

# INTEGRITY IN THE DIAMOND VALUE CHAIN

Integrity is about adopting moral values and respectful practices. In the diamond industry, the notion of integrity is often related to the diamond pipeline and practices: On the product side, ensuring that there is no mixing of lab-grown or conflict diamonds into the (natural) diamond value chain. On the practical side, respecting ethical and legal business conduct and implementing due diligence guidance to improve traceability within the diamond value chain.

Integrity in all its components is closely linked to issues of Compliance and Governance, which are treated at length in later chapters of this report. Fair business practices also touch on the topic of the economic impact generated by and for diamond-producing countries, also discussed in another chapter of this report. In this chapter, we decided to state at length the various institutions and instruments that regulate the diamond industry. The AWDC is involved in all of them. They are probably not perfect, but they show that the diamond and jewelry industries do care about the value chain and are committed to more integrity from mine to finger.

In light of this, the AWDC wants to contribute to SDG 8 “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”, especially via:

- **Target 8.5:** By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.
- **Target 8.7:** Take immediate and effective measures to eradicate forced labor, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labor, including recruitment and use of child soldiers, and by 2025 end child labor in all its forms.
- **Target 8.8:** Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.



To SDG 12 “Ensure sustainable consumption and production patterns”, especially via

- **Target 12.2:** By 2030, achieve the sustainable management and efficient use of natural resources

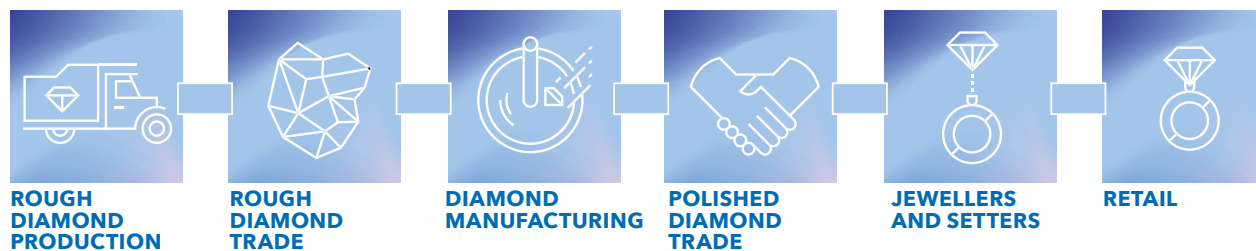
To SDG 16 “Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels”, via

- **Target 16.2:** End abuse, exploitation, trafficking and all forms of violence against and torture of children

*“We have become much too lenient with those breaking their word and commitments to all involved in the industry. We must seriously increase the cost to those who break our trust” – S. Fischler*

In recent years, the diamond industry has been rocked quite a few times with scandals that have impacted the reputation of the industry. Conscious that it is not only unacceptable, but also very detrimental to the reputation of the diamond industry, Antwerp has been putting great effort into creating a more transparent, ethical and fair diamond business environment.

We believe that having a meaningful impact, focusing on integrity, in every step of the diamond value chain, will be key to protect our natural diamond product.



## THE GLOBAL DIAMOND VALUE CHAIN

Around the world, rough diamond production, including industrial, artisanal and small-scale mining as well as laboratory-grown diamonds, are sent to the main rough diamond trading hubs: Antwerp, Dubai, Mumbai, New York, Singapore and Hong Kong.

The diamond mining sector employs directly and indirectly 10 million people worldwide, of which 1.5 million are artisanal workers, mainly located in Africa. The working conditions in artisanal and small-scale mining, often informal, are still problematic today.

86% of all rough diamonds pass through the hands of 1,600 traders in Antwerp, where they are sorted and traded on the largest diamond trading market in the world. Rough diamonds are then cut and polished in manufacturing hubs like Antwerp, India, China, and Thailand. The most difficult and important stones are still polished in Antwerp, in state-of-the-art polishing facilities employing about 300 people. Most diamonds (→ almost 90%) are manufactured in India today. Very little data exists about the working conditions at these Asian manufacturers. It is reasonable to be concerned about the wages and ages of these workers who cut and polish diamonds for less than a 10th of the price of Antwerp.

Polished diamonds are traded in the polished trading hubs, often the same as the rough markets. 50% of the polished stones will return to Antwerp to be traded again, before they leave the loose diamond market to enter the jewelry market and end in the consumers hands. At each of these steps, the integrity of the product and business practices is essential, and the best guarantee to ensure transparency is to track their movement from mine to finger.

What role can AWDC, as a representative body of the Antwerp industry, play to enhance the integrity of the diamond trade? It is active at various levels, targeting the stages that are most at stake.

- **Mining stage:** Although the AWDC is not directly implied in mining itself, it is involved in advocacy, capacity building and ensuring that risks linked to ASM, such as human rights violations, unfair working conditions, corruption... are tackled at the 'mining level'. We also support programs and NGOs in protecting the miners and local communities (see chapter economic impact in diamond-producing countries).

- **Entering the rough diamond trade in Antwerp:** The Kimberley Process (KP), as explained below, combats the trade in so-called 'conflict diamonds'. Antwerp's Diamond Office controls physically every shipment of rough diamond that enters the country to make sure that it is in accordance with all international obligations (see chapter compliance).

- **The KP minimum requirements** state that every rough diamond shipment from one KP Participant to another KP Participant should be accompanied by a KP certificate, stating the provenance of the shipment and the conflict-free nature of the shipment. The first shipment by definition states the country of mining. Statistical analysis based on this information shows that in Antwerp, almost three times as many rough diamond shipments are exported out of the EU in comparison to the number of shipments imported into the EU. This proves that nowhere in the world is there as much sorting and trading activity, and consequently distributive capacity, as there is in Antwerp. Nowhere in the world is this distributive capacity as high as in the EU, as even in absolute terms the EU has been the biggest exporter of KP certificates worldwide.

- **Trading practices:** International as well as national legislation regulates all business aspects of Antwerp-based diamond traders. Comprehensive anti-money laundering regulations, strict registration requirements and ample Know Your Customer (KYC) obligations are employed to enhance the transparency and ethical conduct of the diamond trading business (see chapter compliance). The AWDC helps all diamond companies free of charge and facilitates their compliance duties through training sessions, a help-desk and templates.

• **Downstream:** The AWDC sits on the Board of the RJC - Responsible Jewellery Council - and has actively backed the RJC Code of Practices, which set high standards in the field of human rights, labor rights and environmental impact, promoting good, fair and sustainable practices to all affiliated jewelers. The AWDC is part of the expert group that currently helps the RJC transpose the OECD due diligence guidance for responsible supply chains of Minerals from Conflict Affected and High-Risk Areas into the RJC Code of Practices (*see below*).

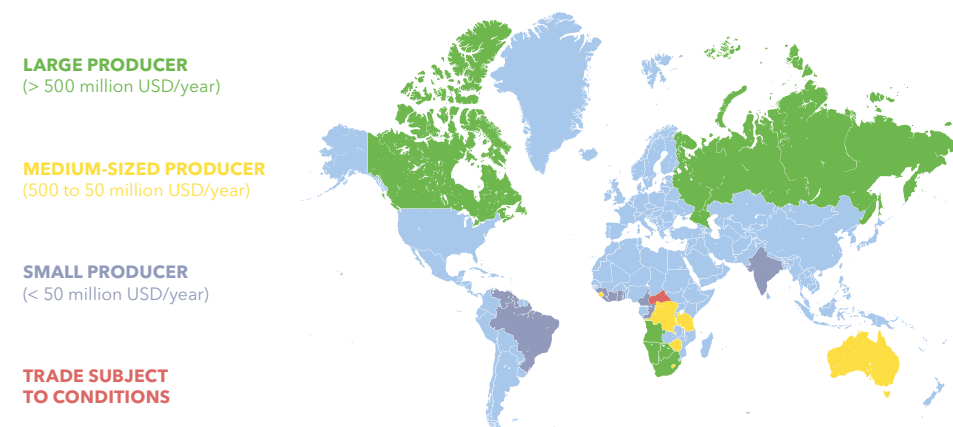
## THE KIMBERLEY PROCESS: A TOOL TO FIGHT CONFLICT DIAMONDS, NOT A GUARANTEE OF ETHICAL PRODUCTION

The Kimberley Process (KP) is an international certification scheme established by 82 countries in 2003 to prevent conflict diamonds from entering the mainstream rough diamond trade. It is an international partnership between countries, NGOs and the diamond industry, supported by the UN. The core of the regime is the Kimberley Process Certification Scheme (KPCS) under which States implement safeguards on shipments of rough diamonds and certify them as 'conflict free'. Over the last 15 years, the percentage of conflict diamonds in the global diamond trade has declined significantly from 15% to less than 1%, proving its effectiveness in this area.

Besides member countries, the diamond industry, through the WDC and civil society groups is also an integral part of the KP. These organizations contribute to its effective implementation and monitoring. It is through the WDC that the AWDC is involved in the steering of the KP. It does so in various ways:

- The AWDC has been leading the technical Working Group of Diamond Experts (WGDE) since the creation of the KPCS in 2003. This group is mainly concerned with eliminating trade barriers, improving the techniques of origin recognition, the classification of diamond powder or the harmonization of valuation methodologies.
- The AWDC Diamond Office (DO) issues around 30,000 KP Certificates per year, almost half of all KP Certificates issued worldwide.
- The AWDC co-hosts the Administrative Support Mechanism (ASM), which ensures that KP communications and logistics run smoothly. The AWDC is the central 'focal point' responsible for the knowledge management and the institutional memory of the KP.
- On behalf of the WDC, the AWDC frequently joins the triennial KPCS review visits to check the system of mining, accounting, implementation and control of operations

concerning rough diamonds and to assess their compliance with the requirements of the KPCS.



## AWDC'S POSITION REGARDING THE KIMBERLEY PROCESS TODAY

The AWDC believes a number of things need to change:

- **Scope of the KP:** there is an urgent need to address the social and environmental challenges affecting diamond mining communities, and the ASM-communities in particular, due to the informality of the industry, the risk of exploitation of diamond workers and their exposure to poverty (see also the chapter "Economic impact in diamond-producing countries"). Accordingly, the AWDC has long been an advocate of broadening the mandate of the KP and the definition of conflict diamonds.

As such, the KP should be recognized as a mechanism that contributes to the broad 2030 Agenda, and more specifically to the Sustainable Development Goals (SDGs). It is essential that the KP is anchored in more political (bilateral) fora where governments discuss policies on natural resource management. The EU, for instance, is currently discussing the new negotiation mandate for the post-Cotonou agreements. This is a unique opportunity to bring KP-related matters into the discussions and discuss the KP at a more political level. Furthermore, the AWDC advocates for the incorporation of the World Diamond Council (WDC) System of Warranties (SoW) into the KPCS. The new SoW offers a guarantee to consumers that their purchased diamonds are not only conflict-

free, but are also free of human rights abuses, corruption or money laundering across the entire diamond supply chain (see also *“What is the System of Warranties”*).

- **Effectiveness of the KP:** the KP lacks a proper management and implementation of its decisions, leading to the lack of a level playing field. Increased effectiveness can be acquired by creating a Permanent Secretariat and establishing an Assistance Fund to develop assistance programs in diamond-producing countries.

- **Governance of the KP:** the current System of Peer Review to evaluate the state of implementation of the KPCS has a number of shortcomings which weaken confidence in the KP. The above-mentioned Assistance Fund should support vulnerable countries in the visits. Independent experts should also be part of the Peer Review Teams to professionalize the reviews and their follow-up, while a standardized follow-up and reporting mechanism will provide continuous oversight on the implementation and follow-up of the Peer Review Visit findings and recommendations.



Being a large contributor to the KP, both in terms of financial contribution and labor force, the AWDC remains a fierce supporter of the KP but wants to have a KP that is capable of responding to new risks involved in the rough diamond supply chain. A strong, credible and functioning KP is not only a lifeline for Antwerp, but for the whole global diamond industry.

## Conflict Diamonds – Central African Republic

Conflict diamonds are defined as “rough diamonds used by rebel movements or their allies to finance conflict aimed at undermining legitimate governments.”

For the moment, only rough diamonds from the Central African Republic (CAR) are subject to enhanced vigilance. In May 2013, the Central African Republic was temporarily suspended by the KP. In July 2015, the KP adopted a supervised phased re-entry program for the CAR, including resumption of diamond exports from production zones deemed compliant. Since November 2016, diamond exports from CAR have under strict KP monitoring been gradually permitted from compliant areas in the western production zone. Diamonds from the eastern production zone centered around Bria are still embargoed due to a lack of adequate governmental presence and control, active involvement of ex-Seleka militias in the diamond mining areas and continued systemic violence in this area.

This means that KP participants are called upon to contain this using vigilance measures, such as providing detailed information regarding exports, digital pictures and statistical data. The World Diamond Council, an industry group focused on preventing conflict diamonds from entering the global supply chain, is directly involved in the operation of the KP Monitoring Team through its representatives, to ensure that rough diamonds coming from the CAR are legally traded and that no smuggled goods end up in the legitimate diamond trade. To that effect, WDC-industry diamond specialists, including from AWDC, collaborate with other government diamond specialists within the KP Working Group of Diamond Experts in comparing the production footprint from the compliant zones with the footprint of all proposed rough diamond exports from CAR.

This control is only possible as long as good collaboration exists between the KP, MINUSCA and other UN groups, intergovernmental organizations, civil society groups, industry and the CAR government to monitor the situation on the ground.



## THE WORLD DIAMOND COUNCIL

The WDC consists of businesses and organizations around the globe engaged in every sector of the diamond trade, from production to retail. The WDC acts as the voice of the industry in the KP to:

- Promote industry alignment and responsibility;
- Preserve the integrity of the entire diamond supply chain;
- Contribute to the KPCS System of Warranties;
- Provide industry education and training.

As a non-government body, the WDC is an observer to the KP, but has always played a critical role in its activities and deliberations.

In 2002, the World Federation of Diamond Bourses (WFDB) and the International Diamond Manufacturers Association (IDMA) agreed to implement the System of Warranties (SoW) created by the WDC to comply with, support and strengthen the KPCS. The SoW is voluntary and is applicable to all buyers and sellers of rough diamonds, polished diamonds and jewelry from mine to retail. A warranty provides assurance that diamonds sold or purchased originally derive from a shipment certified as 'conflict free' under the KPCS at the first export point.

In 2018, following repeated efforts by the AWDC, the WDC updated its System of Warranties to encompass the additional promotion of human rights, labor rights, anti-money laundering and anti-corruption practices. This reform aligns the SoW with the UN Guiding Principles on Business and Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the UN Convention Against Corruption, AML Guidelines as per National Laws in line with the FATF's 40 Recommendations on Money Laundering for Dealers in Precious Metals and Stones.

Although it is still too early to assess the impact of the revision, it is clear that the broadened scope of the SoW raises awareness for risks linked to the diamond supply chain, and hence can reduce these risks by understanding and mitigating them. AWDC will lead an educational campaign to encourage diamond traders to apply this improved system. Currently, a toolkit is being developed by the WDC to support worldwide implementation.

The AWDC is in many ways involved in the WDC:

- it participates in the WDC KP Task Force, a specialized committee within the WDC.
- it is also a driving force of the strategic plan ad hoc steering committee, which is mandated to draft WDC strategy and action plans, like the recent adaptation of the SoW to encompass human rights, labor rights, AML and anti-corruption practices.
- it chairs the WDC Technical Committee, which is tasked with advising about the application of the System of Warranties and other technical topics.
- it is a member of the Board of Directors of the WDC.

The AWDC strongly believes in a more robust WDC that commits itself to tackling all risks related to the diamond industry, and not only to the prevention of conflict diamonds entering the legitimate diamond trade. The AWDC pleads for a consistent approach when consulting and cooperating with important stakeholders such as NGOs, the bourses, the RJC, CIBJO and the DPA, when dealing with critical topics such as the reputation of the diamond industry, the integrity of the international diamond value chain or other themes linked to the KP.

## THE RESPONSIBLE JEWELLERY COUNCIL (RJC)

→ The RJC is an industry-driven organization established in 2005 by a group of 14 organizations from a cross-section of the diamond and gold jewelry business. It addresses the entire diamond, gold and platinum group metals jewelry supply chain to commit to responsible supply chains and the implementation of accountable business practices. Today, the RJC consists of more than 1,100 organizations, of which about 100 members are located in Antwerp. The RJC has developed a unique set of standards that companies can use to mitigate the risks associated with their diamond operations. As such, RJC contributes to the integrity and reputation of the diamond trade.

RJC Members commit to and are independently audited against the RJC Code of Practices (CoP), an international standard on responsible business practices. The CoP addresses human rights, labor rights, environmental impact, mining practices, product disclosure... in the jewelry supply chain. Third-party certification is compulsory for all RJC members and needs to be renewed every three years. Some companies require their customers or suppliers to be RJC CoP certified, which creates a critical mass of 'compliant companies'.

The AWDC is actively involved in the RJC in various ways:

- It represents the trade association segment, both in the Board of Directors and the Standards Committee, that drafts the CoP and other industry standards. The AWDC provides assistance in difficult dossiers, such as the proper disclosure of synthetic diamonds.
- The AWDC actively advocates the CoP in the Antwerp diamond industry and encourages Antwerp diamond companies to consider a membership. Antwerp should increase its participation far above 100 participants, as part of its ambition to promote ethical business standards in Antwerp and throughout the diamond value chain.
- The AWDC supports the RJC's efforts to integrate the OECD Due Diligence Guidance for Responsible Supply Chains or Minerals from Conflict-Affected and High-Risk Areas into the CoP by 2019.

For the AWDC, the RJC plays an essential role in becoming the reference organization for standards development and implementation for companies that operate in the global diamond and jewelry value chain. The AWDC believes the RJC still has much potential to assume greater responsibility to further protect the integrity of the diamond value chain. It could increase its credibility and impact if it would better demonstrate its value addition for its members, especially for smaller companies. The AWDC is an advocate of enhancing the implementation of the SDGs to position RJC beyond its current mandate and scope.



## THE DIAMOND DEVELOPMENT INITIATIVE (DDI)

→ The DDI was founded in 2005, in parallel with and complementary to the regulatory instruments of the KPCS. The DDI seeks to fill the gaps the KP does not address, such as poverty, exploitation... with a clear focus on the artisanal diamond mining sector. It does so by registering local miners and giving them a legal status, bringing them into the formal economy and providing them with protection, legitimacy and access to government support; organizing artisanal miner cooperatives and the use of certification.

This certification system, known as the Maendeleo Diamond Standards (MDS), addresses the mode of production and the socio-economic context of the artisanal and small-scale diamond mining sector. As artisanal-mined diamonds become part of the formal economy, they become traceable and taxable by the local government and can respond to the rising consumer demand for ethical jewelry and the industry's need for responsibly-mined ASM diamonds.

This is not a small achievement, since the sector was often marginalized and excluded from diamond sourcing policies, especially by large mining companies or rough diamond buyers. The MDS are currently reviewed to be in line with OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. AWDC supports the DDI financially and has partnered with the DDI for the pilot project in Sierra Leone, My Fair Diamond.



## OECD DUE DILIGENCE GUIDELINES

We have seen the emergence of initiatives focusing on physically tracing diamonds throughout the value chain. These technologies are still in an infancy stage and it will be an immense challenge to apply this to the millions of small stones that are unearthed and traded.

Pending the availability of these technologies, the AWDC believes that a proper due diligence done by diamond companies on their suppliers and other partners, is an adequate way to stem and remediate adverse impacts. The OECD has developed a → [guidance](#) to assist companies that want to perform such a due diligence on their supply chain, in particular in relation to sourcing from high-risk and conflict-affected areas. This guidance can be applied by companies active in any industry, including ours.

The AWDC has supported the inclusion of a due diligence provision in the new RJC Code of Practices. The RJC CoP is the perfect framework to introduce these principles in our industry. However, despite the existence of a Guidance, performing due diligence remains a very complex, time-consuming and cumbersome process for many diamond companies. This is why the AWDC has invested much time and efforts in adjusting the due diligence requirements and the guiding document that helps companies in applying the RJC CoP, to ensure that they are able to duly implement the principle, enabling them to have a positive impact on their value chain and business.

In the coming years, the AWDC will continue to invest in this issue by guiding a number of pilot projects in which companies will start applying due diligence to their value chain. The objective of the pilot projects is to ensure the applicability and feasibility of the due diligence provision of the new RJC CoP, but at the same time to make sure that this provision generates a positive impact.

## PROPER DISCLOSURE OF SYNTHETIC AND NATURAL DIAMONDS



Synthetic diamonds are diamonds made in a laboratory or factory. They are made of pure carbon, like natural diamonds extracted from the earth. It is impossible for an untrained person to distinguish natural diamonds from laboratory-grown diamonds. The AWDC has put great effort into establishing correct product disclosure requirements and informing governments of the need for a clearer legislative framework that differentiates natural diamonds from synthetic diamonds.

In Belgium, this has resulted in the legal requirement for every diamond trader to clearly and unambiguously describe the nature of the diamond (natural or synthetic). On a European level, AWDC co-operates with the Diamond Producers Association to implement correct product disclosure requirements for diamonds in EU legislation. Our legal efforts on a European and Belgian scale will have an impact on the illegal selling of synthetic diamonds as natural diamonds and will benefit the end consumer.

### Laboratory-grown diamonds

Laboratory-grown diamonds (synthetic, laboratory-created, [manufacturer-name]-created) are grown in a laboratory or factory. Nine of the leading diamond industry organizations developed a Diamond Terminology Guideline to serve as a reference document for the diamond and jewelry trade when referring to diamonds and synthetic diamonds. It is built on two internationally-accepted standards: the ISO 18323 Standard ("Jewellery - Consumer Confidence in the Diamond Industry") and the CIBJO Diamond Blue Book.

Most importantly, it states: a diamond is a mineral created by nature, and the word "diamond" always means a natural diamond, to be referred to without a qualifier; a synthetic diamond is an artificial product that has essentially the same physical

characteristics as a diamond. Synthetic diamonds should be referred to using the following qualifiers: "synthetic", "laboratory-grown" or "laboratory-created", without abbreviations ("lab-grown").

In 2018, the U.S. Federal Trade Commission (FTC), on the contrary, expanded its definition of "diamond" to include those grown in a laboratory or factory and eliminated the word "natural" from the definition. It also dropped "synthetic" as an appropriate descriptor. However, the FTC still states that synthetic diamonds must be clearly disclosed as such through the use of a qualifier such as "laboratory-created". In our view, this creates confusion: the FTC says the word 'diamond' includes synthetic diamonds, but still says they must be qualified as such, while only natural diamonds can be called 'diamond' without a qualifier.

Since natural and man-made diamonds have some of the same physical and other properties, even a skilled jeweler or trained gemologist cannot distinguish them by sight alone. Many varieties of detection equipment have been developed to identify synthetic stones.

Synthetic diamonds have been produced for industrial purposes since the 1950s and are used in a wide variety of applications: telecommunications, laser optics, healthcare and more. In 1970, researchers at General Electric created the first, small, gem-quality synthetic diamonds that could be faceted as gems.

It typically takes a few weeks to make a synthetic diamond and they are produced in two ways: High Pressure, High Temperature (HPHT) and Chemical Vapor Deposition (CVD). Synthetic goods represent about 3-5% of the natural diamond production, but this share is growing.

The AWDC recognizes synthetic diamonds as an alternative product, but not as a lower-priced equivalent to natural diamonds. The AWDC backs efforts to distinguish between natural and lab-grown stones as separate product categories altogether. It is up to the preference of the consumer whether they purchase a natural or synthetic diamond, however, proper disclosure about the nature of the stone is paramount.

Therefore, the AWDC joins other industry representatives in fighting the fraudulent practice known as 'undisclosed mixing', where synthetic diamonds are mixed into parcels of natural diamonds. It is not known how extensive this practice is, but it is potentially extremely damaging to consumer confidence in the diamond industry as a whole.

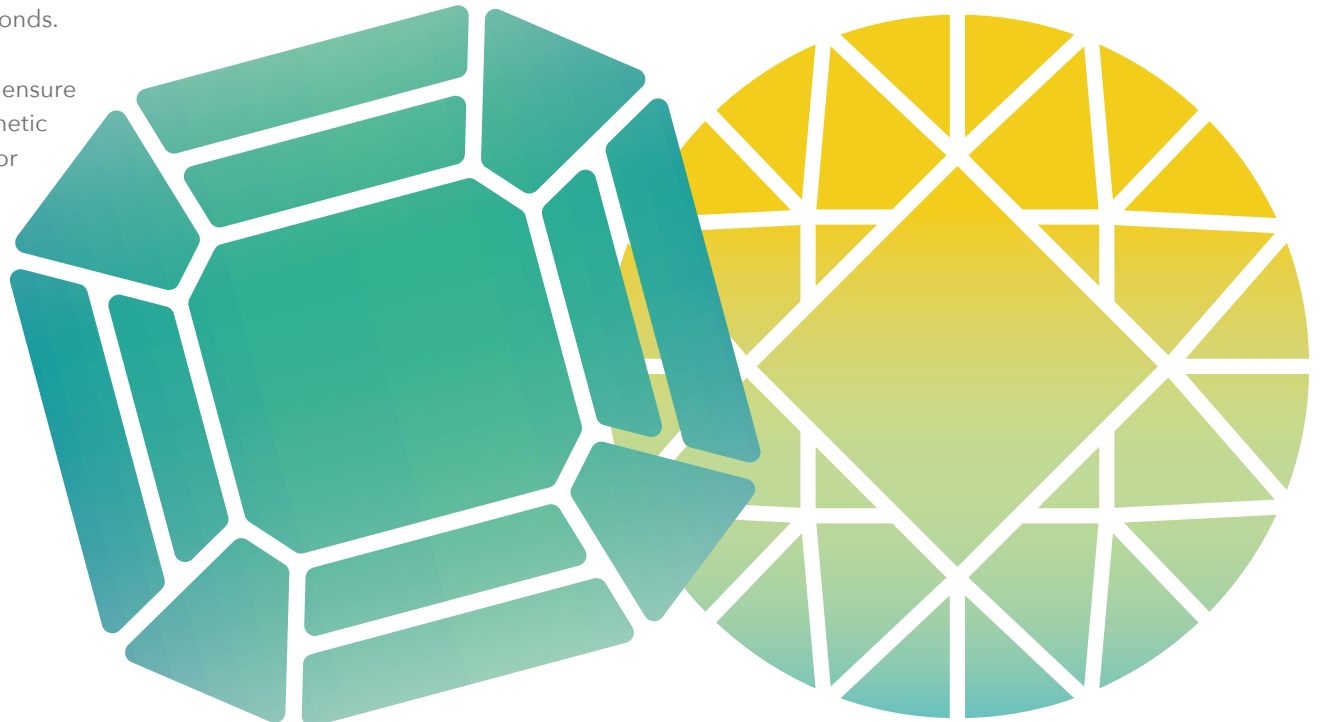
## DPA

Formed by eight of the world's leading diamond-producing companies\* in 2015, the Diamond Producer's Association (DPA) exists to maintain and enhance consumer demand for, and confidence in diamonds. By promoting the integrity and reputation of diamonds and the diamond industry, the DPA plays a central and, to our mind, the most important role in ensuring that consumers continue to see diamonds as the ultimate symbol of love.

The DPA puts much effort into protecting the diamond value chain and providing category marketing for diamonds. For instance, it underlines the importance diamond mining has for diamond-producing countries, creating 16 billion USD of social and environmental benefits globally.

The DPA also debunks some common 'myths' regarding synthetic diamonds. Synthetic diamonds are, for example, often marketed as the 'eco-friendly' counterpart of natural diamonds, but this claim is not always justified. For some types of synthetic diamonds, the CO2 output per carat is up to 40% more than for natural diamonds.

The AWDC started a project in collaboration with the DPA to ensure that consumers realize the difference between natural and synthetic diamonds in some key EU markets. Both organizations argue for a clear legislative framework and implementation of correct product disclosure requirements.



\* The original seven members were: Alrosa, De Beers, Dominion Diamond, Gem Diamonds, Lucara Diamond, Petra Diamonds and Rio Tinto. Murowa Diamonds joined in 2018.