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ILLICIT DIAMONDS, CONFLICT AND TERRORISM: THE ROLE OF U.S. AGENCIES IN FIGHTING THE CONFLICT DIAMOND TRADE

HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING, AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

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ILLICIT DIAMONDS, CONFLICT AND TERRORISM: THE ROLE OF U.S. AGENCIES IN FIGHTING THE CONFLICT DIAMOND TRADE

WEDNESDAY, FEBRUARY 13, 2002

U.S. SENATE,
OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING,
AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 9:30 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Richard J. Durbin, Chairman of the Subcommittee, presiding.

Present: Senators Durbin and Collins.

OPENING STATEMENT OF SENATOR DURBIN

Senator DURBIN. Good morning. I am pleased to welcome you to today's hearing before the Subcommittee on Oversight of Government Management focusing on "Illicit Diamonds, Conflict and Terrorism: The Role of U.S. Agencies in Fighting the Conflict Diamond Trade."

In today's hearing, I hope we will learn more about the connection between illicit diamonds, conflict, terrorism, and crime, and what U.S. agencies are doing to stop this trade in conflict diamonds, both here and overseas. I want to learn more about how an international system to control the conflict diamond trade can be effective, monitored, and enforced.

We have learned a lot about the horror that has resulted when illicit diamonds fueled conflicts in Africa. Rebels from the Revolutionary United Front, funded by illegal diamonds and supported by Liberia, terrorized the people of Sierra Leone, raping, murdering, and mutilating civilians, including children. If the fragile peace in Sierra Leone is to be maintained, profits from that country's diamonds must not fall into the hands of such brutal rebels again. Anti-government rebels in Angola and the Democratic Republic of the Congo continue to fight and are also supported by the sale of illicit diamonds.

We have learned that members of al Qaeda network may have bought large quantities of these illegal conflict diamonds from rebels in Sierra Leone in advance of September 11 last year, anticipating the United States would seek to cut off its sources of funds. An article in the *Washington Post* by Douglas Farah on November 2 outlined the al Qaeda connection and showed that al Qaeda ter-

rorists on the FBI's "most wanted" list bought conflict diamonds at below-market prices and sold them in Europe.

We have learned that the Lebanese terrorist group Hezbollah has participated in the conflict diamond trade and that it has been a source of funding and a way to launder funds for drug dealers and other criminals.

It is now clear that ending the trade in conflict diamonds is not only the just, right, and moral thing to do, it is also in our immediate national interest in our fight against terror. If the crisis in Afghanistan has taught us anything, it must be that we ignore failed, lawless states at our peril.

American consumers who purchase diamonds for happy milestones in their lives, like an engagement, wedding, anniversary, or even Valentine's Day, must be assured they are buying a diamond from a legitimate, legal, and responsible source. Setting up a system that would allow American consumers to have confidence that they are buying clean diamonds would also serve our local jewelers and diamond retailers. The jewelers in our local malls and downtown shops do not want to support rebels and terrorists in the world any more than their consumers do.

This hearing is not about a particular piece of legislation. Our first panel is made up of a bipartisan group of Senators who have supported legislation to end the trade in conflict diamonds. There are not many issues that bring together Senators and Congressmen from across the spectrum, that can bring together the human rights community and the diamond industry and can unite leaders of every religious denomination.

The horror of what has happened to the people of Sierra Leone, and especially to its children, has brought us together to fight this evil by cutting off the rebels' source of support, the illicit diamond trade. Now it brings us together to fight the terrorists who have murdered our own citizens in our own country.

At this point, without objection, I will enter a statement from Senator Voinovich in the record.

[The prepared statement of Senator Voinovich follows:]

PREPARED STATEMENT OF SENATOR VOINOVICH

Thank you, Mr. Chairman.

I would like to thank you for holding this hearing to examine the sale of "conflict diamonds," and the role the U.S. Government might play in combating this illicit trade. I would also like to welcome our three panels of distinguished witnesses, including the senior Senator from the State of Ohio, who has played an important leadership role on this issue in the Senate. Thank you all for taking the time to be here today.

It is clear that the sale of conflict diamonds—mined by rebel factions in the countries of Sierra Leone, the Democratic Republic of Congo (DRC) and Angola—has had a devastating impact on political stability in West Africa. The struggle to control these rich resources continues to contribute to instability, death and destruction throughout the region. There have been untold consequences for thousands of innocent men, women and children.

In Sierra Leone alone, the U.S. Government has documented chilling reports of atrocities committed by the rebel group Revolutionary United Front (RUF). The State Department's *2000 Human Rights Report* attributes killings, abductions, deliberate mutilations and rape to RUF insurgents.

The destabilizing influence of the illicit trade in conflict diamonds has become even more pronounced in the aftermath of the terrorist attacks against the United States on September 11. As press reports have indicated, it is believed that conflict

diamonds are used as a source of funding for al Qaeda, Hezbollah and other terrorist groups.

Diamonds are easy to transport, difficult to detect and relatively simple to sell. It is reported that conflict diamonds from Sierra Leone, the Democratic Republic of Congo and Angola are bought on the cheap in Liberia by al Qaeda operatives, and then sold for high profits in Europe. It can be difficult to predict exactly where these profits go; but as events of September 11 have shown us, the consequences can be monumental.

Presently, the U.S. Government is working with the international community, through the Kimberley Process, to find a way to govern international trade in rough diamonds in order to end the trade in conflict diamonds. I support these efforts, as well as those initiated by Congress to examine ways to curb this illicit trade.

I look forward to learning your thoughts on how the United States might effectively enforce a regulatory system to prohibit the sale of conflict diamonds. We must bring an end to the bloodshed tied to the diamond trade.

Senator DURBIN. I would just like to say before recognizing Senator Collins that Senator Feingold and Senator DeWine have joined us. We have worked closely with Congressman Tony Hall, who has been a leader on this subject. We are happy with the recent announcement of his appointment as an ambassador representing the United States for the United Nations in Rome. We are going to miss him on Capitol Hill. He has been a great leader in the time that he has served here in so many different areas involving hunger and international justice and he was the inspiration for almost all of the legislation that is before us on the diamond issue. We cannot let Congressman Hall's departure in any way lessen our resolve to pass this legislation as quickly as possible.

We can set up metal detectors in every doorway in the world and diamonds will still pass through them. We can talk about tracing every financial transaction of every group, and still someone with a handful of diamonds in their pocket is walking around with the resources of terrorism if that is their goal. So this is an important responsibility and an important challenge. I am glad this hearing will address it.

Senator Collins.

OPENING STATEMENT OF SENATOR COLLINS

Senator COLLINS. Thank you very much, Mr. Chairman. Let me first begin by thanking you for your longstanding leadership in combating the trade in illicit diamonds, and I thank you for convening this hearing.

The subject, the control of trade in illicit diamonds, is both tragic and timely, timely not only because tomorrow is Valentine's Day, a day long associated with diamonds and the values and commitments they represent, but also timely because news articles have linked illicit diamonds to Osama bin Laden and his terrorist network. Even without the link to Osama bin Laden, however, the trade of illicit diamonds is often tragic, for it has fueled conflicts that have raged, often out of control, across large parts of Africa, killing, maiming, and devastating thousands of innocent victims.

I understand that Senator DeWine this morning will tell us about one of the horrific effects the illicit diamond trade has had on children, who have been murdered, mutilated, raped, even burned alive, and of children who have been turned into perpetrators of these heinous crimes. In addition to Senator DeWine and our Chairman, Senator Feingold, who is here with us this morning,

and Senator Gregg have also been strong leaders in trying to end the trade in conflict diamonds.

Let me take just a moment to highlight a few statistics that I believe paint a chilling portrait of the extent of this problem. A Congressional Research Service fact sheet provided the following estimates on some of the consequences of diamond-related African conflicts in just three countries, Sierra Leone, Angola, and the Democratic Republic of the Congo. There have been more than 870,000 deaths. It has created 992,000 refugees, displaced more than five million citizens internally, resulted in 20,000 child soldiers. These numbers are, of course, imprecise and are just estimates. The frightening reality, however, is that the actual numbers are probably much higher.

In light of this devastation, it is encouraging to note that some developments are occurring. In the international arena, the Kimberley Process is underway, and although it is not perfect, it does appear to be a step in the right direction.

In Congress, there is also forward movement. The House recently passed the Clean Diamond Trade Act and the bill introduced by our Chairman and cosponsored by Senator DeWine and Senator Feingold, as well as another bill introduced by Senator Gregg, are also in committees and I hope that this hearing will prompt action on these important bills.

I look forward to learning from all of you this morning about the tragic, deadly trade in conflict diamonds, and again, Senator Durbin, I want to thank you for giving us the opportunity to do our part to reduce the trade in illicit diamonds.

Senator DURBIN. Thank you, Senator Collins.

I am sorry that Congressman Hall will not be here for the reason I mentioned earlier, and also Congressman Frank Wolf, who has been a leader in the House. I have spoken to him. He will not be able to join us today, but they will submit statements for the hearing record.[1]

Senator Russ Feingold is here, as well as Senator DeWine. Senator Feingold is chairman of the African Affairs Subcommittee on the Foreign Relations Committee. We are happy to have you both here, and Senator Feingold and Senator DeWine, if you would like to make your statements.

TESTIMONY OF HON. RUSSELL FEINGOLD,[1] A U.S. SENATOR FROM THE STATE OF WISCONSIN

Senator FEINGOLD. Thank you very much, Mr. Chairman and Senator Collins. I want to thank you for inviting me to testify before the Subcommittee today and especially to thank you for all your efforts to push for serious, viable mechanisms to disrupt the global trade in conflict diamonds. It has truly been a pleasure to work with you, Mr. Chairman, and you, Senator DeWine, on this issue over the past year. I admire your leadership on the issue and I very much hope that we can continue to work together, as the Chairman said, to pass the best possible bill in the months ahead.

[1] The prepared statement of Congressmen Hall and Wolf appears in the Appendix on page 78.
[1] The prepared statement of Senator Feingold appears in the Appendix on page 33.

I also want to echo what the Chairman said about the leadership of Congressmen Tony Hall and Frank Wolf. This issue would probably have languished in obscurity for far too long had we not had their leadership on this issue.

Mr. Chairman, the first time that you, Senator DeWine, and I came together to discuss this issue was last June, when we joined to introduce a bill that had the support of both the advocacy community and the diamond industry. As I noted then as Chairman of the Senate Foreign Relations Committee's Subcommittee on African Affairs, I have actually had the opportunity to travel to Angola, to the Democratic Republic of the Congo, and to Sierra Leone. In each of these cases, I have personally witnessed the devastation brought by conflicts fueled in large part by a desire for profit, and I have heard from people who believe their country's resources to actually be a curse.

But at the same time, over the years that I have served on the African Affairs Subcommittee, I have also worked on issues relating to countries like South Africa and Botswana. These states depend upon legitimate diamond industries to fuel economic growth and development and their interests also deserve protection.

I believed then as I believe now that our national values and national interest demand that the United States disassociate itself from the trade in conflict diamonds. The United States must work with the rest of the international community to regulate the diamond trade and create a clean stream for the legitimate diamond industry and consumers to rely upon.

In the months since that press conference, my sense of urgency about this has only grown. As you have both indicated, press reports have raised serious questions about the connections between international terrorists and the illicit diamond trade, and this should come as no surprise.

In the Foreign Relations Committee, the Subcommittee on African Affairs has just embarked on a series of hearings to be conducted over the course of this year, prompted by the current campaign against terrorism. In the wake of the attacks of September 11, the President was right to make clear that the United States will not distinguish between the terrorists behind the attacks and those who harbor them.

But state sponsors are only part of the problem. The absence of a functioning state is another. So the subcommittee's hearings will examine the characteristics of some of Africa's weakest states—manifestations of lawlessness, such as piracy, illicit air transport networks, and trafficking in arms, drugs, diamonds and other gemstones, and even people—that can make the region attractive to terrorists and other international criminals.

Our subcommittee is trying to identify long-term policy options for changing the context in these states so that they are no longer appealing to criminal opportunists. Somalia is the first case the subcommittee took up, but I have no doubt that later hearings will focus on Liberia and the Democratic Republic of the Congo, countries involved in the conflict diamond trade. The right policy response to these complex crises will be distinct, nuanced, and multifaceted, but it will also entail efforts to address some of the transnational criminal networks that operate in weak states. The illicit

diamond trade is a perfect example, and that is why I am so glad you are holding this hearing today.

I am particularly glad that you will be hearing from the administration, because Congress needs to understand the position that U.S. negotiators are taking at the Kimberley Process negotiations, which Senator Collins referred to. And the administration needs to understand the will of Congress and the depth of our concern. I know that Worldvision, one of the NGOs working on the conflict diamonds issue, recently issued a report card on progress toward eliminating conflict diamonds. It gives process participants high marks in some areas, but fails them in others, particularly noting that the United States is fighting a diamond certification system that might be viewed as a so-called restriction on trade. This concern appears to have led to an abandonment of the clean stream approach, which leaves me wondering how the industry and U.S. consumers would be protected.

Mr. Chairman, I know that many had hoped to see this legislation passed by Congress and signed by the President last year. That was my hope, as well, and I think yours, as well. But this issue is an important one and we must take the time to make our beset efforts. That said, I want to be very clear. I will certainly not let the perfect be the enemy of the good in this area of conflict diamonds legislation.

I look forward to reading the hearing transcript and consulting with the Subcommittee, my colleagues on the Senate Foreign Relations Committee, and, of course, with Senators Gregg and DeWine after the hearing is over. Thank you very much, Mr. Chairman.

Senator DURBIN. Thank you, Senator Feingold. I know you have another meeting and if you have to leave, that is understood.

I would like to now recognize Senator DeWine.

TESTIMONY OF HON. MIKE DeWINE,[1] A U.S. SENATOR FROM THE STATE OF OHIO

Senator DEWINE. Mr. Chairman, thank you very much, thank you and Senator Collins for holding this hearing and for your dedication to this issue. Let me also congratulate Senator Feingold and thank him, as well as Senator Gregg.

As you pointed out, Congressmen Tony Hall and Frank Wolf in the House have been real champions of this issue and very visionary and I would ask unanimous consent that their statements, which I have here, be made a part of the record.

Senator DURBIN. Without objection.

Senator DEWINE. The diamond trade, Mr. Chairman, is one of the world's most lucrative industries. With its extreme profitability, it is not surprising that a black market trade has emerged alongside the legitimate industry. It is also not surprising that diamond trading has become an attractive and sustainable income source for violent rebel groups and terrorist networks around the world. The sale of illicit diamonds has yielded disturbing reports in the media, linking even Osama bin Laden to this trade. The February 22, 2001, U.S. District Court trial, *United States v. Osama bin Laden,*

[1] The prepared statement of Senator DeWine appears in the Appendix on page 36.

attests to this. Additionally, there is an established link between Sierra Leone's diamond trade and well-known Lebanese terrorists.

Currently in Africa, where the majority of the world's diamonds are found, there is ongoing strife and struggle resulting from the fight for control of this precious gem. While violence has erupted in several countries, including Sierra Leone, Angola, the Congo, and Liberia, Sierra Leone in particular has one of the worst records of violence.

In this nation, rebel groups, most notably the Revolutionary United Front, have seized control of many of the country's diamond fields. Once in control of a diamond field, the rebels confiscate the diamonds. Then they launder them into the legitimate market through other nearby countries, such as Liberia, and ultimately, then, finance their own terrorist regimes and their continued efforts to overthrow the government. Over the past decade, the rebels reaped the benefits of, it is estimated, at least $10 billion in smuggled diamonds, and that is billions.

Since the start of the rebel's quest for control of Sierra Leone's diamond supply, the children of this small nation have borne the brunt of the insurgency. For over 8 years, the RUF has conscripted children, children often as young as 7 or 8 years old, to be soldiers in their makeshift army. They have ripped an estimated 12,000 children from their families. After the RUF invaded the capital of Freetown in January 1999, at least 3,000 children were reported missing.

Mr. Chairman, as a result of deliberate and systematic brutalization, child soldiers have become some of the most vicious, even the most effective, fighters within the rebel factions. The rebel army, child soldiers included, has terrorized Sierra Leone's population, killing, abducting, raping, and hacking off the limbs of victims with their machetes. This chopping off of limbs is the RUF's trademark strategy.

Now, we can do something about this. We can make a difference. We have the power to help put an end to indiscriminate suffering and violence in Sierra Leone and elsewhere in Africa. As the world's biggest diamond customer, purchasing the majority of the world's diamonds, the United States has tremendous clout. With that clout, we have the power to remove the lucrative financial incentives that drive the rebel groups to trade in diamonds in the first place. Simply put, if there is no market for their diamonds, there is little reason for the rebels to engage in their brutal campaigns to secure and protect these diamonds.

That is why I will continue to work with you, with the other Members of this Committee, the other Members who are involved in this battle. Senator Gregg and Senator Feingold have been working along with us on strong legislation which would remove the rebel's market incentives. We need to work together with the international community to facilitate the implementation of a system of controls on the export and import of diamonds so that buyers can be certain that their purchases are not fueling the rebel campaign.

Mr. Chairman, before I conclude my remarks, I want to again thank my colleague from Ohio, Congressman Tony Hall, and Congressman Frank Wolf from Virginia for the tireless efforts that

they have made to fight the conflict diamond trade. They both wanted to be here today, although their schedules would not permit it. In their absence, I would, again, as I said, like to submit their statements for the record.

Let me just say, also, that Congressman Hall announced yesterday that he has agreed to be our next ambassador to the U.N.'s Food and Agriculture Agency. We are going to miss him certainly in the U.S. Congress, but I am confident that he will continue his unbelievable commitment to humanitarian initiatives and helping those suffering from hunger and human abuses around the world.

Again, Mr. Chairman, thank you for holding this hearing. We have an obligation, I believe a moral obligation and responsibility, to help eliminate the financial incentives for the illicit traders. We owe it to those who unwittingly buy conflict diamonds. But more importantly, we owe it to the children who have suffered far too long.

Senator DURBIN. Thank you, Senator DeWine, and we understand you also have a conflict and will have to leave us, but you have been a great friend and ally in this fight.

Senator Gregg, I am glad you could be here because I think that you showed an interest in this issue and initiative early on and I am glad that you are still maintaining that interest and contributing to this conversation. We welcome your testimony.

TESTIMONY OF HON. JUDD GREGG,[1] A U.S. SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator GREGG. Thank you, Mr. Chairman and Senator Collins. It is a pleasure to be here. I want to begin by congratulating you, Mr. Chairman, on your legislation in this area, which I was happy to join you in, and talk a little bit about the necessity of passing this legislation, getting it through the Senate and getting it joined up with the House language so that we can have laws which control illegal diamonds and conflict, or blood diamonds, which are essentially the same.

I got into this issue about 2½ or 3 years ago as a result of my chairmanship of the Commerce, State, and Justice Appropriations Subcommittee. At that time, the war in Sierra Leone was going forward and the United Nations was pursuing a policy which was, in my opinion, misguided, it essentially empowered the RUF and Foday Sankoh, allowing them into the government and allowing them to dominate that country. As a result, at that time, I put a freeze on the peacekeeping funds in that region. The result of this was that we reached an agreement between the Congress and then-U.N. Ambassador Holbrook which essentially changed the policy towards the RUF in Sierra Leone, which I thought was an extremely positive step.

The purpose of the new policy was to put in place a democratic government that was not influenced by the RUF, an organization which has been described by Senator DeWine in the harsh details that it should be described in, an organization which is a terrorist organization and which treats its people and treats especially the women and children of Sierra Leone in the harshest way.

[1] The prepared statement of Senator Gregg appears in the Appendix on page 39.

But the new policy, which was really driven in large part by the British Government, which I want to congratulate publicly for their role in this, has put in place a much more responsible approach to Sierra Leone. As a result, the United Nations' new policy is seeing significant progress, although I am not as sure it is as significant as maybe the press releases would promote it. But at least it is significant progress in the right direction.

However, there remains one major issue in this whole complex question which has not been adequately resolved and that is the issue of the RUF's control over the diamond fields and the fact that the resources that are being generated from those. The revenues from selling those diamonds are clearly flowing into terrorist hands which are then being used to attack us in the United States.

I think if the American people understood that when they buy a diamond in the United States that happens to be a blood diamond or a conflict diamond, that they are actually underwriting the type of people who attacked the World Trade Center, Americans would be much more responsive to the need to do something in this area. Certainly you, Mr. Chairman and Senator Collins, understand the importance of this.

Thus, the attempt by the legitimate diamond trade, which is trying to address this through the Kimberley Accords, to find a way of managing these diamonds, is something we must encourage. We as a country must have our own laws that encourage it. As Senator DeWine mentioned, we are the largest importer of diamonds in the world and, therefore, we have the market and if we make it clear that our market is not going to tolerate conflict and blood diamonds, then we will have an impact on the flow of those diamonds.

The problems, however, are not easily resolved. Diamonds are not easily traced. There is no system in place yet which can mark a diamond effectively that would allow it to be easily traced. Thus we must, to some degree, rely on the good intentions and will of the diamond marketers, especially the European diamond marketers. But in any event, we should clearly have a law that makes the point that we, as a Nation, are only going to tolerate the importation of non-conflict diamonds.

In addressing this issue, we also have to be sensitive and aware of the fact that it is not just the Sierra Leone diamond fields that are the issue here. There are other diamond fields, but there are also other governments involved here that are having a negative effect and that is clearly the government of Liberia. We as a country need to address that problem. Charles Taylor and his government have denied supporting the RUF, but they clearly are involved with the RUF and they are also clearly profiting from RUF activities in the diamond fields and are today profiting from their own exploitation of their timber products. We, as a Nation, need to address that issue as part of a coherent and comprehensive policy towards the conflict in Sierra Leone, diamond production, and conflict diamonds.

So I do not believe we can effectively resolve the question of conflict diamonds and the flow of the resources and the revenues from conflict diamonds to terrorists unless we also address the issue of what is happening in Liberia and its being an umbrella organiza-

tion which protects the RUF's control over the diamond fields in Sierra Leone.

I appreciate this Subcommittee drawing attention to this issue. It is a very important issue, in my opinion. It goes to our national security, but more importantly, it goes to having the people of Sierra Leone have an opportunity to have a decent life and a free society.

Senator DURBIN. Thank you very much, Senator Gregg. We appreciate your testimony and your commitment to this issue.

The beep that you heard earlier is an indication that we are on a roll call vote, which is usually not too unsettling but for the fact that we have four roll calls. This means that we are going to have to stand in recess here for an indeterminate period of time, probably in the range of 30 to 45 minutes. I apologize. It was unexpected. We will return. Someone said that before—General MacArthur. [Laughter.]

We will return and I hope that each of you can stay with us for this important hearing. The Subcommittee will stand in recess.

[Recess.]

Senator DURBIN. Thank you for your patience. There is still another roll call vote coming, but I decided to come back and try to get started with our second panel. I again apologize for this inconvenience and I ask your indulgence.

I would like to now welcome our second panel, the Hon. John Leigh, Ambassador of Sierra Leone to the United States, and the Hon. Joseph Melrose, former U.S. Ambassador to Sierra Leone, who both have firsthand understanding of the scourge conflict diamonds helped fuel in Sierra Leone. I want to thank you very much, both of you, for coming.

It is customary in this Subcommittee to swear in all witnesses and I ask you to please stand and raise your right hand. Do you swear the testimony you are about to give before this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Ambassador LEIGH. I do.

Ambassador MELROSE. I do.

Senator DURBIN. Let the record reflect that the witnesses have answered in the affirmative.

I would ask you if you could try to limit your oral statements and then questions will follow. Ambassador Leigh, would you please proceed.

TESTIMONY OF HON. JOHN E. LEIGH,[1] AMBASSADOR OF SIERRA LEONE TO THE UNITED STATES

Ambassador LEIGH. Thank you, Senator Durbin. Members of the Committee, ladies and gentlemen, we the people of Sierra Leone and the people of African countries really appreciate the work of this Senate Subcommittee in focusing attention on the continued devastation caused by conflict diamonds in Africa.

The international diamond trade is big business. The worldwide retail trade in diamond jewelry was estimated at approximately $60 billion in 1999. Conflict diamonds account for anywhere from

[1] The prepared statement of Ambassador Leigh appears in the Appendix on page 41.

4 to 15 percent. That is about from $2.4 billion to $9 billion at the retail level. The total portion that is accounted for by illicit or contraband diamonds from all sources, including conflict diamonds, is estimated at 20 percent, or nearly $24 billion annually.

Seventy percent of the world trade in diamonds is created in the United States. It is my view that the large role which contraband diamonds occupy in the diamond trade is behind the stiff resistance to the effective reform of the international diamond trade. Contraband diamonds have been a prominent feature of the diamond trade for many years, many decades, and it is the real precursor of conflict diamonds. So for us to address the issue of conflict diamonds, we must address also the issue of contraband diamonds. It is the freedom which the contraband diamonds enjoyed that ultimately led to the situation of conflict diamonds.

In my view, it is the illicit diamond trade that was behind the collapse of state power in Sierra Leone. Beginning in 1965, diamond exports from Sierra Leone officially declined from 1.3 million carats annually to genuine gemstones—to only 20,000 carats of industrial diamonds by 1997. Gemstone production was unaccounted for, for many years. All those stones were accounted for, depriving the government of Sierra Leone of the revenues it needed to fund social and economic development.

With a weak government in place, people began to use the situation to fake a civil war. For nearly a decade, beginning in March 1991, a ragtag rebel group calling itself the Revolutionary United Front purported to wage a civil war for the purpose of bringing democracy, economic and social development in my homeland. What we know is that at some point the rebels gained control of an area in Eastern Sierra Leone where alluvial diamonds are present. Things have never been the same in Sierra Leone since that time.

With their easy access to diamonds, it did not take too long for the rebels of the area to become a well-equipped army of several thousand trained troops unleashing a reign of terror against the people and government of Sierra Leone. Their objective was to gain access to even more diamond deposits, and eventually to overthrow the elected government and establish an outlaw state. Had the RUF succeeded, Sierra Leone would today be another sanctuary for terrorists and elements of the international Mafioso in West Africa and populated by people with no rights and by violated people.

The calling card of the RUF was the kidnapping of women and girls for sex and domestic servitude and the capture of young boys to serve as child soldiers. In Sierra Leone, the RUF put child soldiers in front of the attacking troops. Those kids were the ones who took the brunt of the casualties in the war in Sierra Leone. The RUF sent children to face government and ECOMOG troops. The consequent devastation to the youths of Sierra Leone is beyond words.

Contraband diamonds come from many countries, but conflict diamonds come from only a few countries, supposedly blessed with easily accessible diamonds in alluvial plains. Alluvial diamonds are deposits of diamonds occurring in lowland areas, in old river beds, in the beds of streams and rivers and in wide swaths of forested lands. We believe that about 8,000 square miles of Sierra Leone

territory have alluvial diamond deposits and this makes illicit mining almost impossible to control.

The government of Sierra Leone supports the Senate in enacting legislation that would protect the people of Africa from terrorists, but at the same time protect the legitimate trade in diamonds. Diamonds are very valuable to many African countries and Sierra Leone wants nothing to do that will affect that.

We believe that conflict diamonds cannot be addressed by itself without addressing the issue of contraband diamonds. Although there have been Presidential orders in favor of prohibiting importation of conflict diamonds into the United States, Liberia has taken action to bypass those prohibitions by starting to cut and polish diamonds looted in Sierra Leone. So, unless legislation addresses all illicit diamonds, whether processed or not, criminals will find some way to defeat the system.

We should also be aware that narco-dollars are what are being used to pay for diamonds obtained from rebels in Sierra Leone. Therefore, addressing the issue of conflict diamonds will also make it more difficult to launder narco-dollars with diamonds.

Please let me summarize by saying that for a law to be effective against the illicit diamond trade in Sierra Leone, there should be a time limit on negotiations. The Kimberley Process has been going on for far to long and it is now time for this process to come to an end. To be effective, the Kimberley Process should provide for sanctions, including criminal penalties and the forfeiture of contraband diamonds. And entities participating in the 70 percent of the international trade in diamonds that is conducted in the United States must be compelled to obey United States laws. Diamonds illicitly exported from Sierra Leone and forfeited in the United States should be set aside to fund appropriate activities in Sierra Leone to benefit the people. Victims of the illicit diamond trade should be allowed to sue for damages in United States courts.

Once again, I thank the Subcommittee for allowing me to testify and for focusing attention on this issue critical to peace in Africa. I want to thank Congressman Tony Hall, Congressman Frank Wolf, and their staffs for their leadership in this issue. I also want to thank this Subcommittee, Senator DeWine, Senator Feingold, and Senator Gregg for their support for the people of Africa. Thank you, Mr. Chairman.

Senator DURBIN. Thank you very much, Ambassador Leigh. Ambassador Melrose.

TESTIMONY OF HON. JOSEPH MELROSE,[1] FORMER U.S. AMBASSADOR TO SIERRA LEONE

Ambassador MELROSE. Chairman Durbin, Members of the Subcommittee, thank you for inviting me to testify today on this important issue.

The fact that diamonds as well as other resources have been used to both fuel and fund conflicts in Africa is now generally accepted as fact. In addition, natural resources from Africa have provided funds for terrorist activities outside of Africa. In the case of diamonds, their high value, small size, and low weight, combined

[1] The prepared statement of Ambassador Melrose appears in the Appendix on page 45.

with the ease in which they can be converted into money and the difficulty of detection by mechanical means makes them an excellent medium for moving, hoarding, or laundering money.

In the case of Sierra Leone and, indeed, some of the other countries of Africa, the presence of alluvial diamonds provides a particularly conducive situation. These diamonds are not mined in the traditional way but rather by panning for them in much the same way Forty-Niners panned for gold in our own country. Digging for diamonds takes place over a wide geographical area, making it particularly difficult to control. Virtually anybody can dig for diamonds or hire someone else to do it for them. No expensive mining equipment is needed, and as noted previously, diamonds are easily hidden and transported. The diggers are among the most exploited people in the world. Those that hire them get rich while the diggers remain in a state of abject poverty and virtual servitude. But this is only part of the problem.

The conflicts that have engulfed Sierra Leone and other African countries have meant a lack of government control of these stones from the field to the market. The environment has provided purveyors of violence with a friendly playing field from which to operate. Nation states in either a state of collapse or near collapse provide both native citizens and unscrupulous outsiders an even more suitable operating environment.

For example, the Lebanese have long been involved in the Sierra Leone diamond trade. Funds from the sale of illicit diamonds have been used to purchase weapons for use in revolutions, crimes, and terror. In addition, as *Washington Post* reporter Doug Farah reported several months ago, illicit diamonds have been used as a means of transfer money from one location to another.

The motivations for most of the individuals that engage in the illicit diamond trade are simply greed and power. Farah's assertion that the rebels of the Revolutionary United Front (RUF) of Sierra Leone sold diamonds to individuals identified by the U.S. Government as al Qaeda representatives is not surprising. Even the RUF itself, following its internal investigation into Farah's story, while denying that it had a relationship with al Qaeda, acknowledged that it was not impossible that some of their number did, in fact, sell stones to representatives of al Qaeda.

In my opinion, this admission is tantamount to accepting the possibility that their stones went to al Qaeda, with or without the formal backing of the organization. While it is still in question whether this was a deliberate effort on the part of the RUF to assist al Qaeda, or not the impact is the same.

Too often, the sellers of diamonds are interested in one thing, the best price and who has the money. Whether deliberate or not, it makes little difference in the end. In addition, similar sales have almost certainly taken place with other designated terrorist organizations, such as Hezbollah. In the case of Hezbollah, a connection has existed for years to various Lebanese groups.

The need to establish a clean, transparent system for preventing such illicit commodities from entering the legitimate market is clear. The customer should be able to know that the diamond he or she purchased did not get to the retail counter by increasing the suffering of fellow human beings and that the benefits of the coun-

try's natural resources should benefit the citizenry of the country they come from. The Kimberley Process, while far from perfect, is a step in the right direction.

Information I have received in the past week indicates that a large amount of diamonds that were at least in part mined by the RUF during the conflict have made their way to Guinea for sale to raise funds to support the RUF in the upcoming Sierra Leone election. As Ambassador Leigh said, diamond traders in Antwerp tell me that they are seeing stones coming out of Liberia and reaching the European markets at this time.

The Kimberley Agreement, although no panacea, would be a step in reducing this trade, the unintended consequences throughout the world, and the particularly devastating ones in Africa. Despite its flaws, it is a start and should be supported. By declaring that trading in conflict diamonds is not acceptable, the world may see the advent of a new corporate and social responsibility in a sector that has heretofore relied almost totally on self-policing.

By taking this step, the diverse group of interested parties that negotiated the Kimberley Agreement, including states, the private sector, nongovernmental organizations, and even representatives of civil society, may have begun a process that could impact other sectors where the improper or illicit trade in commodities, such as gemstones, occur without the necessity of another Kimberley-type agreement. Individuals and organizations must not have the tools by which they can take power or hold nations hostage to their demands. If reducing the trade in conflict diamonds can even partially be achieved, it would have a significant benefit in the area of human rights and the true source of regional conflicts, which all too often is money.

Our goals should be two. First, we must end these practices by various organizations and cut off their funding sources. Second, we must make every effort to ensure that new techniques to circumvent proper channels do not simply take the place of old ones. To do so will require not only coordination among states, industry, civil society, but the international security and law enforcement apparatus, as well. While we have seen that various organizations have been able to successfully benefit from this situation, we must also recognize that it is certain that others who seek to harm innocent members of society have used this situation for their benefit, as well.

The United States, as the biggest market for gem-quality stones, must take a leading role in ending the conditions that permit these violations of our moral and ethical standards by supporting Kimberley and clean diamond legislation. We must not abdicate our role, but should continue to press for a tangible, meaningful solution to this problem in consultation with the legitimate diamond industry, as well as the other Kimberley participants. I thank you for your attention.

Senator DURBIN. Thank you very much, Mr. Ambassador. Let me ask you this. I know you cannot discuss any classified information relative to the al Qaeda connection that you may have learned during your service to our country, but I wonder, did you observe any activities in diamond trading when you were U.S. Ambassador to

Sierra Leone that led you to conclude that the press reports about the al Qaeda connection are likely to be true?

Ambassador MELROSE. Toward the end of my tour in Sierra Leone, we noticed some aberrations in the diamond market which, although I was not able to investigate them to the extent that I would have liked, led me to believe there was a laundering or hoarding of stones taking place. This was prior to September 11, but there clearly were some changes which were taking place which were not subject to normal economic factors.

Senator DURBIN. What kind of changes?

Ambassador MELROSE. Prices were being manipulated. Quantities were being manipulated. Certain kinds of stones were not available on the market.

Senator DURBIN. Do you have any reason to believe that members of al Qaeda were in the region prior to September 11?

Ambassador MELROSE. Mr. Farah has gotten some, I believe, eyewitness statements that they were. The relationship between a gentleman that I believe is currently in Burkina Faso by the name of Ibrahim Bah with certain dissidents, both Lebanese and other Arab groups is pretty clearly established.

Senator DURBIN. Did you observe, or were you aware of his presence in the region before September 11?

Ambassador MELROSE. He was in Liberia and also in Burkina. I have met Bah several times and talked to him before that. The last time I spoke to him was probably about a year ago and he was at that time in Burkina Faso.

Senator DURBIN. And at least there are allegations of his connection with al Qaeda leadership?

Ambassador MELROSE. There are certainly questions that would lead one to believe that there could be a relationship, yes.

Senator DURBIN. Have you spoken to officials from any other countries that might have evidence of al Qaeda operatives purchasing conflict diamonds?

Ambassador MELROSE. I have spoken to members of the diamond trade and also Belgian officials who initially were doubtful of some of these connections, whether al Qaeda or other terrorist organizations, but have certainly changed or modified their view since September 11.

Senator DURBIN. All right. Let me ask you about the Hezbollah situation, because both Ambassador Leigh and yourself have alluded to the involvement of Hezbollah. This seems to be accepted. There is no controversy involved, that they have been involved in conflict diamonds for some period of time, is that correct?

Ambassador MELROSE. I would say at least 5 to 10 years, yes.

Senator DURBIN. Well, I think it is worth noting for the record what this is all about, to try to connect the dots for just a minute, if we could. When people in the United States learn of child labor or slave labor making products for sale in the United States, we find that absolutely repulsive and many companies have suffered because of accusations and some have suffered even more when it has been proven that products are being sold to Americans that could have been the product of those types of outrageous labor practices.

This raises an important point in relation to Hezbollah. Hezbollah is a terrorist organization, named by President Bush in his State of the Union Address and notorious throughout the world, that was responsible for bombing two American embassies in Beirut, killing 48 people, responsible also for the Marine Corps barracks bombing in Beirut. They also kidnapped an American diplomat and killed him and they have been involved in hijacking of airplanes, a TWA flight, and have taken credit for the loss of innocent life.

Now, having said that, I hope to bring this full circle. They are using, or at least it is believed that they are using, these conflict diamonds to finance at least some part of their operations, and from your testimony, have been doing so for 5 or 10 years. The reason why this comes close to home is if I find it repugnant to find a soccer ball made by a tiny child in some third world country to give to my grandson, imagine if Americans came to believe that the diamonds that they were buying for engagement presents and wedding presents were really financing the kind of terrorist activity of Hezbollah which I have just described.

That, I hope, is what comes from this hearing, that Americans will connect the dots and say, as long as, the ambassador has said, we are consuming 70 percent of the world's diamonds in the United States, we have a moral obligation to ask the question, where are they coming from? How do they get here? And if they come through the bloody hands of terrorists, whether it is the RUF or Hezbollah, I think that that is a red flag to all Americans that we need to do something to police this situation.

I would like to ask you, if I might, Ambassador Leigh, what is your knowledge of the involvement of al Qaeda members in the conflict diamond trade?

Ambassador LEIGH. I do not have any specific knowledge of al Qaeda in Sierra Leone, but I can tell you one thing. There is a large Middle Eastern population in Sierra Leone. There are Shiites in Sierra Leone, Sunis, Christians in Sierra Leone from the Middle East. There is a large Lebanese population and they have been involved in the contraband diamond trade going back to 1960. And, in fact, the decline in Sierra Leone's official diamond exports coincided with the Lebanese civil war. The present speaker of the Lebanese parliament is a Sierra Leone born Lebanese, Nabih Berri. He was the head of Amal militia, and Amal was funded partly from the sale of Sierra Leone diamonds. And it is well known that the Lebanese in Sierra Leone have been supporting various factions in Lebanon civil war going back to the early 1980's.

So I can say that if al Qaeda wishes to trade in Sierra Leone diamonds, it would be an easy thing for them to do to accomplish. There is certainly a strong and powerful Middle Eastern presence in Sierra Leone going back about a hundred years.

Senator DURBIN. Can you tell us anything more specifically about Hezbollah in the conflict diamond trade?

Ambassador LEIGH. Just like you have al Qaeda there, there will be factions in Sierra Leone supporting various militia groups. Hezbollah would be one of those. Hamas would be another one. Various Middle Eastern groups in Sierra Leone have always served as financial support bases for the parent groups in the Middle

East. I do not have any specific knowledge of any specific Hezbollah operative in Sierra Leone, but Hezbollah's presence in Sierra Leone would not be out of the ordinary at all.

Senator DURBIN. Ambassador Melrose made mention of the Revolutionary United Front selling diamonds in Guinea to raise funds for the upcoming election in Sierra Leone. That is very disturbing and I would like to ask you, have you received any information about this activity?

Ambassador LEIGH. I first heard of that when I was in Sierra Leone last month, but again, these fellows, they always hide behind the scene, behind closed doors. It is very secretive. They do not publicize their financial authorities, but there is general knowledge that the RUF is still exporting Sierra Leone diamonds illegally through Guinea and Liberia.

Senator DURBIN. Ambassador Melrose, could you follow up on that? Do you believe the RUF intends to manipulate the elections to take power in Sierra Leone?

Ambassador MELROSE. I tend to believe that they will make an effort. I do not think they will be successful. I think one of the ways they will use, according to reports coming from certain U.N. and other NGO observers, is that they have tried to manipulate the registration process by registering under-age voters that were members of their organization.

Senator DURBIN. Since September 11, Mr. Ambassador, do you believe there has been an improvement in U.S. intelligence activities in West Africa concerning the flow of conflict diamonds?

Ambassador MELROSE. To some extent, but not significant.

Senator DURBIN. What is holding it back? Why do you believe it has not been significant?

Ambassador MELROSE. I think largely, Mr. Chairman, it is a function of resources. Moving resources in, even if you wanted to, cannot be done overnight and you cannot develop the contacts overnight. This takes time, even if everybody is desirous of doing it. It is just the way the intelligence function works.

Senator DURBIN. You know, it strikes me that early on, President Bush and members of our coalition made it clear that they were going to go after the financial support of terrorism around the world and I think that is not only appropriate, it is necessary. But it strikes me, based on what I have read and heard at this hearing, that unless we also address the conflict diamond financing of terrorism, we are leaving a gaping hole in this war against terrorism. Do you agree?

Ambassador MELROSE. Yes, I do. I think the diamonds, not just for financing, but the transportability of resources, the convertability make diamonds a commodity that must be addressed.

Senator DURBIN. All right. What are your views on the success of the certification scheme and peacekeeping efforts that currently exist in Sierra Leone?

Ambassador MELROSE. The certification system was designed as a result of the U.N. resolution banning the export of diamonds. The certification system is relatively good, but it only addresses one portion of the path from the field to the market.

I like to divide the path from the field to market into three sectors: From the field to Freetown, place of export; from the place of

export to the place of import, which is what the certification system deals with; and from the place of import to the market. More work needs to be done on the other two parts for the certification system to be more effective.

Senator DURBIN. So from the field to Freetown——

Ambassador MELROSE. Yes.

Senator DURBIN [continuing]. And from the final disposition of the diamonds.

Ambassador MELROSE. And then you are also hearing, as Ambassador Leigh mentioned, stones that go out of the country through Guinea, through Liberia, through the Gambia, through Mauritius. These circumvent the certification process and that is one of the things the Kimberley Agreement attempts to deal with.

Senator DURBIN. Ambassador Leigh, you did make that point in your testimony. Would you address that again in terms of where you think the gaps are in the current certification system and perhaps bring to our attention some things that we should address with legislation?

Ambassador LEIGH. Ambassador Melrose is quite correct. The difficulty is from the mines to the government offices, to the export offices in Freetown. The difficulty is that the prices for Sierra Leone diamonds are higher in Morovia than in Sierra Leone and they are higher in Morovia because they use narco-dollars in Morovia and they use legal currency in Sierra Leone. So people who want to clean the money are willing to pay a premium for Sierra Leone diamonds to clean their money. So some diamonds are going to Morovia, to Liberia, and Liberia is now beginning to process those diamonds to defeat the certification scheme.

Diamonds are going through Guinea. Guinea has their own diamond mines, but the bulk of the diamonds in that part of West Africa, 90 percent are in Sierra Leone. So Guinea has a collateral claim to say they had the diamonds. So it is a difficult problem. It is very difficult.

Senator DURBIN. We have learned in this war against terrorism the linkage between narcotics and terrorism and now we are learning that we need to bring diamonds into this conversation, as well, that, unfortunately, diamonds are part of this whole flow of terrorist activity and narcotics in many parts of the world, and I think you have given us some good illustrations of how countries that are not enforcing their laws or do not have any laws or do not have any ways of investigating are being exploited, and I think even more importantly, the people of the country are being terrorized and exploited in that same process.

Speak to me about the Kimberley Process and whether you believe it is moving apace and coming to a conclusion that we can subscribe to. I think there was some reference to how long it has taken and how we still have to do much more before we wait for that conclusion. Ambassador Leigh.

Ambassador LEIGH. I believe the Kimberley Process is proceeding at a leisurely pace.

Senator DURBIN. Leisurely?

Ambassador LEIGH. Very leisurely. They have meetings in a number of exotic places, having really nice meetings, but nothing really effective is coming out within a time frame that is acceptable

to the people of Sierra Leone. We are sitting on top of violated children, violated women, damage of infrastructure across the land and we understand the urgency of addressing this issue.

The Kimberley Process is meeting now for, what is it, 18 months or more, and what they have done that I like is they are really putting emphasis on warranties, actually maintaining a chain of warranties from the mines through to the final importer. Now, every single country in the world should join that system. Otherwise, it is no good. If the countries that have that system in place enforce it, then the diamond smugglers will go to some other country that does not have that system. So any Nation that wants to partake of the 70 percent of the diamonds in the United States should be in a system where there is international certification and the chain of warranty of diamonds from the mines are supported by that system or else it is not going to work.

But I would like to see an end to the meetings, the debates, and something concrete comes out of it in forms of legislation in all those 30 countries taking part in the process.

Senator DURBIN. Ambassador Melrose, your opinion of the Kimberley Process?

Ambassador MELROSE. I think it is a step in the right direction. I do not think it is a panacea. I do not think it will cure the whole problem. There will always be leakage, but clearly, we have to take the first step.

I agree with Ambassador Leigh that it has been a bit more drawn out than I would have liked to have seen. I am hopeful now that it is going to come to some fruition. But once it is complete, then you have to get into the issue of the other actions that are needed to make it operational and that is going to take more time.

Senator DURBIN. I thank you both for your testimony and I thank you for your patience because of the interruption. It is very important. I am glad it is on the record here, and we are going to follow through with a third panel and after that, I hope, work with you to develop some effective legislation. Thank you very much, both of you, for being here.

Senator DURBIN. I would like to welcome our next panel, which will address U.S. efforts to stop the trade in conflict diamonds. Loren Yager is Director of International Affairs and Trade for the U.S. General Accounting Office. Alan Eastham is the Special Negotiator for Conflict Diamonds with the U.S. Department of State. Timothy Skud is Acting Deputy Assistant Secretary for Regulation, Tariff, and Trade Enforcement with the U.S. Department of the Treasury. The Hon. James Mendenhall is Deputy General Counsel, of the U.S. Trade Representative.

As is the custom of the Subcommittee, I would like to ask you to please stand so that I might administer the oath. Would you raise your right hand. Do you swear the testimony you are about to give before this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. YAGER. I do.

Mr. EASTHAM. I do.

Mr. SKUD. I do.

Mr. MENDENHALL. I do.

Senator DURBIN. Thank you. Let the record reflect that all witnesses answered in the affirmative.

Mr. Yager, if you would be kind enough, your written remarks will be included in their entirety and if you would like to summarize at this point, I would appreciate it.

TESTIMONY OF LOREN YAGER,[1] DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GENERAL ACCOUNTING OFFICE

Mr. YAGER. Thank you, Mr. Chairman. I am pleased to be here today to discuss our observations on the U.S. and international efforts to deter trade in conflict diamonds. We have been performing this work for Senator Judd Gregg and Representatives Tony Hall, Cynthia McKinney, and Frank Wolf.

Conflicts linked to diamonds have created severe humanitarian crises in countries such as Sierra Leone, Angola, and the Democratic Republic of Congo. The principal international effort to address this issue, known as the Kimberley Process, aims to develop and implement an international diamond certification scheme that will prevent conflict diamonds from entering the legitimate market. As we heard from the first panel, the Congress is also considering legislation to ensure the consistency of the U.S. system with this process.

The primary message of my testimony this morning is that the nature of the diamond industry makes it extremely difficult for the U.S. Government and for the international community to deter trade in conflict diamonds. Specifically, I will discuss three issues: First, how the nature of diamonds and industry operations are conducive to illicit trade; second, the inability of U.S. import controls to deter trade in conflict diamonds; and finally, the extent to which the Kimberley Process has the necessary elements to deter trade in conflict diamonds.

On the first point, I note in my written statement how the nature of diamonds and the operations of the international diamond industry create opportunities for illicit trade, including trade in conflict diamonds. Diamonds are mined in remote areas around the world and are virtually untraceable back to their original source, two factors that make monitoring diamond flows difficult. Diamonds are also a high-value commodity that is easily concealed and transported. Because of these characteristics, not only can diamonds enter the legitimate trade, they can also be used in lieu of currency in arms deals, money laundering, and other crime. Lack of transparency in industry operations also facilitates this illegal activity. The lack of industry information is exacerbated by poor data reporting at the country level, where import, export, and production statistics often contain glaring inconsistencies.

The second major point is a consequence of these industry characteristics, that U.S. import controls cannot prevent conflict diamonds from entering the United States. The general U.S. import control system requires documentation listing the country of last export, which U.S. import requirements consider the country of origin. However, without an effective international system that can trace the true original source of rough diamonds, the United States

[1] The prepared statement of Mr. Yager appears in the Appendix on page 48.

could be importing conflict diamonds that have passed through a number of other countries before entering the United States.

My final point is that these same industry characteristics create significant challenges for international efforts to control trade in conflict diamonds. The Kimberley Process incorporates some elements of accountability, such as requiring Kimberley Process certificates designating country of origin for unmixed shipments. But some elements are lacking and others are listed only as optional or recommended.

For example, the scheme is not based on a risk assessment, which is an essential element of an effective control system. As a result, some activities that would be deemed high risk by industry experts or by Kimberley Process participants, such as the flow of diamonds from the mine or the field to the first export, are subject only to recommended rather than required controls. In addition, the period after rough diamonds enter a foreign port to the final point of sale will be covered by an industry system in which participation is voluntary and monitoring and enforcement are self-regulated.

In conclusion, I want to acknowledge that the Kimberley efforts to date have served to focus attention on a very serious humanitarian crisis and have facilitated cooperation among industry, government, and nongovernmental organizations. However, our work suggests that the Kimberley Process participants have important issues to resolve to make the scheme effective in deterring trade in conflict diamonds.

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions that you have.

Senator DURBIN. Thank you for being here, and we will have some questions. Mr. Eastham.

TESTIMONY OF ALAN EASTHAM,[1] SPECIAL NEGOTIATOR FOR CONFLICT DIAMONDS, U.S. DEPARTMENT OF STATE

Mr. EASTHAM. Thank you very much, Mr. Chairman, for inviting the State Department to come and testify today. I have submitted a rather lengthy written statement, which I will summarize rather brutally with your permission.

You asked that we look at developments in the potential effectiveness of the Kimberley Process certification system as well as whether the proposed regime in that process would be useful to prevent terrorists from financing their operations through diamond trading. These are both important questions.

With respect to the first, I believe that the Kimberley Process as presently outlined and in which there are significant issues to be settled in our next series of meetings will be effective both in deterring conflict diamonds and in affecting the ability of terrorists to use diamonds to finance their operations. I will explain that in a little more detail in a moment and I am sure we will have some discussion about it in the question period.

We have been working on this problem for some years, both through the U.N. Security Council, as well as more recently through the Kimberley Process. The United States has fully imple-

[1] The prepared statement of Mr. Eastham appears in the Appendix on page 66.

mented the Security Council resolutions applicable to Angola, Sierra Leone, and Liberia which affect conflict diamonds and were active participants in the consideration in New York of resource issues affecting the Democratic Republic of Congo.

I would like to acknowledge the role of the government of Angola and the government of Sierra Leone, in particular, in implementing certification systems which are designed to attack the problem of conflict diamonds.

In the Kimberley Process, what we are doing in that discussion is trying to establish principles for a system of certification on the trade in rough diamonds in order to eliminate conflict diamonds from international trade. Under the system as outlined by the Kimberley Process up to the present point, every country that trades in rough diamonds, including the United States of America, would validate an export document called a Kimberley Process certificate. What this document would do would be to attest to the fact that the diamonds being exported were handled in compliance with a national system of internal controls designed to eliminate the presence of conflict diamonds from our trade. It is our expectation this system will eventually cover the entire global trade in legitimate rough diamonds.

The point is not to identify the origin of every diamond but to set up a system of legitimate trade in which the trade will be recognized as legitimate, to strengthen it, and to enable that trade to flourish in a way which excludes the bad diamonds. This will, thus, give the industry the ability to continue to function. It will enable consumers to have confidence that what they are buying does not contribute to human misery in another part of the world. And it will enable us to focus our enforcement resources on the black market, on conflict diamonds and the use of diamonds for other evil purposes.

We are now working on several remaining issues within the Kimberley Process, getting ready for the next meeting in March in Canada. We are also considering interagency what changes in U.S. law and procedure might be necessary to implement the proposed scheme. This is a matter of some urgency, since the last meeting of the Kimberley Process in November recommended the system should be implemented as soon as possible with the issuance of certificates beginning immediately by those countries in a position to do so. Of course, Angola, Sierra Leone, and Guinea are already issuing certificates to accompany rough diamond shipments, so that is a start. We would hope that others would begin doing so in the very near future.

With the strong support of the Congress and active efforts by the administration, we hope that this can be in place—a simple, effective, cost effective, and global system will be in place by the end of this year.

Let me conclude briefly with a discussion of the role of diamonds in terrorist finance, which is of great concern to us as it is to you, based on your comments earlier. We in the State Department and our law enforcement agencies are consulting together to look at the diamond business to identify vulnerabilities in this area, and I have been talking to our enforcement agencies as well as to other

countries, participants in the diamond trade, in the past few weeks on this very issue.

We do not believe that the major participants in the legal diamond business would knowingly countenance the trade in diamonds which are used for terrorist finance. However, there is the risk that diamonds are being used to hoard wealth and avoid legitimate banking circles by terrorists and this is an area where we are concentrating our efforts.

Regrettably, there are some on the fringes of the diamond trade who are willing to overlook warning signs when an opportunity to buy rough diamonds at a good price comes along. It is important for the industry to avoid being implicated in this evil, and particularly important for the diamond trade in this country to heed the best practice of know your supplier. This is an essential first step in taking effective action against both conflict diamonds and the use of rough diamonds as a terrorist financing tool. Thank you very much.

Senator DURBIN. Thank you very much. Mr. Skud.

TESTIMONY OF TIMOTHY SKUD,[1] ACTING DEPUTY ASSISTANT SECRETARY FOR REGULATION, TARIFF, AND TRADE ENFORCEMENT, U.S. DEPARTMENT OF THE TREASURY

Mr. SKUD. Mr. Chairman, thank you for inviting me to speak about the role of the Treasury and the Customs Service in interdicting conflict diamonds.

The role of diamonds in conflicts in Angola and Sierra Leone has been well documented. More broadly, diamonds are often used in criminal networks running parallel to legitimate trade channels. They offer opportunities to conceal financial and organizational relationships. They can be used in money laundering, arms trafficking, and international terrorism.

Customs recently initiated Operation Green Quest, which aims to investigate such crimes, including those which may utilize diamonds. In addition, Customs currently enforces specific prohibitions on importation of the diamonds from three countries, Angola, Sierra Leone, and Liberia. These prohibitions are in place pursuant to Executive Orders that are consistent with U.N. Security Council resolutions. These orders prohibit imports of all diamonds exported from Liberia and only allow diamond imports from Sierra Leone and Angola that are accompanied by certifying documentation.

Importers must present appropriate documentation to Customs on demand and have the responsibility to keep certificates on file for 5 years after importation to be available for further review and investigation. Customs uses targeted examinations and risk analysis techniques to identify those imports that represent the greatest risk and to focus resources in those areas. This may include post-importation audits to review importers' overall trade, to identify anomalies, and to verify claims made at entry. This verification can include contact with exporting authorities. If any information on suspect diamonds is obtained, Customs will seize shipments or initiate formal investigations.

[1] The prepared statement of Mr. Skud appears in the Appendix on page 71.

There have been two recent local interdictions of diamond imports based on failure to present proper export certificates. In December, Customs inspectors at BWI airport seized diamonds from a passenger who had arrived from Sierra Leone. The passenger had no accompanying certificate for those diamonds. In February, an arriving international passenger declared diamonds to Customs officers at BWI, but Customs inspectors believed that certificate to be fraudulent. The stones and the accompanying documents have been detained.

In January 2001, the U.N. General Assembly encouraged member states to devise effective and pragmatic measures to address the problems of conflict diamonds. Over 30 countries have engaged in the resulting discussions, known as the Kimberley Process. The objective of the Kimberley certification scheme is to assist in tracking legitimate diamond trade in order to isolate illegal shipments and identify persons involved in the trade of illicit conflict diamonds. Treasury and Customs have participated in these discussions and have shared information with participating countries on what we believe are the most modern and effective Customs analysis and interdiction techniques.

The Customs Service would enforce any import regulations concerning Kimberley certificates as it does the existing sanctions with respect to shipments from Sierra Leone, Angola, and Liberia.

The United States is a significant consumer of polished diamonds, but rough diamonds are primarily processed elsewhere. An effective global regime for excluding conflict diamonds will need to rely on effective monitoring mechanisms in countries of first extraction, in primary importing countries, and on international cooperation.

The Kimberley Process involves traders and tries to strike a balance between trader vigilance and government involvement. A system that relies strictly on government enforcement and excludes the industry would be far less effective.

In summary, we support the objectives of the Kimberley Process. In addition, Treasury and Customs have actively participated in the administration's dialogue with the Congress concerning H.R. 2722. We believe this bill complements the efforts of the administration to combat trade in conflict diamonds under the Executive Orders and through the Kimberley Process.

Thank you, Mr. Chairman, for the opportunity to present Treasury's views. I would be happy to answer any questions.

Senator DURBIN. Thank you very much. Mr. Mendenhall.

TESTIMONY OF JAMES MENDENHALL,[1] DEPUTY GENERAL COUNSEL, U.S. TRADE REPRESENTATIVE

Mr. MENDENHALL. Thank you, Mr. Chairman, for inviting me to testify before you today. I appreciate this opportunity to discuss the efforts that are being made both nationally and internationally to deal with the tragic problem of conflict diamonds.

As we all know, rebel groups in certain African countries, such as Angola and Sierra Leone, have for many years funded their activities through the sale of conflict diamonds. These groups have

[1] The prepared statement of Mr. Mendenhall appears in the Appendix on page 75.

engaged in atrocities that shock the conscience. The international community is taking action to stop the trade in conflict diamonds and we are now approaching the point where an effective and comprehensive regime can be put in place. U.S. Trade Representative (USTR) wholly supports this effort.

Last November, the House of Representatives passed H.R. 2722, the Clean Diamond Trade Act, by the overwhelming margin of 408 to 6. USTR supported the bill and is pleased that the House passed it so resoundingly. We applaud the leadership of Ways and Means Committee Chairman Thomas, as well as that of Representatives Hall, Wolf, and Houghton, in taking this positive and constructive step toward severing the tie between diamonds and conflict.

I also applaud you, Mr. Chairman, along with Senators Gregg, DeWine, and Feingold, for being actively engaged in formulating legislation to deal with this problem and for giving this issue the serious attention and consideration that it deserves.

USTR and other agencies in the administration have discussed conflict diamonds legislation with your staffs and we look forward to continuing this dialogue. As we have made clear in those discussions, we fully support expeditious Senate approval of H.R. 2722.

H.R. 2722 was the result of long and hard work by Members of Congress, their staffs, the administration, and the NGO and business communities. USTR participated fully in this process and sought a bill that would be effective, would not undermine the Kimberley Process negotiations or other multilateral efforts to prevent trade in conflict diamonds, and would comply with U.S. international obligations. H.R. 2722 achieves each of these objectives.

First, the bill enumerates specific measures that countries could adopt to help ensure that conflict diamonds do not enter the international stream of commerce.

Second, the bill is designed to complement multilateral efforts to prevent trade in conflict diamonds. The bill stakes out a clear U.S. position on the elements of an effective international regime and encourages countries to adhere to the framework arrangement that will emerge from the Kimberley Process.

Finally, the bill is designed to comply with international law.

H.R. 2722 is landmark legislation. It places the United States squarely at the forefront of the effort to stop trade in conflict diamonds. However, as I think we all recognize, the effort to prevent such trade will be vastly strengthened if all actors in the global diamond trade, including producers, distributors, and governments, as well as the NGO community, join together in a comprehensive regime.

Multinational efforts to deal with the problem of conflict diamonds have focused on two fronts, United Nations sanctions and the negotiation of an international certification regime in the Kimberley Process. The United Nations Security Council has been very active in taking steps to prevent trade in conflict diamonds and has issued three resolutions regulating trade in diamonds exported from Sierra Leone, Angola, and Liberia. H.R. 2722 is meant to work within the framework created by these sanctions and to encourage other countries to comply with their U.N. obligations.

The Kimberley Process is a much broader initiative. Since its first meeting in May 2000 in Kimberley, South Africa, it has grown

into a sophisticated international negotiation with a growing number of participants. Throughout the Kimberley Process, over 30 members of the international community, including the United States, have come together to negotiate an international regime to eliminate trade in conflict diamonds. This effort is truly extraordinary in that the NGO community and the diamond industry participate directly in the discussions and will be key to the operation of the regime once it is implemented.

The United Nations has played a central role in urging completion of the process and garnering international support. In December 2000, the U.N. General Assembly endorsed the work of the Kimberley Process when it unanimously passed Resolution 55/56. Last December in Botswana, the Kimberley participants issued a working document which sets out the elements of an international certification scheme for trade in rough diamonds. The document has been sent to the U.N. General Assembly, where it will be discussed in March.

The State Department has been the lead in the Kimberley Process negotiations and they have done an admirable job in filling that role and the USTR has participated, as well. Over the coming year, participants in the Kimberley Process should begin to implement the elements of the certification scheme. However, there are several key issues that remain to be resolved. These issues include ensuring that the certification system is consistent with international trade rules.

The participants agreed in Botswana to create a working group to discuss this issue and report back to the other participants at the next plenary meeting in Canada in March. Nine countries are participating in the working group on trade issues, including the United States. USTR and the State Department are representing the United States in these discussions. Since December, we have been actively engaged in discussions with other members of the working group. The first meeting of the working group will be held in Geneva this weekend, and by the time the plenary meets in Canada, we hope to have resolved most or all of the concerns related to compliance with international trade rules.

Thank you again for the invitation to testify here today. I look forward to working closely with you and your staffs in the future to address this difficult and complex problem.

Senator DURBIN. Thank you very much, Mr. Mendenhall.

Let me say at the outset that we made a decision in the Senate once we received the House bill not to pass it and to have this hearing and to see if we could do a better job, and I do not want to gainsay any of the efforts made in the House, but I think the bill originally conceived by Congressman Hall and passed by the Senate was a much better bill, a much stronger bill. Let me give you four specific areas of concern, and I want to address those during the course of this conversation.

The bill that came out of the House does not give the President any authority he does not already have under the Emergency Economic Powers Act, No. 1.

No. 2, the definition of conflict diamonds is so narrow that the bill would only cover the conflict areas of Sierra Leone, Angola, and the country of Liberia and only those areas where there have been

Security Council resolutions. It would not cover rebel areas in the Democratic Republic of the Congo or other areas where conflict diamonds are a problem.

No. 3, the bill addresses rough diamonds, of which the United States imports very few. It does not close the polished diamond and diamond jewelry loophole.

And No. 4, and I want to get into this in some detail, there seems to be, after all of the unanimity about our concern over conflict diamonds, a lingering concern over the WTO and the impact it has on this entire conversation. In other words, if we are all of one mind in stopping conflict diamonds from financing terrorism and stopping their importation into the United States, there are some who are reluctant to address it because they think it violates trade agreements. I want to talk about that.

For WTO reasons, this House bill includes a safe harbor provision that allows countries to export diamonds into the United States if they are not part of the Kimberley Process. Now that, to me, is a loophole that is unacceptable. If this is truly the coin of the realm in the world of terrorism, you cannot take these provisions of the House bill as an effective way of dealing with these conflict diamonds. Let us go at them, if we can, one by one, and I will allow you to respond if you would like to.

First, let us talk about WTO. Mr. Eastham and Mr. Mendenhall, do you believe that the Kimberley Agreement would be sufficient to establish a national security exception to WTO?

Mr. MENDENHALL. I am not sure I understand. Would the Kimberley Process, the working document itself, establish a security exception?

Senator DURBIN. Here is what I am driving at. If we are in WTO and we are supposed to have free trade and we decide that we are not going to allow the export of diamonds unless they meet certain requirements to the United States, can we take the position that that is consistent with WTO for national security reasons? Is there some reluctance here to suggest that we are violating a free trade agreement under WTO by imposing these restrictions on the export of diamonds to the United States?

Mr. MENDENHALL. I think to the extent that the diamond trade, the conflict diamonds represent a threat to national security, there are steps that we could take to regulate that trade. I think that is correct.

I think the Kimberley Process, large parts of it, anyway, could be—I guess one could argue they might fit within that exception. There are parts of the Kimberley Process, however, that I think would be hard to justify under that exception. For example, there is a ban on exports to non-participants. It is not clear to me yet what the national security reason or justification would be for that. I am not saying there is not one. I am just saying these are issues that are still being debated, and I am not sure why banning export of trade from the United States to a non-participant of diamonds which are, by definition, legitimate is a national security issue.

But I want to emphasize that one of the reasons that the working group was formed and is going to be meeting in Geneva over the weekend is to discuss precisely these types of issues. So I think all of the arguments concerning whether or not the Kimberley

Process fits within an exception or does not fit within an exception or whether it can be justified or handled through other channels, everything is on the table for discussion.

Senator DURBIN. And do I take it, if you can see a national security exception emanating from the Kimberley Process, that the same argument could be made based on legislation that we would enact here?

Mr. MENDENHALL. Are you talking about legislation to implement Kimberley?

Senator DURBIN. If we were to pass legislation with or without Kimberley in the United States, based on our national security concerns about conflict diamonds——

Mr. MENDENHALL. Right.

Senator DURBIN [continuing]. You do not believe that is inconsistent with WTO?

Mr. MENDENHALL. I think we would need to make sure that the legislation was effective and tailored to achieve that goal.

Senator DURBIN. Well, I would agree with that.

Mr. Eastham, what are your thoughts on WTO and this conversation?

Mr. EASTHAM. Mr. Chairman, with respect to the specific reference to the national security exception which you made in your question, I think the issue at hand is an interaction between the definition of national security and what the Kimberley Process is trying to do.

At bottom, the Kimberley Process is a regulatory system which will, if it comes into being in its present form, will regulate the entire global trade in rough diamonds. Estimates of the conflict portion of the rough trade are in the neighborhood of 5 percent. No one really knows. This is an area where there are a lot of different possibilities for interpretation.

The question would be whether such an expansive regulatory scheme could be brought squarely under an exception which is clearly intended to refer to specifics. In other words, I could think of a dozen different hypotheticals where an import or an export might be regulated in the interest of national security. Weapons come to mind—guns and ammunition, military equipment, that sort of thing would squarely fall into the national security exception. The question is the interaction between this very broad set of restrictions intended to regulate what is a very small part of the trade.

I do not think there is any question that you could make a national security justification for restricting the imports of conflict diamonds to this country. I think that is clear. The problem, though, as others have identified, is that you cannot target that restriction because of the nature of the diamond trade. You cannot say, on Tuesday, let us stop all shipments from this place because those are conflict diamonds. It is just a question of scope.

Senator DURBIN. Let me ask you about scope. The House bill limits this to rough diamonds. Do you think that that is a legitimate way to stop the trade in conflict diamonds and address the problem?

Mr. EASTHAM. I think it is the closest to the problem. In terms of conflict diamonds, although the definition is tied to the Security

Council decisions, we all know that conflict diamonds are those which are used to fuel rebel activities and wars. The rough diamonds are the problem. The problem of conflict diamonds derives from the fact that it is easy to dig up diamonds from the ground in certain parts of the world and there are wars fought over contesting those areas.

Because of the nature of the trade again, once a diamond moves a step or two or three or four, it is no longer clearly identifiable as a conflict diamond and the place to attack the problem, I genuinely believe, is at the source. It is where the money goes to the rebels and that is at the stage when the diamonds are rough.

Senator DURBIN. Of course, remember the three steps that they described earlier, taking them from the field to Freetown, an example given by the Ambassador, and then off to Antwerp or some other place where they are polished, finished, and then exported in that form perhaps to the United States. If that original diamond was mined by mutilating a child and raping a woman in a village, the fact that it comes into the United States ultimately as a rough diamond is of little consequence, or whether it is a finished diamond. The origin of it is really what we are after, is it not?

Mr. EASTHAM. Yes, sir, and the problem that you have identified arises because of the nature of the trade and the nature of the commodity. It would—the Kimberley Process is a collaborative effort that has had industry involved from the first day——

Senator DURBIN. May I add——

Mr. EASTHAM [continuing]. And the idea is—yes, sir?

Senator DURBIN. I just want to add for the record, at our press conference on this issue, the diamond industry and the jewelry industry were there in support. They understand that public confidence in their product is at stake here. They have not been antagonistic. So when the House bill came back just dealing with rough diamonds, I could not understand what happened here. We had, I thought, an approach that really dealt with this comprehensively and said, however this diamond ends up in the United States, whether it is polished or rough, we are concerned about how it was mined and who made the money when it was mined. That really is the conflict part of conflict diamonds. And just to limit the House bill to rough diamonds, I am troubled why you would want to narrow that into this one category of diamonds.

Mr. EASTHAM. I believe the House bill does have language which acknowledges the possibility of blocking shipments of polished diamonds or diamonds containing jewelry to the United States if we have information indicating that that specific diamond shipment is composed of conflict diamonds. Where we fall afoul of the way the trade works, Mr. Chairman, is in trying to answer the question, how would you regulate that?

If you have a shipment of 1,000 polished diamonds coming from a particular overseas source, the reality of the trade is such that those diamonds could be from any diamond source in the world, and without a fundamental transformation of the diamond trade, which the industry has so far been unwilling for cost reasons to consider, it would be impossible to administer, in my view, an import system which controlled polished. Far better to attack it at the source. You attack it at the source through sanctions, the Security

Council resolutions that I mentioned. You attack it at the source by the Kimberley Process system of internal controls, intended to ensure that what comes out of the source is conflict-free.

Senator DURBIN. What I heard from the Ambassadors earlier is that is wishful thinking, to believe that we are going to have sufficient law enforcement on the ground in these countries to make sure that every diamond is mined in a responsible way. What I thought we were after here was a certification process which said to the Revolutionary United Front in Sierra Leone and other countries, we are going to dry up your market, and if you do not have a market for these blood diamonds, then, frankly, this may not be the way you want to finance your operations.

But if our goal here instead is to root out the atrocities of the Revolutionary United Front, that is a much different approach than I think most of us conceived at the outset.

Mr. EASTHAM. Well, I think we are doing both. It is not one or the other, if I understand your comment just now. This is about drying up the market, but it is also about encouraging the legitimate diamond trade to continue. In the balance that has been struck in the Kimberley Process, people can differ.

I know that there are different points of view about the possible effectiveness of this, but my experience in the last three meetings of the Kimberley Process leads me to conclude that we should get on with it, get the certification system in place, and if we find that there are holes on the ground between the mine and the export system, or if we find that an export system in a particular country, in any country, is not working or it is suborned by smugglers or that enforcement is lacking, then we will deal with it once we get a certification system in place.

Senator DURBIN. Let me be specific in a question on that. What kind of verification for compliance and monitoring do you expect from the Kimberley Agreement that will be effective in drying up this market, preventing this trade in conflict diamonds?

Mr. EASTHAM. Well, in the first instance, Senator, I think that the market is going to be a very important factor in that.

Senator DURBIN. Is this conversation just limited to rough diamonds, incidentally?

Mr. EASTHAM. Yes. The Kimberley Process is about rough diamonds. It is about conflict diamonds.

Senator DURBIN. So your focus through Kimberley and your focus through this legislation, rough diamonds only?

Mr. EASTHAM. Yes, not because we do not recognize that, as some of my colleagues have said, the purpose of the diamond is to be sold to a consumer. We are not ignoring polished diamonds because we do not care about the ultimate revenues that flow back up the chain. The problem is one of focusing the attention on the source of the problem and not taking measures in the middle of the trade which would either raise the cost of diamonds or drive firms out of the diamond business.

Senator DURBIN. I would just tell you, Mr. Eastham, I do not think this is going to work. I do not believe that the average consumer in America is going to have confidence that we have done all we can do to make certain that one of the most important purchases of their life is not funding terrorism by just focusing on

rough diamonds. I thought from the outset that the conversation with the industry went far beyond that. They understood that for confidence of the consumers to be established, we really could not limit it to rough diamonds.

I just think you have created a situation where we are going to be so focused on such a small part of the problem, we are ignoring how people can easily overcome this by finishing and polishing diamonds that are just as dirty as anything that has been mined in these countries. It is just a terrific gap that you have left wide open here.

Mr. EASTHAM. We have not been able to devise a way to ensure, with respect to what we can control, which is imports of this commodity into the United States, that a polished diamond is not a conflict diamond. That is a very, very difficult proposition.

Far better to begin at the beginning, and I am confident, Senator, that if we get a certification system into place and we see people using polishing as a way to get around it, if you see polishing centers developing in countries that never had polishing centers before, if you see large flows of diamonds that are unaccountable in the statistics and in the cooperative mechanism that the Kimberley Process is going to set up, that we will be able to deal with subversion, circumvention of the Kimberley system through polishing. I think we will find a way to do that.

Senator DURBIN. Why would we not start there? You know that is where they are going to head to. If we allow that loophole to exist in our enforcement, clearly, a terrorist is not going to say, "Oh, if I cannot do rough diamonds, I am doing nothing." I do not believe that. I think they are going to turn around and take these rough diamonds and find a way to polish and finish them and then we will meet again in a few years and say, is it not a shame that the terrorist network is still making billions off of diamonds they are selling into the United States. Now let us address phase two. What about polished and finished diamonds? Why are you not starting with that, as challenging as it may be?

Mr. EASTHAM. I can answer that. The fundamental reason is because the diamond proceeds that fuel conflict come from the rough diamonds which are sold by the rebel movements in order to buy arms, to finance armies, to commit these horrible atrocities which are the reason for our concern. We are focused on the fundamentals, and because of the relationship between the diamond trade in areas of conflict and the global diamond trade, we are trying to zero in on the problem where it creates the concerns that have motivated us to take action. That is my only answer for you, Senator.

Senator DURBIN. Mr. Yager, you considered the so-called chain of warranties, where the industry would step in after rough diamonds are being regulated. What is your opinion as to how this is going to work?

Mr. YAGER. We have a couple of comments on that aspect of the Kimberley system. The chain of warranties, I think, has a couple of weaknesses from our standpoint. One, as we and others have discussed, the diamond trade is actually quite a complex trade and many diamonds are traded around the world numerous times before they actually get to the point where they are cut and polished, whether that is in India or in some other location. So this chain

of warranties could, in fact, become quite a long chain and the required paperwork would be quite extensive.

A second issue is that the World Diamond Council has strongly recommended to its members, both institutional and individual members, that they keep up and take part in this chain of warranties. However, they cannot require their members to do this. And so, in a sense, this chain of warranties is a voluntary system.

Finally, I think there is a question about the monitoring and auditing of the chain of warranties. At this point, it appears that the process allows for the company's auditors to review the chain of warranties, and in essence, the warranty itself is a statement on the invoice that the diamond that is purchased or sold is conflict-free. But these are going to be audited by company auditors who are not necessarily experts in the diamond industry, nor are they able to look at the entire chain. In a sense, they are looking at just one link in this chain of warranties. So we see some issues with the chain of warranties that we think could be weaknesses.

Senator DURBIN. Mr. Skud, last question. When Customs receives documentation when diamonds are brought into the United States, what is at your disposal to verify that that documentation is accurate and legal?

Mr. SKUD. Well, the documentation can be examined by the Customs officer and compared with examples of what a valid certificate is like. If Customs has questions, they have an opportunity to contact the exporting authorities.

Senator DURBIN. So you can go back to the source? Is that what you do?

Mr. SKUD. We can contact the exporting authorities, yes.

Senator DURBIN. In a practical case, the examples you have given us, passengers coming through the airport, one, if I am not mistaken, declared that he was carrying $12,000 worth of diamonds but another was discovered to be carrying them.

Mr. SKUD. Yes.

Senator DURBIN. When they produce documentation, what is the custom? You hold the diamonds until the documents have been verified to your satisfaction?

Mr. SKUD. Well, in one case, the trader, the passenger did not have proper documentation, clearly. I believe he had a different certificate that clearly was not for that shipment. In the second case, it was a certificate that, frankly, appeared fraudulent on its face to the Customs officer. So in both cases, the stones were seized.

Senator DURBIN. Thank you very much. I want to thank this panel. This is clearly a challenging issue but one that just has to be addressed. I think once we have established this connection between terrorism and diamonds as a source of funding, that if we are serious about stopping terrorism, we have to address this issue effectively.

I hope this hearing has opened that conversation and dialogue and I hope that we can soon come up with legislation we can work with the administration in putting together. I thank you all for your testimony. Thanks, everyone.

The Subcommittee stands adjourned.

[Whereupon, at 12:20 p.m., the Subcommittee was adjourned.]

APPENDIX

Statement of Senator Russell D. Feingold
Hearing of the Senate Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia
"Illicit Diamonds, Conflict and Terrorism: The Role of US Agencies in Fighting the Conflict Diamond Trade"
February 13, 2002

Mr. Chairman and members of the Subcommittee, I want to thank you for inviting me to testify before the Subcommittee today, and to thank you for all of your efforts to push for serious, viable mechanisms to disrupt the global trade in conflict diamonds. I am so pleased to have been able to work with you and with Senators De Wine and Gregg on this issue over the past year, and I very much hope that we can continue to work together to pass the best possible bill in the months ahead. And of course, without the leadership of Congressmen Tony Hall and Frank Wolf, this issue would likely have languished in obscurity for far too long.

Mr. Chairman, the first time that you and Senator DeWine and I came together to discuss this issue was last June, when we joined to introduce a bill that had the support of both the advocacy community and the diamond industry. As I noted then, as the Chairman of the Senate Foreign Relations Committee's Subcommittee on African Affairs, I have had the opportunity to travel to Angola, to the Democratic Republic of the Congo, and to Sierra Leone. I have witnessed the devastation brought by conflicts fueled in large part by a desire for profit, and I have heard from people who believe their countries' resources to be a curse.

But at the same time, over the years that I have served on the Africa Subcommittee, I have also worked on issues relating to countries like South Africa and Botswana. These states depend upon their legitimate diamond industries to fuel economic growth and development, and their interests deserve protection.

I believed then, as I believe now, that our national values and national interests demand that the United States disassociate itself from the trade in conflict diamonds, and that the U.S. must work with the rest of the international community to regulate the diamond trade and create a "clean stream" for the legitimate diamond industry and consumers to rely upon.

In the months since that press conference, my sense of urgency about this issue has only grown. Press reports have raised serious questions about connections between international terrorists and the illicit diamond trade, and this should come as no surprise.

In the Foreign Relations Committee, the Subcommittee on African Affairs has embarked on a series of hearings to be conducted over the course of the year, prompted by the current campaign against terrorism. In the wake of the attacks of September 11, the President was right to make plain that the US will not distinguish between the terrorists behind the attacks and those who harbor them.

But state sponsors are only part of the problem. The absence of a functioning state is another. So the Subcommittee hearings will examine the characteristics of some of Africa's weakest states --- manifestations of lawlessness such as piracy, illicit air transport networks, and trafficking in arms, drugs, diamonds and other gemstones, and people --- that can make the region attractive to terrorists and other international criminals.

Our subcommittee is trying to identify long-term policy options for changing the context in these states so that they are no longer as appealing to criminal opportunists. Somalia is the first case the subcommittee took up, but I have no doubt that later hearings will focus on Liberia and the Democratic Republic of the Congo, countries involved in the conflict diamonds trade. The right policy response to these complex crises will be distinct,

nuanced, and multifaceted. But it will also entail efforts to address some of the transnational criminal networks that operate in weak states. The illicit diamond trade is a perfect example, and that is why I am so glad you are holding this hearing today.

I am particularly glad that you will be hearing from the Administration, because Congress needs to understand the position that US negotiators are taking at the Kimberely Process negotiations --- and the Administration needs to understand the will of Congress and the depth of our concern. I know that Worldvision, one of the NGOs working on the conflict diamonds issue, recently issued a "Report Card on Progress Toward Eliminating Conflict Diamonds." It gives process participants high marks in some areas, but fails them in others, particularly noting that the US is fighting a diamond certification system that might be viewed as a "restriction on trade." This concern appears to have led to an abandonment of the clean-stream approach, which leaves me wondering how the industry and US consumers would be protected.

Mr. Chairman, I know that many had hoped to see legislation passed by Congress and signed by the President last year. That was my hope, as well. But this issue is an important one, and we must take the time to make our best efforts. That said, let me be clear - I will not let the perfect be the enemy of the good when it comes to conflict diamonds legislation.

I look forward to reading the hearing transcript and to consulting with this subcommittee, my colleagues on the Foreign Relations Committee, and with Senators Gregg and Dewine after this hearing is over.

UNITED STATES SENATOR • OHIO
Mike DeWine

FOR IMMEDIATE RELEASE:
FEBRUARY 13, 2002

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DEWINE CONTINUES FIGHT TO END CONFLICT DIAMOND TRADE

Prepared statement of U.S. Senator Mike DeWine before the Senate Governmental Affairs Subcommittee on Oversight of Government Management hearing, "Illicit Diamonds, Conflict and Terrorism: The Role of U.S. Agencies in Fighting the Conflict Diamond Trade":

Chairman Durbin -- thank you for inviting me to testify at this very important and very timely hearing today. As we continue terrorism and conflict around the world, it is critical that we review the role our federal government can play in mitigating these challenges. We also need to look at how we may unknowingly finance conflicts and terrorism and work together to cut such financial ties.

This is why it is vital that we consider the role U.S. agencies play in fighting the conflict diamond trade. As you know, Chairman Durbin, the diamond trade is one of the world's most lucrative industries. With its potential for extreme profitability, it is not surprising that a black-market and illicit trade have emerged alongside the legitimate industry.

It is also not surprising that diamond trading has become an attractive and sustainable income source for violent rebel groups and terrorist networks around the world. As you and I have discussed before, the sale of illicit diamonds has yielded disturbing reports in the media that even Osama bin Laden is involved in this trade. The February 22, 2001 U.S. District Court trial, *United States vs. Osama bin Laden* attests to this. Additionally, there is an established link between Sierra Leone's diamond trade and well known Lebanese terrorists.

In Africa currently, where the majority of the world's diamonds are found, there is on-going strife and struggle resulting from the fight for control of the precious gems. While violence has erupted in several countries, including Sierra Leone, Angola, the Congo, and Liberia, Sierra

Leone -- in particular -- has one of the worst records of violence. In this nation -- a nation embroiled in civil war for nearly a decade, rebel groups -- most notably, the Revolutionary United Front (RUF)-- have seized control of many of the country's diamond fields. Once in control of a diamond field, the rebels confiscate the diamonds; launder them onto the legitimate market through other nearby nations, like Liberia; and ultimately finance their terrorist regimes and their continued efforts to overthrow the legitimate government.

Upon reaching the market, it is nearly impossible to distinguish the illegally gathered diamonds -- also known as "conflict" or "blood" diamonds -- from legitimate or "clean" stones. And so, over the past decade, the rebels have been able to smuggle out at least $10 billion dollars in diamonds.

Since the start of the rebel's quest for control of Sierra Leone's diamond supply, the children of this small nation have borne the biggest brunt of the insurgency. For over eight years, the RUF has conscripted children -- children often as young as seven or eight years old -- to be soldiers in their make-shift army. They have ripped an estimated 12,000 children from their families. After the RUF invaded the capital of Freetown in January 1999, at least 3,000 children were reported missing.

As a result of deliberate and systematic brutalization, child soldiers have become some of the most vicious -- and effective -- fighters within the rebel factions. The rebel army -- child-soldiers included -- has terrorized Sierra Leone's population, killing, abducting, raping, and hacking off the limbs of victims with their machetes. This chopping off of limbs is the RUF's trademark strategy.

I cannot overstate, nor can I fully describe the horrific abuses these children are suffering. Rape, sexual slavery and other forms of sexual abuse of girls and women have been systematic, organized, and widespread. The most vivid accounts come from the child-soldiers, themselves. I'd like to read a few of their stories, taken from Amnesty International's 1998 report called, "Sierra Leone -- A Year of Atrocities against Civilians." According to one child's recollection:

> "Civilians were rounded up, in groups or in lines, and then taken individually to a pounding block in the village where their hands, arms, or legs were cut with a machete.... Men were then ordered to rape members of their own family. If they refused, their arms were cut off and the women were raped by rebel forces, often in front of their husbands...victims of these atrocities also reported women and children being rounded up and locked into houses which were then set [on fire]."

A young man from Lunsar , describing a rebel attack last spring, said this:

> "Ten people were captured by the rebels and they asked us to form a [line]. My brother was removed from the [line], and they killed him with a rifle, and they cut his head with a knife. After this, they killed his pregnant wife. There was an argument among the rebels about the sex of the baby she was carrying, so they decided to open her stomach to see the baby."

Mr. Chairman, we are losing these children -- an entire generation of children. If the situation does not improve, these kids have no future. But, as long as the rebels' diamond trade remains unchallenged, nothing will change.

We can do something about this. We can make a difference. We have the power to help put an end to the indescribable suffering and violence in Sierra Leone, Angola, and elsewhere in Africa. We have that power, Mr. Chairman, and we must use it.

As the world's biggest diamond customer -- purchasing the majority of the world's diamonds -- the United States has tremendous clout. With that clout, we have the power to remove the lucrative financial incentives that drive the rebel groups to trade in diamonds in the first place. Simply put, if there is no market for their diamonds, there is little reason for the rebels to engage in their brutal campaigns to secure and protect their cache.

That is why I will continue to work with you, Senator Gregg, and Senator Feingold on strong legislation which would remove the rebels' market incentive. We need to work together with the international community to facilitate the implementation of a system of controls on the export and import of diamonds, so that buyers can be certain that their purchases are not fueling the rebel campaign. It is irresponsible for us to do any less.

Mr. Chairman, before I conclude my remarks, I would like to take a moment and thank my colleague from Ohio, Congressman Tony Hall, and Congressman Frank Wolf from Virginia for the tireless efforts they have made to fight the conflict diamond trade. I know that they would both be here today if their schedules permitted. In their absence, I would like to submit a joint statement from our House colleagues and ask that it be included in today's hearing record.

Mr. Chairman, I thank you again for holding this important hearing today. We have an obligation -- a moral responsibility -- to help stop the violence, the brutality, the needless killing and maiming. No other child should kill or be killed in Sierra Leone and other African nations. It is the humane thing to do. It is the right thing to do.

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Testimony of U.S. Senator Judd Gregg
Before the Subcommittee on Oversight of Government Management,
Restructuring and the District of Columbia
Committee on Governmental Affairs

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The Role of U.S. Agencies in Fighting the Conflict Diamond Trade
February 13, 2002

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Diamonds are among our most treasured symbols of love and affection, and they are never more important than on Valentine's Day. But in some parts of west Africa, they have become a source of violent conflict and unspeakable atrocities. Criminal gangs have taken control of many of the diamond mines in such countries as Sierra Leone, Angola, and Congo. They use the profits from diamond sales to terrorize civilians and further expand their influence. Nowhere has the effect of the illicit diamond trade been more graphic than in Sierra Leone. Sierra Leone is rich in diamonds, and yet it is among the poorest nations in the world. As early as 1991, the rebel group Revolutionary United Front, or "RUF", began taking control of many of Sierra Leone's diamond mines. The RUF is notorious for its use of amputations, murder, and rape in waging its campaign of terror. Images of infants missing limbs and disemboweled pregnant women have horrified and disgusted us. But now, sadly, we must add a new image to this pictorial: sequential explosions over the New York City skyline, the collapse of two massive skyscrapers, and the violent death of more than three thousand Americans.

There is a growing body of evidence linking Osama Bin Laden's terror network and conflict diamonds. This link has elevated the issue of conflict diamonds from one of humanitarian concern to one of national security concern. The link between the illicit diamond trade and terrorism makes sense. Diamonds provide terrorists an ideal way to conceal funds, move funds across borders, and to liquefy funds quickly. We do not yet know how many millions of dollars Al Qaeda and other terrorist networks may have raised through the illicit diamond trade, but I suspect that this number is at least in the tens of millions. As if the deaths of thousands of innocent west Africans weren't enough, new information linking conflict diamonds to Osama Bin Laden necessitates a legislative response.

Last year, negotiations between non-governmental organizations and the jewelry industry produced a bipartisan piece of legislation that would have prohibited the importation of diamonds into the United States from any country that did not have a diamond certification system. Under

this system, diamonds entering the United States would have to be packaged in tamper-proof containers and be accompanied by an official certificate from the recognized government of the exporting country. When the Commerce, Justice, State appropriations bill passed the Senate 97 to 0 on September 13, 2001, it contained this consensus legislation. The House Ways and Means Committee objected to the conflict diamonds provision on jurisdictional grounds and demanded that it be stripped out. It was not until news of a possible link between conflict diamonds and terrorism surfaced that the Ways and Means Committee finally acted on conflict diamonds legislation. That bill, H.R. 2722, was drafted in conjunction with the Administration, and passed the House in late November. The Senate must move swiftly to pass meaningful conflict diamonds legislation.

A story is unfolding before us. The story links a mere mineral resource to the suffering of thousands of west Africans, and now perhaps to the deaths of thousands of Americans. To ease the suffering of the west Africans, to protect the legitimate diamond trade that is the lifeblood of many African countries, and now for our own national security, we must put an end to conflict diamonds. The U.S. must develop a regionally-based, comprehensive strategy towards west Africa. As conflicts flare up in Ivory Coast, Sierra Leone, Liberia, and Guinea with almost rhythmic regularity, we must ask ourselves what should we have done, what must we now do, and what must we do differently in the future? In the past, we have been unable or unwilling to address these difficult questions. This might explain why we have been paralyzed even while effective, preventative measures, like those I have just outlined, are at our fingertips. The key is to act. The witnesses you will hear from today are much more familiar with the complexities of the conflict diamonds problem than I. Let us hear them, let us learn from them, and then let us act.

UNITED STATES SENATE

COMMITTEE ON GOVERNMENTAL AFFAIRS

HEARING ON

ILLICIT DIAMONDS, CONFLICT and TERRORISM:

THE ROLE OF U.S. AGENCIES IN FIGHTING THE CONFLICT DIAMONDS TRADE

342 DIRKSON SENATE OFFICE BUILDING
February 13, 2002

TESTIMONY OF JOHN E. LEIGH

AMBASSADOR OF SIERRA LEONE TO THE UNITED STATES

Mr. Chairman, Members of the Senate Committee on Governmental Affairs, Ladies and Gentlemen,

The People and Government of Sierra Leone welcome the continued attention and resources which the Senate of the United States is directing towards resolution of the devastation arising from the trade in illicit diamonds, including the illicit trade in Conflict Diamonds.

I am certain also that the people and governments of a number of other African countries, especially those of Angola, the Democratic Republic of Congo and the Republic of Guinea join the people and Government of Sierra Leone in saluting this Committee for its continued efforts to devise suitable legislation to bring to an end a trade that enriches a few in the rich industrial countries; empowers criminals and terrorists worldwide but violently destroys the lives and livelihoods of millions of poor people in impoverished societies in Africa.

The international diamond trade is big business. The worldwide retail trade in diamond jewelry was estimated at approximately $60 billion in 1999. Conflict Diamonds account for anywhere from 4% to 15% of this volume. The total portion of the trade that is accounted for by illicit or contraband diamonds from all sources, including Conflict Diamonds, is an estimated 20% or $24 billion annually.

It is my view that the large role which contraband diamonds occupy in the diamond trade is behind the stiff resistance to the effective reform of the international diamond trade.

Contraband diamonds have been a prominent feature of the diamond trade for many, many decades and is the real precursor of Conflict Diamonds. When the nations of the world did nothing to contain the highly profitable contraband diamond trade, it should have been foreseeable that violent criminals will seek to partake of its rich profits.

It is my view that the trade in illicit diamonds was behind the collapse of state power in Sierra Leone. Over a period of twenty years or so, official exports of rough diamonds from Sierra Leone declined from 1.3 million carats annually of gemstones to only 20,000 carats of industrial diamonds in 1997 even though there was no reduction in mining activities in Sierra Leone. The collapse of official exports deprived our then very corrupt Government of significant revenues to pay for public services. Soon, international crooks and criminals saw an opportunity to make more money by seizing the mines under false pretenses of seeking to reform a declining and broken down society.

If there is one country in the world, therefore, that can be accurately described as the ground zero for the victims of the crimes associated with the trade in Conflict Diamonds then that country is Sierra Leone. Sierra Leone was selected because it was a weak, corrupt country with large amounts of easily accessible diamonds - gemstones that are among the world's largest and finest.

For nearly a decade beginning in March 1991, a ragtag rebel group calling itself the Revolutionary United Front ("RUF"), purported to wage a civil war for the purpose of bringing democracy, economic and social development in my homeland. There may or may not have been any truth to the said declaration at any time. What we do know is that at some point the rebels gained control of an area in Eastern Sierra Leone where alluvial diamonds were present. My country and her people have not been the same since.

With their easy access to diamonds, it did not take too long for the RUF to became a well-equipped army of several thousand trained troops unleashing a reign of terror against the people and Government of Sierra Leone. Their objective was to gain access to even more diamond deposits and eventually to overthrow the elected government and establish an outlaw state.

Had the RUF succeeded, Sierra Leone would today be another sanctuary for terrorists and the international Mafioso in West Africa, and populated by violated people.

The calling card of the RUF was the kidnapping of women and girls for sex and domestic servitude and the capture of young boys to serve as child soldiers forced to lead charges against government and ECOMOG troops while the ring leaders enjoyed themselves in the rear. Today, my country lies in ruins with the survivors bleeding and hundreds of thousands displaced both as refugees abroad and internally displaced persons.

Nevertheless, I am delighted to report that the RUF war has ended in victory for the forces of democracy, law and order and legitimate trade - thanks to the help generously

given by United States, the United Kingdom, Canada and the nations of West Africa led by Nigeria and ably supported by the Republics of Guinea and Ghana.

Contraband diamonds come from many countries but Conflict Diamonds come from only a few countries supposedly blessed with easily accessible diamonds in alluvial plains. Alluvial diamonds are deposits of diamonds occurring in lowlands areas, in old river beds, in the beds of streams and shallow rivers in wide swaths of forested lands.

Most alluvial diamonds are usually found between 10-and-20 feet below the surface. Hence relatively little capital and only low-grade technology are required to mine alluvial diamonds. Alluvial diamonds are ideal for violent takings. Conflict Diamonds are always diamonds violently obtained by rebel-criminal groups from alluvial deposits and traded in exchange for the instruments of war.

In contrast to alluvial diamonds, there are kimberlite diamond deposits. Kimberlite deposits are deeply embedded thousands of feet inside the earth in narrow pipes. Mining kimberlites is, therefore, a capital intensive business. The pay off is that kimberlite mines can be secured relatively inexpensively. On the other hand, securing alluvial deposits presents major challenges and in some cases, it is a virtually impossible task.

It is thus instructive to note that the only countries undergoing wars for the control of the riches of the land are the three African countries with abundant alluvial diamond deposits: Angola, Congo and Sierra Leone.

Sierra Leone further supports legislative efforts to terminate the trade in Conflict Diamonds because effective legislation against the continuation of the illicit trade in Conflict Diamonds will also help to protect the legitimate trade in diamonds from a consumer boycott that will surely come to pass if the wars for illicit diamonds continue to harm innocent people and destroy their fragile societies.

Sierra Leone wishes the prosperity in the diamond trade to continue but also desires that all illicit trading in diamonds - whether conflict diamonds or not - must come to an end.

Additionally, we in Sierra Leone believe that ending the illicit diamond trade as soon as possible in the immediate future is definitely in the foreign policy and national security interests of the United States for several reasons.

First, rebels in seeking deposits of alluvial diamonds to mine employ gratuitous violence against the local population and their property. It has been estimated that for each million dollars of looted diamonds obtained by violence, thousands of people are killed and nearly $10 million worth of property is destroyed. Additional consequences include the massive involuntary movements of poor people from their homes, farms and places of employment and their institutions, as well as the destruction of infrastructure and the spread of terrible diseases.

This a situation then requires massive humanitarian, security and nation-building assistance, mostly through the United Nations and some regional organizations such as ECOMOG. The end result is invariably additional financial burden on American taxpayers and unspeakable suffering in Africa - situations that are preventable.

Ending the trade in Conflict Diamonds by legislation would thus help Americans conserve their assets while bringing peace to Africa.

Second, world class criminals, including members of the international Mafioso, are known to launder narco-dollars from the United States and Western Europe by financing rebel movements and otherwise investing in the illicit diamonds business in Africa and by trading illicit diamonds internationally. Once narco-dollars are cleansed, these criminals become economically and socially quite powerful and thus capable of causing more and bigger problems for law-abiding peoples and governments. It is clearly in the interest of the United States to prevent the cleansing of narco-dollars by criminals. Every effort should be made to dispossess criminals of their ill-gotten wealth.

Third, criminals tend to do business with other criminals, including terrorists as long as they are financially qualified. Hence it is not surprising that *Al Qaeda* and *Hezbolla* operatives are busy in West Africa buying under-priced, looted Sierra Leone diamonds and fencing them in Europe and elsewhere. Because terrorists could use profits from contraband diamonds, including Conflict Diamonds, to finance their violent activities against democratic societies, the United States has a strong interest in outlawing the trade in illicit diamonds and other plundered resources from Africa.

The United States has a responsibility to bring to an end the trade in illicit diamonds, including Conflict Diamonds because an estimated 70% of the international trade in diamonds is conducted in the United States. Thus, the United States has the market power to end the trade in Illicit Diamonds and I urge this Committee to devise legislation that would be effective.

Finally, the plunder of natural resources in Africa is widespread and has gone on for centuries. The Atlantic Slave Trade was the first major plunder of Africa. Today, a number of natural resources are forcibly taken away from Africa and brought into the West where they are fenced as legitimate trade goods. Diamonds are only one such product.

The greatest assistance which the United States can today render to the nations of Africa is to start a legislative process that will bring to a conclusive end the long-running plunder of Africa by making it impossible to fence in the United States goods plundered in abroad.

Thank you, Senators, for the opportunity to appear before you today on a matter that is of great importance to the people of Africa.

TESTIMONY OF JOESPH H. MELROSE, JR., AMBASSADOR IN RESIDENCE URSINUS COLLEGE, FORMER AMERICAN AMBASSADOR TO SIERRA LEONE

BEFORE THE SENATE COMMITTEE ON GOVERNMENT AFFAIRS, SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT WEDNESDAY, FEBRUARY 13, 2002

"U.S. Government role in fighting the conflict diamond trade."

Chairman Durbin, Members of the committee,

Thank you for inviting me to testify today on this important issue. The fact that diamonds, as well as other resources, have been used both to fuel and fund conflicts in Africa is now generally accepted as fact. In addition natural resources from Africa have provided funds for terrorist activities outside of Africa. In the case of diamonds their high value, small size and low weight combined with the ease in which they can be converted into money and the difficulty of detection by mechanical means make them an excellent medium for moving, hoarding or laundering money. In the case of Sierra Leone, and indeed some other countries, the presence of alluvial diamonds provides a particularly conducive situation. Since these diamonds are not mined in the traditional way but rather by "panning" for them in much the same way miners "panned for gold" in our own country. "Digging for diamonds" takes place over a wide geographical area making it particularly difficult to control. Virtually anybody can dig for diamonds or hire someone else to do it for them. No expensive mining equipment is needed and as noted previously diamonds are easily hidden. The "diggers" are among the most exploited people in the world. Those that hire them get rich while the "diggers" remain in a state of abject poverty and virtual servitude, but this is only part of the problem.

The conflicts that have engulfed Sierra Leone and other African Countries have meant a lack of government control over the flow of these stones from the field to the market. This environment has provided purveyors of violence with a friendly playing field from which to operate. Nation states in either a state of collapse or near collapse provide both native citizens and unscrupulous outsiders an even more suitable operating environment. For example, Lebanese have long been involved in the Sierra Leone diamond trade. Funds from the sale of illicit diamonds have been used to purchase weapons for use in revolutions, crime and terror. In addition, as Washington Post reporter Douglas Farah reported several months ago, terrorists have used illicit diamonds as a means to transfer resources from one location to another. The motivations for most of the individuals that are engaged in the illicit diamond trade are simply greed and power. Farah's assertion that the rebels of the Revolutionary United Front of Sierra Leone (RUF) sold stones to individuals identified by the United States Government as Al-Qaeda operatives is not surprising. Even the RUF itself following its internal investigation into Farah's story, while denying that it had a relationship with Al-Qaeda, acknowledged that it was not impossible that some of their number did in fact sell stones to representatives of Al-Qaeda. In my opinion this admission indicates that such sales took place between the rebels and Al-Qaeda, although they may or may not have had the

formal backing of the organization. What is still in question is whether it was a deliberate effort on the part of some or all of the RUF to assist Al-Qaeda to move resources in a manner that would be untraceable to support the actions of Al-Qaeda or simply a case of selling the illicit stones to whoever offers the best price. Whichever the case, it makes little difference since the net effect is the same, terrorist organizations have benefited from this situation. In addition, similar sales have almost certainly taken place with other designated terrorist organizations such as the Hizbollah. In the case of Hizbollah a connection has existed for years through various Lebanese groups.

The need to establish a clean and transparent system for preventing such illicit commodities from entering the legitimate market is clear. Diamonds are not the only commodity that has been exploited in such a way. Tanzanite, another gemstone, is believed to have been used in a similar way. The consumer should be able to know that the diamond he or she purchased did not get to the retail counter by increasing the suffering of fellow human beings and that the benefits of a country's natural resources should benefit the citizenry of that country. The Kimberley process, while far from perfect, is a step in the right direction. Information I received last week indicates that a large amount of diamonds, that were at least in part mined by the RUF during the conflict, have made their way to Guinea for sale in order to raise funds for use by the RUF in the upcoming elections. Furthermore, despite a United Nations embargo, members of the diamond trade in Europe tell me that stones are still arriving in Europe from Liberia. Several countries, which produce no diamonds, still export stones. The Kimberley agreement, although no panacea, would be a step in reducing this trade. The proposed regime is the first worldwide attempt to regulate a legal trade that has had unintended consequences throughout the world and particularly devastating ones in Africa. Despite it flaws it is a start and should be supported. By declaring that trading in conflict diamonds is not acceptable, the world may see the advent of a new corporate responsibility in a sector that has heretofore relied almost totally on self-policing. By taking this step the diverse group of interested parties that negotiated the Kimberley Agreement including States, the private sector, Non Governmental Organizations and even representatives of civil society may have begun a process that could impact other sectors where the improper or illicit trade in commodities such as gemstones occur without the necessity of another Kimberley type agreement. Individuals and organizations must not have the tools by which they can take power or hold nations hostage to their demands. If reducing the trade in conflict diamonds can be even partially achieved, it would have a significant benefit in the areas of Human Rights and the true source of regional conflicts, which all too often is money.

As I said previously the Kimberley agreement is not a perfect solution. More has to be done in a variety of areas including public awareness, the modification of traditional practices used in the diamond industry and the strengthening of systems of control in the countries that produce the stones for it to achieve its potential. Following the United Nations embargo on Sierra Leonean diamonds, a certification system was developed and implemented to identify those stones mined in Sierra Leone by legitimate miners and properly licensed for export by the government of Sierra Leone. Even with these processes in place only a portion of the gems exported from Sierra Leone have been

exported under this system. Since then several other certification of origin schemes have been developed by other nations, but this is only a start. These schemes must be strongly enforced both by the producing countries and the importing countries. Failure to do so will only mean another victory for those individuals that seek to do no good. States which have such systems must be strongly urged to enforce them in such a way as to prevent traditional levels of corruption from recurring and creating an enabling environment for terrorist organizations, and others who seek only personal benefit and power, to carry out their plans. Countries that produce diamonds but as of now have no certification system should be encouraged and assisted in developing one. Those countries which serve, as transit points must be encouraged to and assisted in ensuring that only those goods that come from legitimate sources be permitted to transit their soil. And finally those countries that import these goods should themselves be certain that the products they are allowing to be imported are from legitimate sources.

Our goals should be two. First, we must end the use of these practices by terrorist organizations thereby cutting off their funding sources. Second, we must make every effort to ensure that new techniques to circumvent proper channels do not simply take the place of the previous ones. To do so will require not only coordination among States, industry and civil society but the international security and law enforcement apparatus as well. While we have seen that Al-Qaeda has been able to successfully benefit from this situation, we must also recognize that it is certain that others who seek to harm innocent members of society have used this situation for their benefit as well. In the specific case of diamonds, the United States as the biggest market for gem quality stones must take a leading role in ending the conditions that permit these violations of our moral and ethical standards. The legitimate diamond industry, as well as the other participants in the Kimberley process should continue to be consulted in this process.

I thank you for your attention.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia, Committee on Governmental Affairs, U.S. Senate

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INTERNATIONAL TRADE

Significant Challenges Remain in Deterring Trade in Conflict Diamonds

Statement of Loren Yager, Director, International Affairs and Trade

GAO-02-425T

United States General Accounting Office

GAO
Accountability * Integrity * Reliability

Highlights

INTERNATIONAL TRADE
Significant Challenges Remain in Deterring Trade in Conflict Diamonds

Highlights of GAO-02-425T, testimony before the Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia, Committee on Governmental Affairs, U.S. Senate

Why GAO Did This Study

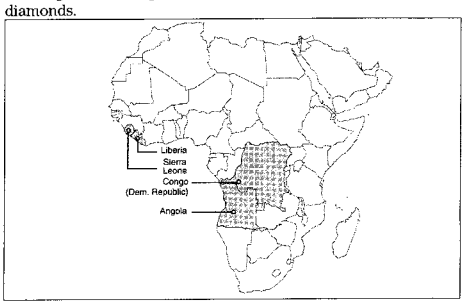
Conflict diamonds are used by rebel movements to finance their military activities, including attempts to undermine or overthrow legitimate governments. These conflicts have created severe humanitarian crises in countries such as Sierra Leone, Angola, and the Democratic Republic of the Congo. An international effort called the Kimberley Process aims to develop a diamond certification scheme to prevent the flow of conflict diamonds. Legislation is also being developed to address U.S. consistency with the Kimberley Process. GAO was asked to assess the challenges associated with deterring trade in conflict diamonds.

What GAO Found

The nature of diamonds and the international diamond industry's operations create opportunities for illicit trade, including trade in conflict diamonds. Diamonds are a high-value commodity easily concealed and transported, are mined in remote areas worldwide, and are virtually untraceable to their original source. These factors allow diamonds to be used in lieu of currency in arms deals, money laundering, and other crime. Further, the diamond industry lacks transparency, which limits information about diamond transactions.

U.S. controls over diamond imports generally do not require certification from the country of extraction—just from the country of last import—and thus are not very effective in identifying diamonds from conflict sources. While the United States bans diamonds documented as coming from the National Union for the Total Independence of Angola, the Revolutionary United Front in Sierra Leone, and Liberia—all of which are subject to U.N. sanctions—this does not prevent conflict diamonds shipped to a second country from being mixed into U.S.-destined parcels.

GAO's assessment of the Kimberley Process's proposal for an international diamond certification scheme found it incorporated some elements of accountability. However, the scheme is not based on a risk assessment, and some activities experts deem high risk are subject only to "recommended" controls. Also, the period after rough diamonds enter the first foreign port until the final point of sale is covered by a system of voluntary industry participation and self-regulated monitoring and enforcement. These and other shortcomings provide significant challenges in creating an effective scheme to deter trade in conflict diamonds.



Main Countries Associated With Conflict Diamonds

This is a test for developing highlights for a GAO report. The full report, including GAO's objectives, scope, methodology, and analysis is available at www.gao.gov/cgi-bin/getrpt?GAO-02-425T. For additional information about the report, contact Loren Yager at 202-512-4128. To provide comments on this test highlights, contact Keith Fultz (202-512-3200) or email HighlightsTest@gao.gov.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our observations on the conflict diamond trade and U.S. and international efforts to deter this trade. The United Nations General Assembly defines conflict diamonds as rough diamonds used by rebel movements to finance their military activities, including attempts to undermine or overthrow legitimate governments. These conflicts have created severe humanitarian crises in countries such as Sierra Leone, Angola, and the Democratic Republic of the Congo. The United States and much of the international community are trying to sever the link between conflict and diamonds while ensuring that no harm is done to the legitimate diamond industry, which is economically important in many countries. The principal international effort to address these objectives, known as the Kimberley Process, aims to develop and implement an international diamond certification scheme that will deter conflict diamonds from entering the legitimate market. The Kimberley participants, including government, diamond industry, and nongovernmental organization officials, have reported back to the United Nations General Assembly with a proposal they believe provides a good basis for the envisaged scheme.[1] Consistent with the Kimberley Process, the U.S. Congress has legislation pending that would require countries exporting diamonds to the United States to have a system of controls to keep conflict diamonds from entering their stream of commerce.

Today I will discuss (1) how the nature of diamonds and industry operations are conducive to illicit trade; (2) U.S. government controls over diamond imports; and (3) the extent to which the Kimberley Process international diamond certification scheme, in its current form, has the necessary elements to deter trade in conflict diamonds. My observations are based on our ongoing work on conflict diamonds. Our work was initiated by a request from Senator Judd Gregg, ranking member of the Subcommittee on Commerce, Justice, State & Judiciary of the Senate Appropriations Committee; Representative Frank Wolf, chairman of the Subcommittee on Commerce, Justice, State

[1]The proposal was presented in the form of a Kimberley Process Working Document titled *Essential Elements of an International Scheme of Certification for Rough Diamonds, With a View to Breaking the Link Between Armed Conflict and the Trade in Rough Diamonds* (Nov. 29, 2001).

& Judiciary of the House Appropriations Committee; Representative Cynthia McKinney, ranking member of the Subcommittee on International Operations and Human Rights of the House International Relations Committee; and Representative Tony Hall, ranking member, Technology and the House Subcommittee of the Rules Committee. In conducting our analysis, we met with and obtained information from numerous U.S., U.N., and diamond industry representatives in the United States, Belgium, and at various meetings of the Kimberley Process. Before I get into the specifics of these topics, let me provide a brief summary.

Summary

The nature of diamonds and the operations of the international diamond industry create opportunities for illicit trade, including trade in conflict diamonds. Diamonds are mined in remote areas around the world and are virtually untraceable back to their original source—two factors that make monitoring diamond flows difficult. Diamonds are also a high-value commodity that is easily concealed and transported. These conditions allow diamonds to be used in lieu of currency in arms deals, money laundering, and other crime. Lack of transparency in industry operations also facilitates illegal activity. The movement of diamonds from mine to consumer has no set patterns, diamonds can change hands numerous times, and industry participants often operate on the basis of trust, with relatively limited documentation. All of these practices reduce information about diamond transactions. The lack of industry information is exacerbated by poor data reporting at the country level, where import, export, and production statistics often contain glaring inconsistencies.

U.S. control over diamond imports is based on its general control system for most commodities. This control system requires that diamond import documentation include the country of last export—which U.S. import requirements consider the country of origin. Because the current import control system does not require certification from the country of extraction—just from the country of last export—it is not effective in identifying diamonds that might come from conflict sources. Beginning in 1998, rough

diamond imports from Angola and Sierra Leone not bearing the official government certificate of origin as well as all rough diamonds from Liberia were banned from the United States.[2] U.S. Customs requires that all shipments from Angola and Sierra Leone have a certificate of origin or other documentation that demonstrates to Customs authorities that the diamonds were legally imported with the approval of the exporting country governments.[3] However, without an effective international system that can trace the original source of rough diamonds, the United States cannot ensure that conflict diamonds do not enter the country.

The Kimberley Process proposal for an international diamond certification scheme lacks some key elements of accountability. We evaluated the scheme using aspects of established criteria for accountability—control environment, risk assessment, control activities, information and communications, and monitoring.[4] While we do not expect the Kimberley proposal to fully address all these elements, this examination provides insights into its ability to deter trade in conflict diamonds. Our assessment of the scheme showed that it incorporates some elements, such as requiring that Kimberley Process Certificates that designate country of origin for unmixed shipments accompany each shipment of rough diamond exports. But some important elements are lacking, and others are listed only as optional or recommended. For example, the scheme is not based on a risk assessment--an essential element. As a result, some activities that would be deemed high-risk by industry experts as well as Kimberley participants, such as the flow of diamonds from the mine or field to the first export, are subject only to "recommended" elements. Additionally, the period after rough diamonds enter a foreign port to a final point of sale will be covered by an industry system in which participation

[2]The United Nations Security Council has imposed international sanctions on rough diamond imports from the National Union for the Total Independence of Angola, the Revolutionary United Front in Sierra Leone, and Liberia.

[3]Executive Order 13213 dated May 22, 2001, banned all rough diamond shipments from Liberia for an indefinite period.

[4]The U.S. government, industry, and international entities such as the World Bank accept these internal control standards applied to organizations. See *Standards for Internal Control in the Federal Government*, (GAO/AIMD-00-21.3.1, Nov. 1999), and *Internal Control—Integrated Framework (1985)*, published by the Committee of Sponsoring Organizations of the Treadway Commission and used by the World Bank.

is voluntary and monitoring and enforcement are self-regulated. Other issues relating to accountability are also being discussed by four Kimberley working groups: the establishment of a secretariat; compliance with World Trade Organization rules; sharing of statistics; and monitoring needs. Although the Kimberley Process participants have achieved significant cooperation among industry, nongovernmental organizations, and governments to address trade in conflict diamonds, our work suggests that the participants face considerable challenges in establishing a system that will effectively deter this trade.

Background

Conflict diamonds are primarily associated with four countries: Sierra Leone, Liberia, Angola, and the Democratic Republic of the Congo.[5] In all four countries, the production and/or trade of diamonds have played a role in fueling domestic conflict, or, as is the case with Liberia, fueling conflict in neighboring Sierra Leone through the Revolutionary United Front (RUF). Today, Sierra Leone is experiencing relative peace with the aid of the United Nations and other efforts. Nonetheless, diamond mining remains one of the only viable economic opportunities for ex-combatants, and thus experts believe the ability to adequately manage this resource will be important for efforts at establishing long-lasting peace. In Angola, the National Union for the Total Independence of Angola (UNITA) retains control of some diamond production areas, as well as unknown quantities of stockpiled diamonds. And in the Democratic Republic of the Congo, diamonds continue to serve as a source of revenue for armed militias fighting in the north of the country. To date, United Nations sanctions have been targeted solely at rough diamond exports from the RUF in Sierra Leone; Liberia; and UNITA in Angola. Also, both the governments of Sierra Leone and Angola have national diamond certification schemes in which certificates of origin are issued and accompany rough diamonds from their first export to their first import into a foreign country.

[5]Adjacent countries, such as Congo-Brazzaville, Guinea, Cote d'Ivoire, and the Gambia, have all been listed in U.N. reports as countries through which conflict diamonds are smuggled. People named in U.N. reports for their involvement in trading conflict diamonds have been citizens of the Middle East, Europe, and the United States. Also, recent media reports have focused on the possible use of diamonds by terrorists to fund their activities.

Structure of Diamond Industry

The international diamond industry comprises three sectors: mining, rough diamond trading and sorting, and cutting and polishing. This industry structure includes both large and well-organized components as well as small, uncontrolled operations. For example, due to the substantial capital required for deep mining, just four companies mine 76 percent of the world supply of rough diamonds.[6] Yet, across Africa, countless individual diggers mine widely scattered alluvial fields[7] for diamonds. Similarly, while De Beers controls a large percentage of diamond shipments to key trading centers, U.N. data suggest that more than 100 countries worldwide participate in rough diamond exporting. In terms of cutting and polishing, markets have largely evolved to reflect labor costs, with 9 out of 10 rough diamonds cut and polished in India. However, mining countries such as Russia, South Africa, Botswana, and Namibia are trying to expand their cutting and polishing activities to supplement mining revenues.

The Kimberley Process

In May 2000, African diamond producing countries initiated the Kimberley Process in Kimberley, South Africa, to discuss the conflict diamond trade. Participants now include states and countries of the European Union involved in the production, export, and import of rough diamonds; as well as representatives from the diamond industry, notably the World Diamond Council,[8] and nongovernmental organizations. The goal is to create and implement an international certification scheme for rough diamonds, based

[6]These four companies are De Beers Consolidated Mines Ltd., Alrosa Ltd., Rio Tinto, and BHP Billiton.

[7]Alluvial fields are surface areas containing secondary deposits of weathered volcanic rock called kimberlite deposited by river systems.

[8]The World Diamond Council is an industry association comprising the World Federation of Diamond Bourses and the International Diamond Manufacturers Association, which formed this body expressly to address conflict diamonds.

primarily on national certification schemes[9] and internationally agreed minimum standards for the basic requirements of a certificate of origin. The scheme's objectives are to (1) stem the flow of rough diamonds used by rebels to finance armed conflict aimed at overthrowing legitimate governments; and (2) protect the legitimate diamond industry, upon which some countries depend for their economic and social development. U.N. General Assembly Resolution 55/56, adopted on December 1, 2000, requested that countries participating in the Kimberley Process present to the General Assembly a report on progress developing detailed proposals for a simple and workable international certification scheme for rough diamonds.

According to the South Africa Department of Foreign Affairs, the Kimberley Process submitted a report to the U.N. General Assembly in late 2001.[10] The report was accompanied by a proposal for an international certification scheme for rough diamonds dated November 28, 2001, which was to provide the basic elements envisaged for the certification scheme. Participants asked that the certification scheme be established through an international understanding as soon as possible, recognizing the urgency of the situation from a humanitarian and security standpoint. The report also requested an extension of the Kimberley Process mandate to the end of 2002 to enable finalization of the international understanding. Those in a position to issue the Kimberley Process Certificate were to do so immediately. All others were encouraged to do so by June 1, 2002. Further, it was the intention of participants to start full implementation of the scheme by the end of 2002. Finally, a draft resolution seeking an international endorsement of the scheme will be submitted to the U.N. General Assembly for consideration, possibly as soon as late February.

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[9]National certifications schemes have been set up in Angola, Sierra Leone, and Guinea. The High Diamond Council in Antwerp provides technical assistance.

[10]The report has to be translated into the working languages of the United Nations before it can be distributed. This work is almost complete, and the report is expected to be distributed to U.N. members in New York very shortly.

U.S. Participation in the Kimberley Process

In May 2000, the U.S. government established an interagency working group to provide input to and representation at the Kimberley Process meetings. The working group is headed by the Department of State; other participants include the Departments of Commerce, Justice, and Treasury, U.S. Customs Service, Federal Trade Commission, Office of U.S. Trade Representative, U.S. Agency for International Development, National Security Council, Central Intelligence Agency, and the Office of Science and Technology. The United States is currently chairing the Kimberley Process working group on World Trade Organization compliance issues.

Nature of Diamonds and Non-Transparent Industry Operations Create Opportunities for Illicit Trade

The illicit diamond trade, including that in conflict diamonds, is facilitated by the nature of diamonds and the lack of transparency in industry operations. Although industry and nongovernmental organizations have made estimates of both the illicit and conflict diamond trades, the criminal nature of the activity precludes determination of the actual extent of the problem. Conflict diamond estimates vary from about 3 to 15 percent of the rough diamond trade and are often based on historical production capacities for rebel-held areas. Some industry experts dispute the larger percentage, believing it includes non-conflict illicit trade.

The Nature of Diamonds Facilitates Illegal Trade

The nature of diamonds makes them attractive to criminal elements. Diamonds are found in remote areas of the world and can be extracted both through capital-intensive deep mining techniques as well as from alluvial sources using rudimentary technology. Individual diggers across west and central Africa mine alluvial fields that are widely scattered and difficult to monitor, a problem made worse by porous borders and corruption. Diamonds are easy to conceal and smuggle across borders, and smuggling

routes are well established by those who have done so for decades to evade taxes. Though it may be possible for experts to identify the source of an unmixed parcel of rough diamonds, once diamonds from various sources are mixed, they become virtually untraceable. Identifying the origin of alluvial diamonds is complicated by the fact that the river systems depositing those diamonds run across government- and rebel-held areas as well as national borders. Although rough diamonds can be marked, once they are cut and polished, any form of identification is erased. All of these factors, combined with inadequate customs and policing worldwide, make diamonds attractive to criminal elements who may use them to trade arms, support insurgencies, and plausibly engage in terrorism. Likewise, diamonds can be used as a means of currency in connection with drug deals, money laundering, and other crime or as a store of wealth for those wishing to hide assets outside the banking sector where they can be detected and seized.

Industry's Lack of Transparency Also Facilitates Illicit Trade

The flow of diamonds from mine to consumer, referred to as the "diamond pipeline," has no set patterns. Diamonds can change hands numerous times as shown by the fact that the value of world rough diamond exports is three times as large as the value of world rough diamond production. According to industry experts, diamonds are sold back and forth and mixed and re-mixed making tracking a particular shipment through the pipeline and across borders an arduous if not impossible task. Diamonds can be traded in smaller markets and diverted through alternative routes either to disguise origin or in response to low taxes and less burdensome regulations. Thus, the mobility of the trade has also acted as a disincentive for individual governments to implement stricter controls.

Limited transparency in diamond flows is reflected in inconsistent and insufficient data. U.N. data show large discrepancies between export and import data. For example, while Belgium reported selling $355 million worth of rough diamonds to the United States in 2000, the United States reported buying only $192 million worth of rough diamonds from Belgium. U.N. data also suggest that reported world imports of rough diamonds from

many countries far exceed those countries' production. For instance, the Central African Republic's production of rough diamonds was worth $72 million in 2000, while global imports from that country totaled $168 million, and the Democratic Republic of the Congo's production was worth $585 million in 2000, while global imports from that country totaled $729 million. Similarly, global imports of rough diamonds from the United Arab Emirates totaled $177 million in 2000, while that country neither mines rough diamonds nor reports having imported rough diamonds from producing countries.

These data inconsistencies can be attributed to a wide variety of factors including:

- differences in how customs officials appraise shipments so that export values differ from import values;
- industry practices such as selling goods on consignment or unloading stockpiles so that trade data differ from production capacities;
- false declarations by importers on where they obtained their shipment, leading to data indicating a country's exports exceed its production; or
- smuggling.

Unfortunately, diamond trade data limitations have been difficult to rectify given that the industry has historically avoided close scrutiny. According to industry experts and government officials, U.S. and international diamond firms do not share trade information freely and business may be conducted on the basis of a handshake, with limited documentation. Furthermore, information problems resulting from industry's lack of transparency are made worse by poor data reporting from many mining and trading nations.

Another factor with the potential to limit transparency in the international diamond industry is the current trend toward merging mining with cutting and polishing activities at the country level. In response to reduced demand and declining rough diamond prices, a number of mining countries are encouraging domestic cutting and polishing. However, when diamonds are cut and polished in mining countries, the source of the rough diamonds used cannot be verified.

The United States Cannot Detect Conflict Diamonds With Present Import Controls

Under its current import control system, the United States cannot determine the true origin of diamond imports nor ensure that conflict diamonds do not enter the country. In 1998, the United States began to enhance controls to prevent conflict diamonds from entering the country from U.N. and U.S. sanctioned sources. Since 1998, there have been six diamond-related investigations. However, none of these cases resulted in federal prosecutions relating to diamond smuggling. Without an effective international system to identify the origin of rough diamonds, the United States remains vulnerable to diamonds from conflict sources sent to second countries and then shipped to the United States.

Diamond Imports Subject to General Import Controls; Limited Controls Added to Implement U.N. Sanctions

Diamond imports are subject to the same import controls used for most commodities. Documentation accompanying diamond shipments entering the United States must include a commercial invoice, country of last export, total weight, and value. However, the regulations do not require exporters to specify the country of extraction nor the place of first export. For example, rough diamonds could be mined in one country and traded several times before reaching their final destination. The ability to determine the true source of origin is further impeded because U.S. import shipments can contain diamonds mixed together from numerous countries. Under the current system, Customs would only have documentation citing the last export country.

Until 1998, the United States did not consider conflict diamonds a commodity of focus. But beginning in 1998, the United States put into place import controls to target diamonds documented as originating from the National Union for the Total Independence of Angola, the Revolutionary United Front in Sierra Leone, and Liberia—all of which are subject to U.N. sanctions. Rough diamonds from Liberia have been

banned indefinitely from the United States. U.S. Customs requires that all shipments from Angola and Sierra Leone have a certificate of origin or other documentation that demonstrates to U.S. Customs authorities that they were legally imported with the approval of the exporting country governments. However, the controls do not prevent diamonds from these conflict sources from being shipped to a second country and mixed within shipments destined for the United States.

In fiscal year 2000, about $816 million of rough diamonds from 53 countries officially entered the United States through 19 different ports of entry. According to Customs officials, 35 random physical inspections of rough diamond mixed shipments have been performed since 1998. Of these, five cases were found to have minor discrepancies primarily because of incorrect documentation or the diamonds were misdelivered.[11] Customs officials stated that it is virtually impossible to determine the original source of rough diamonds based on physical inspection; thus U.S. Customs officials must rely on the accuracy of the source cited in accompanying import documentation.

Current Kimberley Certification Scheme Lacks Key Aspects of Accountability

The Kimberley Process working document describing the essential elements of an international diamond certification scheme[12] does not contain the necessary accountability to provide reasonable assurance that the scheme will be effective in deterring the flow of conflict diamonds. Without effective accountability, the certification scheme may provide the appearance of control while still allowing conflict diamonds to enter the legitimate diamond trade and, as a result, continue to fuel conflict.

The Kimberley scheme primarily provides a description of what participants should do as well as "recommendations" and "options." The document describing the scheme is

[11]According to U.S. Customs officials, these inspections were suspended after September 11, 2001, because the agencies' primary focus has shifted to security and anti-terrorism efforts.

[12]*Essential Elements of an International Scheme of Certification for Rough Diamonds, With a View to Breaking the Link Between Armed Conflict and the Trade in Rough Diamonds* (Nov. 29, 2001).

divided into sections covering definitions, the Kimberley Process certificate, undertakings concerning international trade, internal controls at the national and industry levels, cooperation and transparency, and administrative matters. Elements of internal controls are addressed throughout the document, such as the requirement that the Kimberley Process certificates, designating the country of origin for unmixed parcels, accompany each shipment of rough diamonds and that the certificates be readily accessible for a period of no less than 3 years. However, the scheme lacks key aspects of effective controls, and some "controls" are considered "recommended" or "optional." Some of the areas needing further attention include issues on which agreement has not yet been reached. Working groups have been assigned to address these issues, which include the possible establishment of a secretariat, compliance with World Trade Organization rules,[13] sharing of statistics, and the level of monitoring needed.

To assess the current scheme, we looked at evaluations of other international certification schemes and other sources for criteria that can be used to evaluate the Kimberley certification system. We believe the best criteria available are based on standards for internal control that have been developed for organizations.[14] The Kimberley Process participants recognize the importance of internal controls,[15] and the U.S. government, industry, and the international entities such as the World Bank have accepted these standards. While the Kimberley Process is not an organization, the criteria provide useful insights into the ability of the Kimberley Process to achieve basic objectives of accountability and transparency. The guidelines include five control elements—control environment, risk assessment, control activities, information and

[13]Under the Kimberley scheme, participants are to ensure that no shipment of rough diamonds is imported from or exported to a non-participant. However, article XI of the General Agreement on Tariffs and Trade (GATT), 1994, obligates countries to refrain from imposing quantitative restrictions or similar measures on the importation of products from other countries. Two possible exemptions under GATT are being discussed—article XX provides general exemptions and article XXI provides a security exemption.

[14]See *Standards for Internal Control in the Federal Government*, (GAO/AIMD-00-21.3.1, Nov. 12, 1999), and *Internal Control—Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.

[15]According to the November 2001 Kimberley Ministerial statement, "an internal certification scheme will only be credible if all participants have established effective internal systems of control designed to eliminate the presence of conflict diamonds in the chain of producing, exporting, and importing rough diamonds within their territories..."

communications, and monitoring. I will discuss each element and some of the key aspects lacking in the current Kimberley scheme.

Control Environment: A control environment is one with a structure, discipline, and climate conducive to sound controls and conscientious management. The Kimberley scheme faces serious challenges in meeting these criteria.

- Kimberley participants have been unable to agree on the form of administrative support at the international level, whether it is a secretariat or some other mechanism. According to the Kimberley document, institutional arrangements, or the administrative support for the scheme, will be discussed at a future plenary meeting, and no commitments have been made with regard to staffing or funding.[16]
- Individual participants are required to set up a system of national internal controls and effective enforcement and penalties. It is unclear how and when the capabilities of different participants to do so will be assessed and, where needed, assistance provided. If countries fail to comply with the essential elements of the scheme, then according to the scheme, they can be excluded from trading with participants. However, whether this provision complies with trade agreements such as those under the World Trade Organization has been a point of contention since early in the process and remains under discussion by one of the working groups.
- Political willingness as well as industry commitment to support and implement Kimberley vary. Membership is voluntary, and despite efforts to recruit more members, some key countries have not participated in the Kimberley Process. Further, the United Nations discontinued its "name and shame" policy concerning trade in conflict diamonds because of the lack of clear and consistently applied investigative standards. How the United Nations responds to the Kimberley

[16]Researchers reviewing multilateral environmental agreements have noted that institutional arrangements have come to be seen as crucial to their effectiveness and that the lack of institutions limits the capacity to monitor states' implementation of and compliance with treaty requirements or to take action when noncompliance is ascertained.

document and what form the final document will take (an agreement, memorandum of understanding, or some other form) are not known.

Risk Assessment: A risk assessment is a mechanism for properly identifying, analyzing, prioritizing, and managing risks to meet objectives. The Kimberley Process does not include a formal risk assessment and thus participants cannot be assured that appropriate controls are in place. Three potential high-risk areas not adequately addressed in the Kimberley scheme include the following.

- Industry experts and Kimberley participants agree that unless the segment of the diamond pipeline from when the diamond is first discovered in the alluvial field or mine to the point it is first exported is subject to controls, conflict diamonds may enter the legitimate trade. The scheme does little to address this issue, offering only recommendations encouraging participants to license diamond miners and maintain effective security.
- Industry and others hold stockpiles of diamonds with undocumented sources and the number of diamonds held in stockpiles may be considerable. Since the Kimberley scheme requires information on origin, it is unclear how these diamonds will be addressed. Apparently, any conflict diamond could be claimed as a stockpiled diamond at the scheme's initiation.
- The period after rough diamonds enter a foreign port until their point of sale as rough diamonds, polished diamonds, and jewelry will be covered by an industry system called a chain of warranties in which participation is voluntary and monitoring and enforcement are self-regulated.[17]

Control Activities: Control activities consist of policies, procedures, techniques, and mechanisms that ensure that management directives are being carried out in an effective

[17]According to industry officials, the World Diamond Council will strongly recommend that its member organizations require their individual members to make the following statement on all invoices for the sale of rough diamonds, polished diamonds, and jewelry containing diamonds. "The diamonds herein invoiced have been purchased from legitimate sources not involved in funding conflict and in compliance with United Nations resolutions. The seller hereby guarantees that these diamonds are conflict free, based on personal knowledge and/or written guarantees provided by the supplier of these diamonds."

and efficient manner to achieve control objectives. The Kimberley scheme's inconsistent attention to control activities raises concerns, such as the following.

- While some internal controls are delineated, others are recommended or considered optional without clear justification, and many controls are to be developed at the national level where capabilities and political will differ.
- The industry chain of warranties is based on voluntary participation and self-regulation. Although the scheme requires that all sales invoices of participating industry be inspected by independent auditors to ensure that the diamonds come from non-conflict sources, an audit trail is problematic in an industry where diamonds are sorted and mixed many times.

Information and Communications: An information and communication mechanism is needed for recording and communicating relevant and reliable information to those who need it in a form and time frame that enable them to carry out their internal control responsibilities. Two concerns regarding the Kimberley scheme's mechanism for information and communication are as follows.

- Although the Kimberley Process has identified information to be communicated among participants, it has not fully worked out the details of what, how, and when the information will be shared and used. Participants had a great deal of difficulty reaching agreement on sharing statistical data, and a number of issues remain open. The working document states that the content, frequency, timing, format, and methods of handling and exchanging statistical data are to be developed by an ad hoc working group and adopted at a plenary meeting.
- The European Union will function as one trading partner under the Kimberley scheme. It remains unclear how its data will be compiled and shared in a timely manner.

Monitoring: A monitoring mechanism consists of continuous monitoring and evaluation to assess the quality of performance over time in achieving the objectives and ensuring that the findings of audits and other reviews are promptly resolved. Participants had a great deal of difficulty reaching agreement on the need for monitoring. Concerns were

raised about sovereignty. A working group is currently addressing this element. The Kimberley scheme's monitoring mechanisms lack details and rely heavily on voluntary participation and self-assessments. For example,

- Monitoring is based on participants' reporting of other participants' transgressions to initiate a verification mission. A participant can inform another participant through the Chair if it believes the laws, regulations, rules, procedures, or practices of that other participant do not ensure the absence of conflict diamonds in the exports of that other participant.
- Review missions are to be conducted with the consent of the participant concerned and can include no more than three representatives of other participant members. Membership and terms of reference of the review missions have not yet been determined. The scheme does not discuss a mechanism for ensuring that the findings of the review missions are promptly resolved.
- No guidelines have been established for developing required self-assessments.
- No system has been proposed for monitoring the industry system of warranties.
- No external audit of the scheme's administration is discussed.

While we do not expect the Kimberley Process proposal to completely address all aspects of accountability, we hope our analysis will be useful in enhancing the scheme's ability to deter the conflict diamond trade. Further, we acknowledge that while the Kimberley Process has brought together industry, nongovernmental organizations, and governments to address a serious humanitarian issue, the participants face significant challenges in deterring the trade in conflict diamonds.

Mr. Chairman and Members of the Committee, that concludes our prepared statement. We will be pleased to answer any questions you may have.

TESTIMONY OF ALAN W. EASTHAM
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BUREAU OF ECONOMIC AND BUSINESS AFFAIRS
DEPARTMENT OF STATE

BEFORE THE SENATE COMMITTEE ON GOVERNMENT AFFAIRS,
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT,
WEDNESDAY, FEBRUARY 13, 2002

"U.S. Government role in fighting the conflict diamond trade."

Chairman Durbin, Members of the Committee, thank you for inviting the Department of State to participate in this important hearing to discuss the role of U.S. agencies in fighting the conflict diamond trade.

You asked the Department of State to address developments in the Kimberley Process and the potential effectiveness of the proposed global certification system under discussion in reducing the trade in conflict diamonds. In addition, you asked whether the proposed multilateral regime would be useful to prevent terrorists from financing their operations through diamond trading. These are both important questions that are central to the issues facing our country, and the diamond trade, today.

The natural wealth represented by diamonds should be a source of funds for development and human welfare in all the diamond-producing states. In many countries, it is. But in too many cases, the money produced by diamond sales provides the funding for rebel movements to purchase arms illicitly and to support rebel armies, prolonging civil wars that have terrorized societies and destroyed communities.

-- In Angola, where UNITA exported between $3 and 4 billion worth of diamonds from 1992 to 1998, over half a million lives have been lost, more than three and a half million people have been displaced, and over 300,000 refugees have fled the country.

-- In Sierra Leone, diamonds have helped transform a band of about 400 rebels of the RUF into an army of thousands that has become infamous for its brutal treatment of civilians, including particularly horrific atrocities against children. The civil war in that country has killed more than 50,000 people, displaced over one-third of the country's population of 4.5 million inhabitants, and sent over 500,000 refugees abroad.

In addition to the human tragedy in the conflicts in which diamond proceeds have played a part, diamonds have also been reported by the press to have been traded in support of terrorist groups, a subject I will address later in my testimony.

We have attacked conflict diamonds multilaterally through the United Nations and the UN-endorsed Kimberley Process. In doing so, we have kept two objectives in the forefront: First, that we must break the link between diamonds and conflict, and second, that we must do so thoughtfully, in a way that enables the trade to continue, because the diamond industry is a multi-billion dollar global trade which provides important revenue for national development, particularly in Africa, and hundreds of thousands of livelihoods elsewhere in the world.

In the first instance, the solution to the conflict diamond problem falls to the U.N. Security Council, which is charged with responsibility for the maintenance of international peace and security. As others will testify in more detail, we have implemented Security Council resolutions that affect the diamond trade through three executive orders issued by the President. And to support the Security Council's actions, we have participated actively in the Kimberley Process, which adds the expertise of industry and non-governmental organizations, thus greatly enhancing our efforts. This approach is deliberative, thoughtful, and inclusive. And it recognizes the reality of the inherent nature of the diamond trade, a global business in a commodity only imperfectly identifiable by origin.

In the United Nations Security Council, we strongly supported Council action to prohibit the direct or indirect import of diamonds from Angola and of rough diamonds from Sierra Leone, except through government-controlled certificate of origin regimes. USAID assisted the government of Sierra Leone in developing a certification system that provides a secure, legitimate channel for diamonds to be exported from that country.

More recently, we have supported efforts by the Security Council to reduce sanctions leakage to try to dry up funding for these insurrections. The most significant of these was UNSC Resolution 1343 last May that banned rough diamond imports from Liberia, in response to its government's support for the RUF. U.N.-appointed panels of experts have been tracking the linkages between conflict diamonds and illicit arms trafficking which have perpetuated the bloodshed in those regions in Africa.

To supplement and enhance the Security Council measures, we have participated actively in the Kimberley Process, which seeks to establish a global system of certification for all rough diamonds in order to eliminate conflict diamonds from global trade. The Kimberley Process was initiated in Kimberley, South Africa, in May, 2000, when representatives of key producing, trading and consuming countries, the diamond industry, and civil society began a series of meetings to examine the conflict diamonds problem. Kimberley Process efforts were endorsed in December, 2000 by the U.N. General Assembly, which called for participants to broaden participation and develop proposed minimum acceptable standards for certification.

An expanded Kimberley process, with over 35 governments participating, met through 2001 to establish detailed proposals for an international certification system. At the first meeting a year ago in Namibia, delegates set up a work plan that established benchmarks for subsequent meetings, with the objective of presenting the details of a system to the United Nations by December, 2001.

We kept to the road map. At the last meeting of 2001, in November in Botswana, we completed the report to the United Nations and anticipate that the General Assembly will consider it and offer additional support to this work when the General Assembly resumes its activities in March.

A brief outline of how the system would work is as follows: Every country that trades in rough diamonds, including the United States, would, under the scheme as envisaged now, validate an export document called the "Kimberley Process Certificate" which would attest that the rough diamonds in the shipment were handled in accordance with the Kimberley Process, that is, in compliance with a system of internal controls designed to eliminate the presence of conflict diamonds from the trade. It is our expectation that this system will eventually cover the entire global trade in legitimate rough diamonds. We believe -- and the other participants in the Kimberley Process believe -- that this set of rules will enhance measures taken by countries to implement UN Security Council resolutions on conflict diamonds by further deterring the entry of such diamonds into the legitimate trade. This will both strengthen the legitimate trade and enable us to focus enforcement resources on combating the black market.

As to where we stand now, at the Botswana meeting, the Kimberley Process set up four working groups to continue work on several issues in the proposed system which require more study. The United States is actively participating in all four groups. These groups are considering:

-- the question of designing the Kimberley Process trade provisions so that they are targeted to achieve the aim of combating trade in conflict diamonds in a way consistent with existing international structures and obligations in the world trading system;

-- the contribution statistics can make to the Kimberley certification system;

-- how we can meet any ongoing organizational requirements of the proposed Kimberley system; and

-- further elaboration of a sensible system for monitoring the effectiveness of the proposed Kimberley Process certification scheme.

All these questions are under intensive debate now, in the Kimberley Process working groups. The working groups are scheduled to report to the Kimberley Process plenary on March 18 in Ottawa.

At the same time, we are working on a number of other fronts to encourage universal participation in the certification scheme. We are also considering what changes in U.S. law and procedure might be necessary in order to implement the proposed scheme on our part and are also exploring actions the UN might take with regard to a finalized system. There is some urgency in this task, since the Ministerial meeting at the conclusion of the Gaborone meeting declared that the system should be implemented as soon as possible, with issuance of certificates beginning immediately by those countries in a position to do so. The expectation of the Kimberley Process participants is that the Kimberley system will be put into complete effect by all participants by a date to be ascertained before the end of this year. With the strong support of Congress and active efforts by the Administration, we believe we can meet this goal, setting up a system that will be simple, effective, cost-effective, and global.

Mr. Chairman, let me conclude with a brief discussion of the role of diamonds in terrorist finance. This is an area related but quite distinct from the problem of the conflict diamonds that are the subject of the Kimberley Process, that is, those diamonds the import of which are prohibited by the United Nations Security Council as fueling conflict.

Let me explain. In contrast to the popular image, experts in the diamond business tell me it is hard to make a lot of money trading diamonds. The business is very capital-intensive, a business where it takes a great deal of money to make a lot of money because the margins at each step in the trade are ordinarily fairly small. Second, it is expertise-intensive, a business in which you have to know what you are doing in order to profit from those small margins. Third, it is a hard business to enter, because it is a relatively small and somewhat insular industry based on personal relations and a high degree of trust among traders. Most of the traders at particular stages of the trade and in particular segments of the business all know one another, by reputation if not personally. These characteristics of the trade argue against the possibility that a terrorist group could enter the industry, or if they did through front organizations or companies, that they could make a great deal of profit trading diamonds. Shady or unusual practices soon become generally known in the legitimate diamond trade.

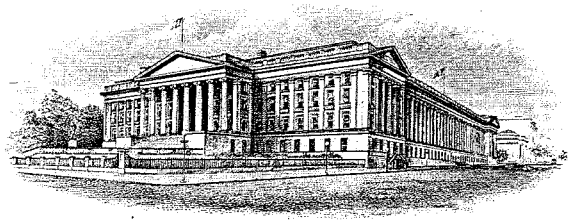
However, there is another risk: that diamonds are being used to hoard "wealth" and avoid legitimate banking circles by terrorists. The possible use of diamonds by terrorists falls within this category, along with other forms of criminal activity including drug smuggling, theft, fraud, and tax avoidance.

Diamonds represent perhaps the most concentrated form of wealth known to man. They are easy to move, whether lawfully or through illegal channels, and are subject to fewer trading restrictions than many commodities, in fact to fewer restrictions than is that other form of concentrated wealth, cash. It is not illegal

per se to possess or trade in diamonds, as it is for example for narcotics. What this means is that a person or group wishing to hoard wealth or move resources across international frontiers without drawing the attention of banking channels or government authorities might certainly consider diamonds as a way to do so. This has several implications: It creates demand for diamonds from conflict zones to be held as a highly convertible currency by people who want to avoid regular banking institutions, thus intensifying the problem of conflict diamonds. Terrorists could participate in this trade. The potential for diamonds as a vehicle for these purposes also enhances the incentive for theft, fraud, and other illicit transactions quite apart from conflict diamonds. And since ultimately these diamonds have to enter the legitimate trade, regrettably there are some on the fringes of the diamond trade who are willing to overlook certain warning signs when an opportunity to buy rough diamonds comes along.

Mr. Chairman, the reports that terrorists may be buying and hoarding diamonds are cause for immense concern. Many agencies are working together to see what further information can be obtained and what can be done to prevent terrorist from cashing in diamonds to fund their activities. It will undoubtedly also be important for the industry to avoid being implicated in this evil, and it is particularly important at this time for the diamond trade in this country to heed the best practice of "Know your supplier." That is an essential first step in taking effective action against both conflict diamonds and the use of rough diamonds as a financial tool.

As you can see, the State Department is intensely involved with multilateral and inter-agency efforts to eliminate "conflict diamonds" from international trade and to pursue leads to shut down terrorist financing by diamonds as well. Let me close by thanking you again for your interest in this subject. We look forward to working together with members of Congress in these important endeavors.



DEPARTMENT OF THE TREASURY

OFFICE OF PUBLIC AFFAIRS

EMBARGOED FOR 9:30AM RELEASE
February 13, 2002

Contact Tasia Scolinos
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Testimony before the United States Senate
Committee on Governmental Affairs
by Timothy Skud
Acting Deputy Assistant Secretary
Regulatory, Tariff and Trade Enforcement
U.S. Department of Treasury
February 13, 2001

Mr. Chairman, members of the Committee, thank you for inviting me to speak about the role of the Department of the Treasury and its bureau, the U.S. Customs Service, in enforcing current sanctions on diamonds, and our possible role in enforcing an international certification system for trade in rough diamonds.

The role of diamonds in conflicts in Angola and Sierra Leone has been well documented. More broadly, as a precious commodity, diamonds are often used in trafficking networks running parallel to legitimate international trade channels and offer criminals opportunities to conceal their financial and organizational relationships. Diamonds can provide a lucrative means of funding an array of transnational criminal activities. They can be used in money laundering, arms trafficking, and, potentially, international terrorism. Techniques for illicit trade in diamonds include physical concealment, mis-description, and undervaluation. Customs' recently initiated Operation GreenQuest aims to identify and investigate suspected financial or other crimes, which may utilize diamonds as a means of concealment.

Current Import Prohibitions on Conflict Diamonds

The Customs Service currently enforces prohibitions on importation of diamonds from three countries: Angola, Sierra Leone, and Liberia. These prohibitions are in place pursuant to three Executive orders that take into account United Nations Security Council Resolutions.

On September 26, 1993, the President issued Executive Order 12865, declaring a national emergency in response to military and other actions by the National Union for the Total Independence of Angola (UNITA) and imposing sanctions on UNITA. In Executive Order 13098 of August 19, 1998, the President imposed additional sanctions on UNITA including prohibiting the direct or indirect importation into the United States of all diamonds exported from Angola that are not controlled through the certificate of origin regime of the Angolan Government of Unity and National Reconciliation.

In Executive Order 13194 of January 18, 2001, the President declared a national emergency in response to the actions of the insurgent Revolutionary United Front (RUF) in Sierra Leone and prohibited the importation into the United States of rough diamonds from Sierra Leone that have not been controlled by the Government of Sierra Leone through its certificate of origin regime. The order's stated purpose was to ensure that the direct or indirect importation into the United States of rough diamonds from Sierra Leone would not contribute financial support to the RUF, whose illicit trade in conflict diamonds has fueled the civil war in Sierra Leone by funding the rebels' aggressive actions and procurement of weapons.

On May 22, 2001, the President issued Executive Order 13213 to expand the scope of the national emergency declared in Executive Order 13194 in order to respond, among other things, to the Government of Liberia's complicity in the RUF's illicit trade in conflict diamonds through Liberia. This order prohibits the direct or indirect importation into the United States of all rough diamonds from Liberia, whether or not the diamonds originated in Liberia.

The regulations for Angola can be found in 31CFR Part 590; interim final regulations for Sierra Leone and Liberia were published in the Federal Register on February 6, 2002. Customs has in all instances been enforcing the import bans as of the effective dates of the underlying Executive orders.

Customs Enforcement

Consistent with the Executive orders and implementing regulations, Customs requires that authorized imports of rough diamonds from Sierra Leone and all diamonds from Angola be accompanied by legitimate government certificates or other documents demonstrating to the satisfaction of Customs that the diamonds were legally exported from the relevant country. Under Customs regulations, importers must present appropriate documentation to Customs upon demand and have the responsibility to keep certificates of origin on file for 5 years after importation.

In addition to targeted examinations at entry, Customs uses risk management techniques as a means of identifying those imports that represent the greatest risk of non-compliance and to focus resources in those areas. This may include post-importation audits to review importers' overall trade, identify anomalies, and verify claims made at entry. In the case of diamonds, verification of claims can include verification with exporting authorities of certification validity. If any intelligence is developed internally, or obtained from outside sources, indicating certain importers are importing conflict diamonds, Customs can seize shipments or develop leads by initiating formal investigations. Customs' Strategic Investigations Division programs, such as

Operation EXODUS and the newly-initiated SHIELD AMERICA program, aggressively investigate, interdict and disrupt international arms trafficking networks, and are relevant to diamonds trade and smuggling.

There have been two recent interdictions of diamond imports based on the failure to present proper export certificates. On December 31, 2001, Customs inspectors at Baltimore-Washington International Airport seized 37 diamonds from a passenger who had arrived on an international flight. A search of the passenger's luggage revealed documents that led the officers to believe the passenger may be carrying diamonds. When the officers asked if he was carrying diamonds, the passenger removed a package from his pocket and the diamonds were detained for formal Customs entry. The Customs entry was filed, but there was no accompanying certificate from the Republic of Sierra Leone and the diamonds were seized pursuant to Executive Order 13194.

On February 4, 2002, an arriving international passenger declared $12,350 in diamonds to Customs officers at Baltimore-Washington International Airport. Upon review of the Certificate of Origin, the Customs inspectors noticed several inconsistencies in the document that led them to believe the certificate was fraudulent. The stones and the accompanying documents are currently under detention by Customs.

Kimberley Process

In January of 2001, the United Nations General Assembly passed a resolution (55/56) which, *inter alia*, encourages member states to devise "effective and pragmatic measures to address the problem of conflict diamonds" including "the creation and implementation of a simple and workable international certification scheme for rough diamonds." Over thirty countries have engaged in discussions to develop such a scheme through the so-called Kimberley process. The Department of State has led U.S. participation.

Six international meetings on the Kimberley process were held in 2001; another meeting is scheduled to take place in Canada in March 2002 to continue work on the draft document and surrounding issues. The objective of the Kimberley certification scheme is to assist in tracking legitimate diamond trade in order to try to isolate illegal shipments and persons involved in the trade of illicit conflict diamonds, thus making their infiltration of the legitimate trade more difficult.

The Treasury Department and the Customs Service have participated in interagency and international discussions of the draft Kimberley document and have shared information with participating countries on what we believe are the most modern and effective customs analysis and interdiction techniques for imports.

The proposed Kimberley certification scheme would require that, at each point of exportation, every shipment of rough diamonds be accompanied by a certificate, identifying the shipment as made in a manner consistent with the Kimberley procedures. The exporting country would validate such a certificate. The importing country would require possession of a valid certificate at importation.

The U.S. Customs Service would enforce any import regulations concerning Kimberley certificates as it does under the existing sanctions with respect to shipments from Sierra Leone, Angola and Liberia. In its enforcement, Customs would use modern risk-assessment techniques, intelligence, and investigations, as the most effective tools for interdicting diamonds not shipped in accordance with Kimberley procedures.

While the United States is a significant consumer of polished diamonds, it is a small importer of rough diamonds, which are primarily processed in Europe, South Africa, Israel and elsewhere. The United States accounts for only four percent of global imports of rough diamonds, but 45 percent of global imports of polished diamonds. An effective global regime for excluding conflict diamonds from legitimate trade will need to rely on effective trade monitoring mechanisms in countries of first extraction, and in primary importing countries, and on effective international cooperation to prevent smuggling. Under the Kimberley process, an attempt has been made to involve the traders and strike a balance between trader vigilance and government involvement. A system that relies strictly on government enforcement and excludes the industry -- which is the most knowledgeable about the trade -- would be far less effective.

In summary, we support the objectives of the Kimberley process, and stand ready to assist in the enforcement of import-related measures designed to address this serious issue. In addition, Treasury has actively participated in the Administration's dialogue with the House concerning H.R. 2722. We believe this bill complements the efforts of the Administration to combat trade in conflict diamonds under the Executive orders and through the Kimberley process. It would reinforce U.S. leadership on this issue, while respecting our international obligations. It also envisages enforcement in a manner consistent with Customs risk management techniques.

Thank you for the opportunity to present Treasury's views. I would be happy to answer any questions.

Testimony of

JAMES E. MENDENHALL

DEPUTY GENERAL COUNSEL

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

before the
Senate Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia
of the Committee on Governmental Affairs

February 13, 2002

INTRODUCTION

Thank you for inviting me to testify before you today. I appreciate this opportunity to discuss the efforts that are being made nationally and internationally to deal with the tragic problem of conflict diamonds.

As we all know, rebel groups in certain African countries such as Angola and Sierra Leone have for many years funded their activities through the sale of conflict diamonds. These groups have engaged in atrocities that shock the conscience. The international community is taking action to stop the trade in conflict diamonds, and we are now approaching the point where an effective and comprehensive regime can be put in place. USTR wholeheartedly supports this effort.

THE CLEAN DIAMOND TRADE ACT

Last November, the House of Representatives passed H.R. 2722, the Clean Diamond Trade Act, by the overwhelming margin of 408 to 6. USTR supported H.R. 2722 and is pleased that the House passed it so resoundingly. We applaud the leadership of Ways and Means Committee Chairman Thomas as well as that of Representatives Hall, Wolf and Houghton in taking this positive and constructive step toward severing the tie between diamonds and conflict.

I also applaud you, Mr. Chairman, and Senators DeWine and Feingold for being actively engaged in formulating legislation to deal with conflict diamonds and for giving this issue the serious attention and consideration that it deserves. USTR and other agencies in the Administration have discussed conflict diamonds legislation with your staffs, and we look forward to continuing this dialogue. As we have made clear in those discussions, we fully support expeditious Senate approval of H.R. 2722.

H.R. 2722 was the result of long and hard work by members of Congress, their staffs, the Administration, and the NGO and business communities. USTR participated fully in this process

and sought a bill that would be effective, would not undermine the Kimberley Process negotiations or other multilateral efforts to prevent trade in conflict diamonds, and would comply with U.S. international obligations. H.R. 2722 achieves each of these objectives.

First, the bill enumerates specific measures that countries could adopt to help ensure that conflict diamonds do not enter the international stream of commerce. Countries that adopt such measures will be deemed to have taken effective steps to stop trade in conflict diamonds and will be permitted to export diamonds to the United States.

Second, the bill is designed to complement multilateral efforts to prevent trade in conflict diamonds. The bill encourages countries to comply with resolutions issued by the UN Security Council that require countries not to import conflict diamonds. It also stakes out a clear U.S. position on the elements of an effective international regime and encourages countries to adhere to the framework arrangement that will emerge from the Kimberley Process.

Finally, the bill is designed to comply with international law. The bill would authorize the imposition of trade measures only if necessary to protect the essential security interests of the United States or pursuant to UN Security Council resolutions, consistent with U.S. foreign policy interests and international obligations.

EFFORTS TO ADDRESS THE PROBLEM OF CONFLICT DIAMONDS AT THE INTERNATIONAL LEVEL

H.R. 2722 is landmark legislation. It placed the United States squarely at the forefront of the effort to stop trade in conflict diamonds. However, as I think we all recognize, the effort to prevent such trade will be vastly strengthened if all actors in the global diamond trade – producers, distributors and governments – join together in a comprehensive regime.

Multinational efforts to deal with the problem of conflict diamonds have focused on two fronts – United Nations sanctions and the negotiation of an international certification regime in the "Kimberley Process."

UN Sanctions

The UN Security Council has been very active in taking steps to prevent trade in conflict diamonds. The Council issued resolutions calling on countries not to import diamonds from Sierra Leone and Angola unless the diamonds are accompanied by a certificate of origin issued by the internationally recognized authority. The resolution regarding diamonds from Sierra Leone was extended just last December for another 11 months. The Council issued another resolution in March 2001 calling on countries not to import diamonds from Liberia, due to its history of acting as a conduit for conflict diamonds coming from other countries.

The United States has put these UN sanctions in place through three Executive Orders. H.R. 2722 is meant to work within the framework created by these sanctions and to encourage other countries to comply with their UN obligations.

Kimberley Process

The Kimberley Process is a much broader initiative. Since its first meeting in May 2000 in Kimberley, South Africa, it has grown into a sophisticated international negotiation with a growing number of participants.

Through the Kimberley Process, over thirty members of the international community, including the United States, have come together to negotiate an international regime to eliminate trade in conflict diamonds. This effort is truly extraordinary in that the NGO community and the diamond industry participate directly in the discussions and will be key to the operation of the regime once it is implemented.

The United Nations has played a central role in urging completion of the process and garnering international support. In December 2000, the UN General Assembly endorsed the work of the Kimberley Process when it unanimously passed resolution 55/56.

Last December in Botswana, the Kimberley participants issued a working document entitled "Essential Elements of an International Scheme of Certification for Rough Diamonds, with a View to Breaking the Link Between Armed Conflict and the Trade in Rough Diamonds." The document has been sent to the UN General Assembly, where it will be discussed in March.

NEXT STEPS

Over the coming year, participants in the Kimberley Process should begin to implement the elements of the certification system. However, there are several key issues that remain to be resolved.

These issues include monitoring of international systems, compilation of statistical information on the global diamond trade, resolution of organizational issues, and ensuring that the certification system complies with international trade rules. The participants agreed in Botswana to create working groups to discuss each of these issues and report back to the other participants at the next Plenary meeting in Canada in March.

Nine countries are participating in the working group on trade issues, including the United States, Canada, the EU, China, Japan, Switzerland, South Africa, Namibia, and Russia. USTR and the State Department are participating in the working group on behalf of the United States.

Since December, we have been actively engaged in discussions with other members of the working group. The first meeting of the working group will be held in Geneva this weekend. By the time the Plenary convenes in Canada, we hope to have resolved most or all of the concerns related to compliance with international trade rules.

Thank you again for the invitation to testify here today. I look forward to working closely with you and your staff in the future to address this difficult and complex problem.

Testimony of

Tony P. Hall and Frank R. Wolf

to the United States Senate

Committee on Governmental Affairs,
Subcommittee on Oversight of Government Management,
Restructuring and the District of Columbia

February 13, 2002

Mr. Chairman, thank you for the opportunity to submit testimony about the role of U.S. agencies in fighting the conflict diamond trade. We regret that we are unable to appear before you, but appreciated your invitation to testify. Congressman Hall is in his district for an announcement about his retirement from the House of Representatives; Congressman Wolf also had a schedule conflict.

We want to congratulate you and the Committee for the focus you are bringing to the problem that is at the heart of most of today's wars in Africa. We also commend you and Senators Mike DeWine, Russ Feingold and Judd Gregg for your work on the Clean Diamonds Act, S. 1084. It has been an honor working on its House companion with you, and we wish you the best in your continuing work toward the goal we share: enactment of effective legislation.

The United States Must Lead

In our view, today's hearing rightly highlights the need for the United States – both our government and our consumers – to lead work toward ending the trade in conflict diamonds. As buyers of the majority of the world's diamonds, and as contributors of most of the aid sent to victims of battles over them, the United States is in the classic (and odious) position of supporting both sides of these conflicts. When combatants were uniformed soldiers, that was embarrassing; today, when fighting targets innocent civilians, it is intolerable.

We believe the need for U.S. leadership is foremost a moral imperative: to stand up for people who have suffered some of the most brutal atrocities in history, to stand against thugs who are twisting sentimental tokens of love into a motive for brutal and unending warfare. On September 11, 2001, though, U.S. leadership on conflict diamonds became a factor in protecting our national security. As this hearing's focus underscores, diamonds provide terrorists with the means to keep America in Al Qaeda's gunsights. That must not stand.

Throughout the time we have worked on conflict diamonds, it has been apparent that the Executive Branch benefits from the "tough love" that only Congress can provide. The problem is not one of ill will or vile intentions. Whatever their differences, we are convinced that every American involved in work on this issue shares our desire to end this blood trade. Too often, though, our Government's efforts have been plagued by competing pressures, poor coordination and other bureaucratic impediments. We hope this Committee can help cut through these problems, and stand ready to assist you however we can.

Competing Pressures Plague U.S. Government's Work

One problem is the way U.S. Government agencies' differing priorities sometimes interfere with concerted efforts to end this blood trade. Some are conflicts between agencies. Some are competing pressures within a single agency. Some are grounded in our country's relationships with key allies. But all drain promise from our efforts. Here are a few examples:

Justice/State. The U.S. Department of Justice has pursued an antitrust case against DeBeers for more than half a century. Eight years ago, it secured a criminal indictment of it for anti-competitive practices. Prosecution of both cases remains active, and has prompted the company to go through extraordinary contortions to put its assets beyond the reach of American courts. And yet, pursuing court action seems to be in diametric opposition to diplomatic work on conflict diamonds, because DeBeers plays an enormous role in the diamond trade. Without its assent, the entire industry is impotent to act on any matter – and particularly on steps as comprehensive as those needed to block the sale of conflict diamonds.

If DeBeers uses its influence to assist efforts to solve this problem, it may well deserve our appreciation. If instead it exerts its power to prolong jawboning about the issue – either to burnish its public image, to exact concessions from the Justice Department, or to increase its market share – that would rightly earn it more opprobrium.

In the interim, as work to implement necessary controls is done, we would hope that Congress will help the agencies that deal with DeBeers manage the inherent contradiction in their missions.

One way to do this would be for this Committee to give careful scrutiny to the "chain of warranties" on which the Kimberley Process depends. That has been a matter of concern to the General Accounting Office and NGOs alike. As your work on Enron's collapse has demonstrated, the integrity of any audit trail depends on its being transparent and subject to monitoring. Given DeBeers' pivotal role in the diamond trade, its tremendous power, and its legendary secretiveness, evaluating the chain may require investigative work and outreach to whistle-blowers. Those are thankless tasks, but the reliance of American communities on the vitality of the nation's 27,000 jewelers, whose economic viability in turn depends on consumers' continuing desire for diamonds, makes it worth undertaking.

Treasury/USTR. Another hurdle our Government's efforts face is competing priorities within each agency. In the case of the Treasury Department, for example, narco-traffickers claimed most of its attention before September 11; terrorists have been the focus since. We don't quarrel with that, but diamonds are the currency of terrorists, drug kingpins and others in the criminal world. Because the diamond trade facilitates laundering the profits from criminal enterprises, failing to scrutinize it could hinder work on these higher priorities.

Similarly, places where lawlessness flourishes are magnets for terrorists. And yet Liberia's attempts to end-run UN sanctions against its rough diamonds, by cutting them just enough to transform them into gems outside the embargo's scope, seem to have been met with U.S. indifference. We should not be surprised that thieves rob banks; as Willie Sutton famously said, "that's where the money is." For the same reason, we should be closely watching the trade in the most concentrated source of wealth known to man – particularly in outlaw nations like Liberia.

The challenge of competing priorities is also apparent in the problem that conflict diamonds pose for the U.S. Trade Representative's office. Addressing it could, arguably, hinder the legitimate trade in diamonds, but ignoring it surely would undermine the support for free trade. Whatever your views on how extensively to regulate trade, it is critical to remember that the trade in conflict diamonds deserves no protection. Conflict diamonds are stolen goods, traded illegally and turned against people who reap only sorrow from a resource that should mean the end of their troubles – not the beginning.

The businesses that must help implement any system of controls are, for the most part, the honest sort we all usually like to spare from onerous regulation. They occupy the $56 billion end of this business and they have incredible clout. At the other end of the trade are people who are virtually powerless, people whose suffering may have remained hidden but for its horrible juxtaposition against the glittering gems at the root of their misery. They are who will pay the price for any irresponsible or premature steps to lighten this regulatory burden, or for any solution that doesn't pass the smell test.

We believe Ambassador Zoellick and his staff recognize the threat this blood trade poses to support for globalization and free trade. But sustaining the will to finish the job cannot be entrusted to trade authorities alone. Putting this resource beyond the reach of future thugs and terrorists will take a broader push and continued, coherent oversight by Congress.

U.S. Allies. Another problem that confounds the U.S. Government's efforts to stop conflict diamonds is the heavy dependence of some of our closest allies on the diamond trade. For example, diamonds account for more than 25 percent of Israel's merchandise exports -- and 70 percent of these are exported to the United States. Another ally, India, produces more than half of the world's diamonds by value, collects one dollar in six of its export earnings for them, and employs more than 700,000 people in their manufacture. Until something is done about the trade in conflict diamonds, though, the shadow it casts over the legitimate trade also darkens the economic prospects of nations like these.

Other countries have added exposure to problems that originate in the grey areas of the diamond trade. For example, South Africa is plagued by smuggling that threatens to turn the "Kimberley" of the Kimberley Process as sour as the "Enron" in Houston's Enron Field. Likewise, Rwanda, Uganda, the Republic of Congo, and others engage in trading diamonds that fund conflict. Even though the lack of action by the United Nations lets them escape justice on a technicality, each is caught in a Catch-22: Acknowledging the problem's existence may stain its reputation, but doing nothing postpones the remedy and threatens to make the stain indelible.

All of these nations have some strategic significance to the United States. That means our diplomats must manage a balancing act between ending the trade in conflict diamonds, and focusing on other concerns, particularly during this time of war. Moreover, this threat is long-term – future erosion of consumers' confidence in diamonds as a symbol of love. But preventive steps administer some pain immediately, and threaten to expose diamonds' dark side at a sensitive moment.

So, faced with the unpleasant task of pressuring an ally like Israel to crack down on smuggling in an important industry, or waiting for attention to die down, which course does a conscientious diplomat choose? The temptation is clear. Fortunately, helping our officials navigate this dilemma is a specialty of Congressional oversight work. We've often played the "bad cop" – on human rights, environmental, and other priorities – and this role could lend helpful support to those charged with carrying the United States' messages to other nations.

The inconvenient fact is, almost no one aware of the link between diamonds and war finds whether the United Nations has imposed sanctions to be relevant. On the contrary, its failure to act in the case of the Democratic Republic of the Congo, where 2.5 million people have died and the evidence of this link is clear, highlights the weakness in defining conflict diamonds so selectively. The bottom line is, neither countries nor companies dependent on the diamond trade are protected by ineffectual action against conflict diamonds. No diplomatic finesse of this reality, no pandering to our allies or to industry will soften the blow if consumers turn away from all diamonds in disgust at these wars' atrocities. That needs to be made clear; continued Congressional efforts will be critical to ensuring this message doesn't get lost in translation.

Poor Coordination Threatens U.S. Government's Efforts

Another problem we've seen since we began work on conflict diamonds is poor coordination of agencies' work. There are several examples, but nowhere was this shortcoming more apparent than in the matter of diamonds' manipulation by terrorists. At an October 2001 hearing before the House Ways & Means Committee, a key Administration official downplayed this link. Even after the Washington Post published evidence reporting intelligence organizations' longstanding awareness of it, Administration officials continued to discourage Congressional inquiries into it.

We are, of course, sensitive to the need to treat classified information – particularly about terrorism – with extreme care. But we suspect that confusion, and not secrecy, is to blame for the poor coordination among intelligence and other agencies. We hope that you, Mr. Chairman, and other members of our intelligence committees, will look into this matter further. The questions seem fairly straightforward: One, was this illegal trade a means for Al Qaeda to fund its attacks on America? Two, are conflict diamonds now being used to shield terrorists' assets from the crackdown since September 11? Whatever the answers, it is essential that all agencies of our government overcome their information-sharing and other problems without further delay.

More Public Diplomacy is Needed

As important as work by each agency involved is, there is a critical – and unmet – need to mount a stronger public diplomacy effort. Africans in communities that have learned how diamonds can be a curse know full well the role corruption plays in facilitating the trade in conflict diamonds. An even broader audience understands this as but the latest chapter of African resources being stripped away in the most irresponsible manner to satisfy Western markets.

Our government needs to acknowledge these twin 800-pound gorillas. Leaders in Washington, and in the capitals where diamond muscle commands attention, need to begin speaking out about the corruption and pillaging that are facilitated by respected companies and countries. They need to press industry leaders to help them convey the message that this blood trade is wholly unacceptable. No fig leaf – whether in the form of an international agreement, or a UN sanction – can excuse the business-as-usual approach that has contributed to the sorry state we're in today. And no one who benefits from the legitimate side of this trade should fail to make that point at every opportunity.

We understand the desire not to talk about these atrocities: Forced amputations. Gang rapes. Deaths by starvation and from hideous (and mostly preventable) diseases. Death rates among young children that are astronomical. Devastation that has set some battleground communities back a century. Nothing about the wars over diamonds is pretty. Everything makes a sickening mockery of their glittering image. But continuing silence is not the answer.

The industry and many governments think they can wait out NGOs, consumers, journalists and Members of Congress. They're probably right: sustained attention on anything related to Africa is difficult in a good year but would be a small miracle now that all eyes are on the war against terrorism. But too many lives have been lost for forgetting, and too much money spent on "Band-Aids" applied to wounds that require more serious attention. We urge you to help us make sure that Congress doesn't forget – and doesn't let anyone else forget – until this problem is solved.

Even if attention remains focused on ending this scourge, even if industry leaders act responsibly, even if journalists and NGOs are as tireless as they've been for the past year, there is no substitute for the attention that our government can muster. Through the Committee's sustained attention, we hope you will ensure this remains a priority, and that relief and constructive development are given a chance. We stand ready to assist you in any way we can.

Clean Diamond Trade Act

In closing, we want to take this opportunity to ask that the Senate act soon on HR 2722, the Clean Diamond Trade Act. We believe this is historic legislation that will begin to erect the controls and incentives needed to end the trade in conflict diamonds.

This bill gives the Administration tools to begin targeting this trade more aggressively. For example, in negotiations on the bill with the House, Treasury officials assured us they can block the kind of sanctions-busting activities now underway in Liberia. But because Liberia exports virtually no diamonds to the United States, additional powers are needed to let U.S. law enforcement reach into the layers of middlemen blithely trading these tainted gems.

The bill also gives NGOs, journalists and others information they need to better understand this problem -- and to spotlight abuses. Twice-annual reports will help expose the vicious underworld that drives this trade, bring pressure to bear on countries that are accomplices to it, and sustain the attention that has proven to be the most powerful weapon against it.

Last, action on legislation in the coming weeks would send an important signal at a critical time in the Kimberley Process deliberations. This bill, and its Senate companion, long have been considered to be a way of helping maintain the momentum needed for an effective international agreement. Once that is in place, follow-on legislation will implement it. An added advantage to acting now on legislation is the opportunity it gives us to identify any shortcoming in time for correction through legislation later this year.

We first began work on conflict diamonds in preparation for our visit to Sierra Leone and Guinea in 1999. We were heartened by the enthusiastic reception among Sierra Leone lawmakers and others for that first bill, the CARAT Act. Similar interest by NGOs greeted our next bill. The third bill we introduced represented an agreement among NGOs and industry leaders. It won the endorsement of the Clinton Administration, and nearly passed in 2000 – failing only after the industry withdrew its support in the waning days of the 106th Congress. In 2001, we introduced the Clean Diamonds Act, legislation very similar to that compromise. After months of wrangling with the industry, we won its support and that of a bipartisan group of Members – led by you, Mr. Chairman, Senator DeWine, Senator Feingold, and Congressmen Houghton and Rangel.

The version of this, our fifth bill, which passed the House by a vote of 408 to 6, does not go as far as we'd hoped. We were particularly disturbed by the Administration's excessive deference to our obligations to the World Trade Organization, and believe that more muscular action against this illegal trade would be well within our rights as a WTO-member nation. On balance, though, we are convinced that HR 2722 represents an important first step and hope that another year of debating the issue won't further delay Congressional action.

Even after legislation is enacted, much more work will be needed. Preventing this problem from being defined away by the United Nations will take serious effort. Sierra Leone's war has officially ended, but fighting there is part of a regional war that is far from over. In West Africa and Angola, easing sanctions against conflict diamonds likely would contribute to more violent flare-ups.

Ensuring U.S. agencies follow through on needed work also will take persistent prodding, as will winning support for helping these war-torn countries recover and develop. These and other initiatives that must complement U.S. legislation and the international agreement will mean the difference between success and failure.

No piece of paper can halt these wars; as we've seen in Sierra Leone, where the U.S. share of peacekeeping troops is $1.5 million a day, a heftier commitment is needed once the shooting starts. Where U.S. law and the Kimberley Process might make a difference, though, is in deterring another round of fighting over diamonds. Enlisting legitimate businesspeople, and countries with a stake in diamonds' continuing appeal to consumers, offers the best hope of putting this resource beyond thugs' reach. We believe the Clean Diamond Trade Act begins this work, and urge you to press for swift Senate action on it.

Conclusion

In closing, we want to thank you again for your work on conflict diamonds, and for the opportunity to submit testimony to the Committee.

We also want to thank Joseph Melrose, who we first met in Sierra Leone when he was serving as our ambassador. Joe has contributed a great deal to peace in that region, and to the work against conflict diamonds that holds the best hope that peace, once won, can be sustained.

Finally, we commend the efforts of the General Accounting Office investigators who have worked with us for much of the past year. Loren Yager, Phillip Thomas, Kathleen Monahan, Zina Merritt, Kendall Schaefer, Sharla Draemel, and Janey Cohen have been tireless in this work. We are pleased that you will give their preliminary recommendations the attention they deserve and hope their insights suggest a roadmap for real progress in ending the trade in conflict diamonds.

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