the perception that the tracing and tracking of this process could give the consumer an objective and full picture of the impact of his purchase on the various aspects of sustainability. In reality, however, there are technical obstacles, but also fundamental difficulties to tracing a diamond's path.

Diamonds are not traded by piece, but rather in an assortment or parcel. These assortments can change at each stage. Miners that work with regular clients or sightholders offer their clients an assortment of diamonds they themselves put together, on a monthly basis. The rough diamonds in these assortments can originate from different mines in various countries and vary in size, shape and quality. Producers who sell diamonds via tenders will offer their goods, which mostly come from one mine or country, in an assortment that is likely to be most commercially attractive for

potential buyers. Traders will subsequently sort the purchased goods into new assortments, perhaps also containing rough diamonds they may already have in stock. Each subsequent trader can repeat this process, so that a rough diamond may have already been placed in various assortments before the polishing stage.

Tracing a diamond becomes even more complicated when the diamonds are polished. Whereas the origin of a rough diamond can most of the time be traced to a geological region or a specific country, based on its characteristics, this is impossible in the case of polished diamonds. A polished diamond from Sierra Leone cannot be differentiated from a polished diamond from Russia, for example. To put together homogeneous batches of diamonds, for example with polished diamonds of the same value in terms of the 4Cs, diamond traders will mix diamonds from different origins.

However, these processes do not necessarily need to be problematic. The existing instruments, such as the Kimberley Process Certification Scheme and the WDC System of Warranties, ensure that all diamonds that are placed on the value chain, comply with all rules and standards. This is true for all rough diamonds in the world, regardless of their country or mine of origin.

Leverage within our sphere of influence

Determining the link that AWDC constitutes in the diamond value chain is no simple matter, as our organization does not buy or sell diamonds. AWDC does, however, have an important observer status, and can exert influence on the value chain as a whole and on the various actors in this chain.

As there are no contractual or legally stipulated rights and obligations between AWDC and companies based in Antwerp, AWDC cannot impose any obligations. We are however focusing heavily on awareness raising, increasing promotion and our presence in worldwide networks to exert influence and to transmit sustainability messages. These aspects reflect AWDC's CSR policy.

Governments in Belgium, Europe and diamond-producing countries, both on a political and administrative level, are one of the most prominent discussion partners and interested parties of AWDC. We make use of these contacts, both in Antwerp as well as in the diamond-producing countries, to highlight the important role these governments play in the sound organization of their respective diamond sector. They carry a major responsibility for limiting the negative impact of these activities on human rights, the environment, working conditions, by developing the regulatory framework and enforcing adherence to these rules, among other aspects.

The Kimberley Process

The most powerful government-level instrument to limit the potentially negative impact on the diamond industry, is the Kimberley Process (KP) with its Kimberley Process Certification Scheme (KPCS). A vital characteristic of this mechanism is its tri-partite structure. In addition to the member states, called participants, the diamond industry and civil society are represented, having an observer status. As a member of umbrella organization the World Diamond Council (WDC), which represents the diamond industry in the KP, AWDC is involved in the activities of the mechanism.

One of the main advantages of the KP is that it is a widely supported process, which greatly contributes to the credibility, the reputation and the sustainability of the "rough diamond", regardless of its origin.

AWDC uses its voice in the KP to transmit a number of key messages. We are major advocates of an inclusive process, where the voice and interests of all participants count. Only in this way can the process remain sustainable and relevant. The effectiveness of the KPCS is also central in our advocacy. The link between rough diamonds and conflict can only be broken permanently if the standards of the KP can be effectively implemented and enforced. This must occur in the same manner across the world, to foster a level playing field and to ensure that the KP remains effective.

What is the Kimberley Process?

At the turn of this century, a number of African diamond-producing countries and a number of diamond-trading countries determined the need for a mechanism to prevent rough diamonds from potentially being used to finance armed conflicts by rebel groups, attempting to undermine legitimate authorities. 2003 saw the advent of the Kimberley Process (KP).

Via the Kimberley Process Certification Scheme (KPCS) governments are held responsible for the certification of exported rough diamonds. The KP certificate, which must accompany each exported parcel of rough diamonds, guarantees that goods are not used to finance armed conflict. Moreover, countries are only permitted to trade rough diamonds with other countries participating in the KP.

After a decade of efforts, the KP has succeeded in reducing the amount of "conflict diamonds" in global trade to only 0.2% in 2013. Countries where the situation remains problematic are suspended from the Process. A suspension means that the respective country may not trade rough diamonds until the situation has stabilized and the link between diamonds and armed conflicts is broken. The Chair of the Kimberley Process executes the suspension, which must be unanimously approved by the

participating countries. During the so-called "Review Missions" in the suspended countries, the members and observers of the KP perform independent checks on the export control system, to determine whether or not the countries meet all KP requirements. The Review Mission report is handed over to the respective country and to the KP Chair.

Liberia, Zimbabwe, Congo Brazzaville and Ivory Coast were previously suspended after the KP had determined that rebel movements were using rough diamonds to finance their armed campaigns. These countries have in the meantime been brought back into the KP. Other participants of the KP may therefore import rough diamonds from the aforementioned countries.

In Zimbabwe, violence broke out in one mining district: the diamond fields of Marange. For this reason, a limited embargo was imposed, only on this producing area, without the whole country being affected. After a three-year monitoring operation, the suspension was lifted.

Problems remain in Venezuela and the Central African Republic, with both countries still suspended as of the beginning of 2014. In the latter country, a clear link between the production and sale of rough diamonds, and the financing of armed conflict is observed.



From conflict to sustainable diamonds?

EXPANDING THE 'CONFLICT DIAMONDS' DEFINITION

While rough diamonds are probably one of the most strictly controlled natural resources thanks to the KP, there is pressure to further increase these controls. This has led to a consideration of the expansion of the mandate of the KP, so that rough diamonds used in the framework of violating fundamental human rights, can also be considered as 'conflict diamonds'. This reform discussion is fundamental and can significantly advance the integrity and responsibility in the diamond supply chain. It remains crucial that the discussion takes place in an inclusive manner, considering that diamond-producing countries - more specifically African countries - must strengthen their monitoring and control functions. Expanding

the definition of a conflict diamond will also require additional development assistance to certain diamond producing countries that lack the capacity to do so.

In 2012, the WDC took a decision concerning the expansion of the definition of a conflict diamond. All violence directly related to rough diamonds, both in producing countries as well as in trading countries, should fall within the scope of the KP. As a WDC member, AWDC will continue to strive for starting a dialogue between the members of the KP to shape this revision process. This should enable the KP to evolve and remain relevant. Recently, this approach has been re-confirmed by the new WDC President, Mr. Edward Asscher.

Sustainable initiatives throughout the supply chain

Due to the fact that KP currently has a narrow scope, various initiatives have been launched, which fall outside the scope of the KP, such as the working conditions of artisanal and small mining actors.

DIAMOND DEVELOPMENT INITIATIVE

Diamond Development Initiative (DDI) is a foundation where NGOs, governments and the diamond and jewelry industry join forces to address problems in artisanal and small-scale mining. The organization strives, among others, to improve the legal framework in the diamond producing countries, to support the organization of the miners and to make the global supply chain and consumer market accessible for artisanal and small-scale miners.

DDI developed the 'Development Diamond Standards' (DDS) to advocate ethical and responsible sourcing among buyers.

"This scheme certifies small-scale mining sites whose practices conform to a set of ethical and social criteria including core labor rights, alcohol use, prostitution,

violence, safety, health, population movements ... It ensures a traceable value chain from mine to consumer, by a third party verification.

Today there are already 5 certified sites in Sierra Leone and Brazil. It is hoped that other operators in the value chain will follow soon, such as larger mining companies and polishing factories", says Dorothee Gizinga of DDI.

The initiatives of the foundation are fully supported by AWDC. Our organization therefore decided in 2012 to become a donor. That year, AWDC provided financial support amounting to \$25,000. This amount went towards core funding, and was therefore not linked to a specific project. In 2013, AWDC financed a study by contributing €10,000.

WORLD DIAMOND COUNCIL – SYSTEM OF WARRANTIES

DDI focuses on the mining and production phase, whereas the system of warranties of the WDC plays a role in the subsequent phase, in which the diamonds are traded. The system offers sellers the option to attach a guarantee to the invoice, which shows that the goods meet the standards of the KP. This mechanism can also

be used when selling polished diamonds. A jewelry maker can use the guarantee to demonstrate that the purchased diamond was not involved in the financing of conflict, and is in accordance with the resolutions of the United Nations.

Through external checks or audits the system can be strengthened. Should the WDC embark on initiatives to improve the operation of the System of Warranties, AWDC will certainly support this, through its representation in the WDC Board of Directors, the Technical Committee and the KP Task Force.

RESPONSIBLE JEWELRY COUNCIL

The Responsible Jewelry Council (RJC) covers a larger section of the diamond and jewelry value chain. Members of this organization endorse the RJC Code of Practices, which contains standards concerning labor, ethics, environment and human rights, and undergo audits from externally accredited organizations to verify the implementation of these standards.

RJC currently has over 470 members, including miners from the diamond and gold sector, traders and polishers, jewelry manufacturers and retailers. A number of Antwerp jewelers and diamond traders are

members of the organization. In April 2014, 133 Belgian facilities (entities of members of RJC) out of a total of 5500 were certified. Our country comes in third place in terms of the number of certifications... after the United States and the United Kingdom.

AWDC is an associated member of RJC, which means that we support Antwerp companies wishing to join the organization. In 2012, AWDC provided a tailor-made training for 10 small enterprises from the diamond sector. Thanks to an explanation of the standards of RJC, intensive guidance, a pre-audit and a reduced cost for

the final audit, AWDC contributed to certification of RJC companies. AWDC's membership of RJC also allows us to remain closely involved in the discussions within the organization concerning new challenges or initiatives related to a sustainable diamond trade.

RJC has recently established a working group on human rights. This could bring about additional insights concerning the impact of the diamond and jewelry value chain on human rights in various countries. AWDC is currently considering the way in which it can contribute to the goals of this working group.

QUALITY LABEL 'ANTWERP'S MOST BRILLIANT'

Ethics and sustainability are also of major importance at the end of the value chain, namely when it comes to diamond jewelers: these elements have a lot of influence on customer confidence and the general public. To reward diamond jewelers who meet the highest standards and to put them in the spotlight, AWDC decided to launch the Antwerp's Most Brilliant (AMB) quality label in 2013, in collaboration with a

number of other partners including The City of Antwerp. To be eligible for this label, diamond jewelers must meet more than 30 strict requirements, that is, adhere to the strictest standards in the area of ethics, sustainability and transparency. Independent authorities, namely the Federal Public Service (FPS) Economy and an external auditor verify these requirements. Labeled diamond jewelers can guarantee the consumer that they trade

according to the strictest standards.

Today nine Antwerp jewelers have successfully gone through the certification process and now have the Antwerp's Most Brilliant label. The ambition is to reach a critical mass of 10% of the total number of jewelers in Antwerp certified with the AMB label.

What differentiates a labeled jeweler?

The quality label Antwerp's Most Brilliant can be granted to diamond jewelers who have a physical sales outlet in Antwerp. Candidates must first meet all legal requirements, including those relating to anti-money laundering legislation, market practices and consumer protection, as well as tax and social security legislation. In addition, the labeled jeweler distinguishes him or herself by being able to identify his or her clients and suppliers and to adequately secure his or her store and stock.

The labeled jeweler also provides comprehensive and objective product information to his or her client through a website, through clear information about the quality of diamond (the 4 C's) and the mandatory certification by a recognized gemological laboratory, for of all diamonds larger than 1 carat. Finally, the labeled jeweler passes an investigation conducted by the City of Antwerp and local police, in cooperation with the Public Prosecution Service.



PRECIOUS STONES - MULTI-STAKEHOLDERS WORKING GROUP (PS-MSWG)

In 2013, on the initiative of a number of players in the value chain, a group was founded under the name Precious Stones Multi-Stakeholder Working Group (PS-MSWG). The purpose of this working group is to consider possible additional methods or guidelines to promote transparency in the diamond and precious stones value chains. AWDC has been a participant of the PS-MSWG since the beginning of this reflection process. This year, the PS-MSWG commissioned a study where the necessity and the feasibility of supplementary due diligence measures are being examined. If such measures are deemed feasible, the study will suggest a number of options to facilitate their implementation.

In determining the objectives of the study AWDC always insisted that additional measures must strengthen and not undermine the existing framework, in particular the Kimberley Process. A second principle that must be honored at all times is that all actors in the value chain should be involved in the study and in the possible next steps. Situations in which one group, which represents only a single part of the value chain, imposes rules on others, is not acceptable. AWDC therefore actively raises awareness and informs diamond-producing countries about this initiative, so that they are well aware of the developments and can defend their interests in a timely and adequate manner.



Evaluation of our impact and next steps

Evaluating AWDC's impact on these sustainability initiatives is no simple task. In each of the initiatives listed in the previous sections, our organization is merely one of the many players. In the case of the KP, AWDC is not even directly represented, but it must exert its influence via the WDC, which, in addition to AWDC, represents a large number of other organizations, which are not always on the same page. Without undue pride we can say that AWDC has played an important leadership role, and will continue to do so. We have a distinct standpoint that is based on a number of basic principles (inclusivity, transparency, sustainability and wide support from governments, industry and civil society and a level playing field) and we do not hesitate in taking clear positions based on these principles. The results

of the survey we conducted when embarking on this sustainability report illustrate that the diamond sector and our stakeholders support AWDC's position.

To contribute to the relevance of the KP, on 23 May 2014, AWDC, in cooperation with the Belgian Embassy in the United States, held a policy-oriented seminar on these aspects. In the presence of government representatives, the industry, NGOs and academic institutions, the path of the Process through the last decade was discussed, in addition to the biggest challenges for the coming years. One of the conclusions of this seminar was that the KP remains unequivocally supported by the actors present.

In terms of capacity building, in 2014, AWDC will set up a

comprehensive program in Ivory Coast, in collaboration with the KP Working Group on Monitoring (WGM) and the Working Group of Diamond Experts, the United Nations authorities in Ivory Coast and the South African diamond lab MINTEK. Through this program AWDC will provide technical support to the Ivorian government. Government staff responsible for the surveillance of the trade in rough diamonds will be trained and a technical manual will be developed concerning the analysis and valuation of Ivorian rough diamonds. In addition to capacity building in Ivory Coast, AWDC will organize a seminar in Brazil in 2014, for local governments and stakeholders from the industry and civil society. The goal of this seminar is to foster a better application and implementation of the KPCS in Brazil.

Office sustainability at AWDC

AWDC takes into account the cradle-to-cradle principle in all its office projects. All materials used in our office must have properties that allow us to use them in a different application before or after their life cycle. This is of great importance especially with the use of plasterboard and flexible floor covering. For lighting purposes, AWDC uses LED as much as possible. Printing paper at AWDC is PEFC certified, and carries the Eco-label.

In 2013, AWDC managed to reduce its energy consumption by adjusting the programming of the ventilators and replacing an old water pump and cooling

machine, which were less energy-efficient.

AWDC will continue on this path in the coming years. A number of materials, such as toilet paper and napkins, will be replaced by more sustainable alternatives and turning off appliances when they are not in use will reduce energy consumption.

No matter how small these changes may be, they can make a difference. As an umbrella organization AWDC intends to continue taking the lead in office sustainability. In this vein, we decided to participate in the Energy for

the Heart of Antwerp initiative, part of the 'Stadslab 2050' agenda of the City of Antwerp in 2014. AWDC will take part in an innovative Energy Services Company (ESCO) project, where the energy needs and consumption in the offices will undergo a thorough assessment and the necessary adjustments will be made to make facilities more sustainable and energy friendly. If this project proves to be successful, AWDC will present this initiative to the various building owners in the diamond square mile. This way, AWDC is putting a step forward in the direction of a truly sustainable diamond district.