

# The Lost World

## Diamond Mining and Smuggling in Venezuela

### About this Report

Partnership Africa Canada (PAC) has been a leader in the campaign against conflict diamonds since 1999. It has been an active member of all Kimberley Process meetings and Working Groups. It has produced several background studies on diamond-related issues, 16 occasional papers and a quarterly newsletter, *Other Facets*. All are available on the PAC website ([www.pacweb.org](http://www.pacweb.org)).

This study was researched and written by a team of PAC researchers in October, 2006. Research was conducted in Caracas, in the remote mining areas and the towns of Bolivar state, and in the Brazilian city of Boa Vista. The report follows three PAC reports in 2005 and 2006 describing problems in the Brazilian and Guyanese diamond industries.

PAC would like to thank the many individuals in Venezuela's Ministry of Basic Industry and Mining, in the Ministry of Environment, and in the cooperatives and mining community of Icabarú, many of whom gave generously of their time and helped immensely in the preparation of this report. PAC would also like to thank the diamond buyers, traders and smugglers of Ciudad Bolivar, Santa Elena de Uairén and Boa Vista, all of whom in their own way provided invaluable assistance.

Summary versions of the report in Spanish, Portuguese and French can be found at pages 2 and 3.

### Summary

Venezuela, a country that annually produces an estimated 150,000 carats of diamonds, has officially exported none since January 2005. Although it is a member of the Kimberley Process Certification Scheme (KPCS) for controlling rough diamonds, it has essentially dropped off the KPCS radar.

Recent efforts to halt illicit mining in Venezuela have led only to violence and death. A combination of high taxes, ineffective currency controls and bureaucratic ineptitude has driven Venezuela's diamond dealers underground. Lax controls allow them to smuggle the country's entire annual diamond production out through Brazil, Guyana, Hong Kong, the United States and Belgium.

In this report, Partnership Africa Canada concludes that Venezuela should be expelled from the KPCS if the Kimberley Process wishes to maintain any semblance of order and integrity. The report further concludes that Venezuela must bring its diamond mining, trading and exporting under control.

The report notes the prominent role played by Brazilians, and the route through the Brazilian city of Boa Vista, in the smuggling of diamonds from Venezuela to Guyana. The report recommends that the Kimberley Process assist in dismantling this route by creating and chairing a tripartite commission of enquiry and adjudication to coordinate a process of dialogue on diamond production and control procedures in Venezuela, Brazil and Guyana.

The report also contains a number of specific recommendations for the Government of Venezuela.

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## Resumen

Venezuela, un país con una producción anual estimada de 150.000 quilates de diamantes, no ha oficialmente exportado nada desde Enero de 2005. Aunque sea miembro del Esquema de Certificación del Proceso Kimberley (KPCS) para el control de diamantes en bruto, Venezuela básicamente desapareció del radar del KPCS.

Recientes esfuerzos para detener la minería ilegal en Venezuela lograron causar solamente violencia y muerte. Una combinación de altos impuestos, un control de divisas ineficiente y incompetencia burocrática llevaron los negociantes de diamantes de Venezuela a la clandestinidad. Controles flojos los permiten contrabandear la entera producción anual de diamantes para fuera del país a través de Brasil, Guyana, Hong Kong, los EE.UU. y Bélgica.

En este reporte, Partnership Africa Canada concluye que el Proceso Kimberley debería expulsar a Venezuela del KPCS si el Proceso Kimberley desea mantener cualquier apariencia de orden e integridad. Además, el reporte también concluye que Venezuela debe recuperar el control sobre la minería, comercio y exportación de sus diamantes.

El reporte apunta el papel de destaque de los Brasileños y de la rota por la ciudad Brasileña de Boa Vista en el contrabando de diamantes desde Venezuela hasta la Guyana. El reporte recomienda la asistencia del Proceso Kimberley en el desmontaje de esta rota, creando y presidiendo una comisión de investigación y adjudicación tripartita para coordinar un proceso de diálogo involucrando los tres países sobre la producción de diamantes y los procedimientos de control en Venezuela, Brasil y Guyana.

El reporte también presenta diversas recomendaciones específicas para el Gobierno de Venezuela.

## Resumo

A Venezuela, um país que anualmente produz uma estimativa de 150,000 quilates de diamantes, não tem exportado nada oficialmente desde janeiro de 2005. Apesar de ser um membro do Sistema de Certificação do Processo de Kimberley (SCPK) para o controle de diamantes brutos, o país praticamente sumiu do radar do SCPK.

Esforços recentes de acabar com a mineração ilegal na Venezuela apenas resultaram em violência e morte. Uma combinação de taxas altas, controles de divisas ineficazes e a incompetência burocrática obrigaram os comerciantes de diamantes venezuelanos a operar ilegalmente. Controles insuficientes permitem que a produção anual do todo país deixe a Venezuela clandestinamente através do Brasil, da Guiana, de Hong Kong, dos Estados Unidos e da Bélgica.

Neste relatório, a Parceria África Canadá conclui que a Venezuela deveria ser excluída do SCPK, si o Processo de Kimberley quer manter qualquer aparência de ordem e integridade. O relatório também conclui que a Venezuela precisa de estabelecer controle sobre a mineração, o comércio e a exportação de diamantes.

O relatório resalta o papel principal dos brasileiros e a rota do contrabando de diamantes da Venezuela para a Guiana através da cidade brasileira de Boa Vista.

O relatório recomenda que o Processo de Kimberley ajude a dismantelar esta rota, estabelecendo e presidindo uma comissão tripartite de inquérito e adjudicação para coordenar um processo de diálogo entre os três países sobre a produção de diamantes e os métodos de controle na Venezuela, no Brasil e na Guiana.

Este relatório também contém uma série de recomendações específicas dirigidas ao Governo da Venezuela.

## The Kimberley Process

Conflict diamonds are diamonds used by rebel armies to finance war. Diamond-fuelled wars in Sierra Leone, Angola, the Democratic Republic of the Congo, Liberia and elsewhere, have taken the lives of hundreds of thousands of people over the past fifteen years. The Kimberley Process began in 2000 in an effort to halt the trade in conflict diamonds. A series of intergovernmental meetings in which NGOs and industry played a key role led to the creation of the Kimberley Process Certification Scheme (KPCS) for rough diamonds, starting in January 2003. The KPCS is now legally binding in more than 45 diamond producing and processing countries, plus all those represented by the European Union. No rough diamonds can be traded among or between these countries unless they are accompanied by a government-issued Kimberley Process Certificate stating that the diamonds are clean. The certificate must be backed by a system of internal controls in each country, designed to give each certificate meaning.

## Introduction

The signal landmark of southern Venezuela's diamond lands are the sheer flat-topped mountains known as tepuys. In his 1912 novel, *The Lost World*, Sir Arthur Conan Doyle imagined that the isolated plains that top these cloud-shrouded massifs were home to remnant populations of tyrannosaurs and diplodoci. Though dinosaurs don't live there anymore, in numerous other very real ways Venezuela remains a land lost in time – a place where gasoline costs pennies a litre, where fleets of heavy-lift biplanes, their design reminiscent of 1930s Dorniers, soar off into the jungle airlifting fuel and food to isolated mining camps; a land where a well-developed artisanal mining sector churns out tens of thousands of carats a month, yet not a single Kimberley Certificate has been issued in well over a year – a bizarre situation that has raised virtually no questions from anyone in the Kimberley Process that certifies all international diamond transactions.

Venezuela, it appears, is the World that Kimberley Lost.

## Sommaire

Le Venezuela, un pays qui, selon les estimations, produit chaque année 150 000 carats de diamants, n'en a officiellement exporté aucun depuis janvier 2005. Bien que ce pays soit membre du Système de certification du Processus de Kimberley (SCPK) pour le contrôle des diamants bruts, il fonctionne essentiellement en marge du SCPK.

Les efforts déployés récemment pour mettre un terme à l'extraction illicite au Venezuela n'ont débouché que sur de la violence et des morts. Un amalgame d'impôts élevés, de contrôle inefficace des devises et d'incompétence bureaucratique a confiné les négociants de diamants du Venezuela à la clandestinité. Le laxisme des contrôles leur permet de passer en contrebande toute la production annuelle de diamants du pays, par l'entremise du Brésil, du Guyana, de Hong Kong, des États-Unis et de la Belgique.

Dans ce rapport, Partenariat Afrique Canada conclut que le Venezuela devrait être expulsé du SCPK si le Processus de Kimberley espère maintenir ne serait-ce qu'un semblant d'ordre et d'intégrité. Il conclut en outre que le Venezuela doit commencer à exercer une emprise sur l'extraction, le commerce et l'exportation des diamants.

Le rapport relève le rôle de premier plan joué par les Brésiliens et le trajet emprunté par la contrebande des diamants du Venezuela au Guyana, transitant par la ville brésilienne de Boa Vista. Le rapport recommande que le Processus de Kimberley aide à démanteler cette voie en créant et en présidant une commission d'enquête et d'arbitrage pour coordonner un processus de dialogue sur la production et les procédures de contrôle des diamants au Venezuela, au Brésil et au Guyana.

Le rapport formule aussi un certain nombre de recommandations précises à l'intention du gouvernement du Venezuela.

Over the past ten years, Venezuela's declared diamond production has dropped from 300,000 carats a year, to less than 30,000. Meanwhile, diamond production in neighbouring Guyana has followed exactly the opposite track, from near 50,000 carats, to nearer 400,000. Yet diamond mining activity in both countries has remained relatively constant. The numbers in themselves suggest large scale smuggling, but there is no need to rely solely on statistical inference.

Partnership Africa Canada (PAC) has found direct evidence that Venezuelan diamonds are being smuggled into Guyana. In fact, no one seems at any great pains to deny it. Individual miners and cooperative officers openly admit they hide a majority of their diamond production from the government. Venezuelan mines inspection officers estimate that only 10 per cent or less of Venezuela's diamond production is declared and routed into legal export channels. Diamond dealers told PAC directly that they funnel tens and even hundreds of thousands of carats a year from Venezuela, through Boa Vista in Brazil, to Georgetown in Guyana.

The Venezuelan government seems indifferent to, and incapable of, fixing the problems with its diamond industry. As an example of its incompetence and indifference, Venezuela has not issued a single Kimberley Certificate in over a year and a half, not because the diamond trade has stopped, but because a name change at the Ministry of Mines left the designated civil servant without the legal authority to sign certificates. In the 18 months since, no one in Venezuela's government has seemingly had the will or interest to change two words on the appropriate government document and put it in front of a minister to be signed.

### Does it matter?

There may well be those who will be tempted to say, so what? At some 150,000 carats per year, Venezuela's diamond production is relatively small. Numbers aside, however, the Venezuelan situation should be definite cause for concern.

The clandestine routing of Venezuelan stones into Guyana puts enormous pressures on a small and resource-strapped nation that otherwise seems to be making an intelligent and energetic attempt to implement the Kimberley Process. That smugglers have been so successful casts serious doubts on Guyana's control systems, and

the validity of its certificates. Two nations are damaged by this situation.

In addition, PAC has learned that Venezuelan diamonds may be traveling clandestinely not just to Georgetown, but to Hong Kong, and Antwerp. The circle of impugned nations grows to four. The individuals who engage in this trade are the same – by their own admission – as those who traffic in stones from African nations such as Namibia and Angola. The suspicious circle grows to six.

Finally, PAC believes that a significant fraction of Venezuelan production left the country completely without cover of Kimberley Certificates, straight to buyers in Europe and the United States. What this implies is that a significant subset of the world's rough diamond buyers still does not respect the Kimberley system.

The cessation of Venezuelan exports over 18 months ago should have been a signal flare to the Kimberley Process that something was wrong. The seeming indifference of the Kimberley Process brings into question its commitment to making the KPCS a genuinely viable system.

If the consensus among Kimberley participants is that the abysmal situation in Venezuela doesn't matter, then the question must be asked: does Kimberley matter?

## Diamonds in Venezuela

Venezuela's diamond deposits are all located within Bolivar state, a large, mineral-rich, thinly-populated province south of the Orinoco River, bordered to the east and south by Guyana and Brazil respectively. All the diamond deposits currently being exploited in Venezuela are alluvial. As in Brazil and next-door Guyana, diamond mining is carried out by teams of small-scale miners using portable motor-driven dredges and *resumidores* that suck up the slurry and separate out the diamonds.

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These *mineros*, as they are known in Spanish, operate in three main areas: the Upper Caroní watershed around

Santa Elena de Uairén and Icabarú; the Lower Caroní watershed around La Paragua; and the Guaniamo river area.

Diamonds in Santa Elena and La Paragua are tertiary deposits, washed down from secondary deposits in the Roraima Formation that spreads across southern Venezuela, Guyana, and northern Brazil. Perhaps because of their closer proximity to the Roraima Formation, larger stones are found more commonly in Venezuela than in Guyana. However, the overall quality of Venezuelan stones is generally lower.

Though the exact proportions vary from year to year, Venezuelan production typically yields about one third gem quality, one third industrial and one third bort – diamonds that will be ground into powder for industrial purposes. Venezuela's diamonds are nearly always found mixed in with gold bearing alluvials, and are typically found in close proximity to water courses.

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Both Santa Elena and the La Paragua diamond fields are in areas which drain into the Guri hydroelectric reservoir. By virtue of a recent Venezuelan government decree, all small scale mining in this area is subject to closure, though the deadline for this closure keeps moving.

### **Santa Elena de Uairén (Upper Caroní Watershed)**

The city of Santa Elena de Uairén sits just over the border from the Brazilian state of Roraima, a two hour drive from the Roraima state capital of Boa Vista. Santa Elena is the administrative centre and the biggest city of the municipality of Gran Sabana, and while the city is replete with diamond buyers, much of the actual mining takes place near the town of Icabarú, some 75 kilometres southwest of Santa Elena, a three hour trip by 4x4 along a rough dirt track, or a 45 minute plane ride from Santa Elena.

Icabarú is the quintessential mining town, founded some 70 years ago by miners riding a mule track in from Santa Elena. The acid soil of the region makes it inappropriate for agriculture, and there is little tourism potential. Mining is the only game in town. Mine sites are located in and



around Icabarú, as well as closer to the Rio Icabarú (a tributary of the Caroní) at the riverside settlement of Los Caribes. From Los Caribes, miners also board small boats to make the journey to mine sites as far as 100 kilometres down the Caroní River. Miners in this area use equipment adapted to collect both gold and diamonds, and count on making about half of their income from each.

### **La Paragua (Lower Caroní Watershed)**

The city of La Paragua sits on the eastern shore of the broad shallow Guri reservoir. The city serves as a gateway to several different mining areas. Some are accessed by road and dirt track. Many more are accessed by boats. Farther from the city, there is a rich diamond area in the upper reaches of the Chiguo River. There are no roads



*Antonov An-2T heavy lift biplanes, La Paragua airfield*

into this region, and the Chiguao is too small to be navigable, so the entire mining region is populated and supplied by airlift from La Paragua airfield.

In particular, a number of enterprising mining suppliers have acquired a fleet of Russian-designed Antonov heavy lift bi-planes, which run a constant airlift of food and fuel to make-shift airfields in the interior. Designed in 1947, the Antonovs are known for their cargo capacity (1500 kg or 12 passengers), their slow stall speed (50km/hr) and their ability to take off and land almost anywhere. Their high fuel costs have put them out of business in most parts of the world, but in the land of eternally cheap gasoline their use as a supply vehicle still makes perfect sense.

## Guaniamo

Guaniamo is the odd duck of Venezuelan diamond fields. The rivers feeding into the area do not drain off the Roraima Formation, and so the diamonds found along the Guaniamo, Parucito and Cuchivero rivers must have some origin different from that of the diamonds found in La Paragua and Santa Elena. Certainly, the diamonds found in the Guaniamo area are said to be clearer and of higher quality than other Venezuelan diamonds. This has led some geologists to speculate that the area might be home to mineralized kimberlite pipes, from which the Guaniamo deposits have eroded. Access to the Guaniamo diamond fields is via small plane from the town of Guaniamo, itself a three-hour drive south of Caicara del Orinoco. There are two co-ops in the area, each with about 43 active dredge-owning members.

## The Upper Cuyuni watershed

The areas around El Callao and El Dorado in the Upper Cuyuni watershed are primarily gold mining areas, however, a small but steady proportion of diamonds are found mixed in with the area's gold deposits.

## The Main Actors in Venezuela's Diamond Industry

There are currently no large or even medium sized mining companies prospecting for or exploiting diamonds in Venezuela. Larger foreign firms have undertaken exploration activities in the past, but have either failed to locate sufficiently rich finds or fallen afoul of Venezuelan mining regulations, investment regulations, and political climate.

### 1. Minereros and Mining Cooperatives

There is no government registry or census of miners in Venezuela, so an accurate estimate of their numbers is hard to come by. In recent months, because the government has sought to remove miners from the Caroní watershed, the environment ministry has come up with an estimate of 8,000 miners in the Caroní basin, and 15,000 in the state as a whole. The ministry of mines has put the latter number at between 20,000 and 25,000.

What is certain is that all of Venezuela's diamonds (and much of its gold) are produced by small scale mechanized mining teams, using a combination of high-pressure hoses to blast out the ore, and pumps and motor-driven *resumidores*. The equipment is much the same as that used in Guyana and Brazil.



Small scale mechanized mining rig, Icabarú, Upper Caroní watershed

Each such mechanized team is operated by some seven miners, who split between 30-35 per cent of the take between them. Earth moving equipment is rare in Venezuela, so mining teams generally only do a "wash", where they run the *resumidor* to separate out the diamonds, twice a week on Wednesdays and Saturdays. The owner is responsible for supplying all equipment, food and fuel, but the latter is astonishingly cheap in Venezuela, in the order of 10 cents per litre.

In the years before the Chavez government came to power, some mining teams operated independently, and others opted to work collectively through cooperatives. As part of his drive to create a "socialism for the 21st century", the Chavez government has decreed that all miners must henceforth join cooperatives.<sup>1</sup>

<sup>1</sup> The directive applies to numerous other sectors as well; taxi drivers, for example, must also join cooperatives.



*Hand Miner, Icabarú, Venezuela*

One of the country's oldest mining cooperatives is the Asociación Cooperativa Mixta Mineros de Icabarú, established some 25 years ago in the town of Icabarú. The cooperative has 227 members and 84 active mining teams (dredges), and three legal mining concessions covering over 2000 hectares in the Icabarú area, plus another 5000 hectares leased from the Corporación Venezuela de Guayana (CVG). Members pay a Bs 250,000 (US\$100) initiation fee, and monthly dues of Bs 20,000 (US\$8). Officially, the co-op is also supposed to collect ten per cent of the value of the gold and diamonds produced by each mining team: four per cent of this is the mineral tax, which the government collects through the co-op; one per cent goes to pay for the co-op inspector, who is supposed to supervise the opening of each *resumidor* to see that production is accurately accounted for; the remaining five per cent goes to the co-op.

Each month, cooperatives submit a report to the regional mining office detailing members' production, as well as the purchase or disposal of large piece of equipment. These monthly co-op reports are one of the few tools regional mining managers have to keep track of mining teams. Good as this sounds in theory, in practice cooperative members largely cooperate in hiding their production, so that little in the way of taxes ever finds its way to the government.<sup>2</sup>

## 2. Paneiros

In addition to the mechanized *mineros*, Venezuela is also home to a sizeable but uncounted number of hand miners or *paneiros*. Equipped with only shovel, pail and diamond screens, these men normally follow along behind mechanized *mineros*, either re-working ores already run through a *resumidor*, or else washing raw gravels that by tradition mechanized *mineros* set aside for their use.

## 3. Diamond Buyers and Exporters

Venezuelan diamond traders must be licensed by the Ministry of Mining – Miban – by the municipality in which they operate and by the tax agency SENIAT. Before issuing a license, Miban demands a copy of the trader's last tax return, as well a deposit of some US\$225. Miban keeps no central database of diamond traders. Instead, a paper register of local traders is kept in each regional mines inspection office. Traders themselves are required to keep a record of their diamond transactions in a paper ledger, which they are supposed to bring in for inspection at the local mines inspection office at three-month intervals.



*Pasaje Bolívar*

The centre of Guyana's diamond trading industry is in Ciudad Bolívar, but there is little on public display. In the *Pasaje Bolívar* and nearby commercial thoroughfares on the banks of the Orinoco River, street dealers accost passers-by with offers to change money and buy gold or diamonds. These are strictly small-time operators. Larger traders used to maintain offices in the nearby commercial buildings, but the imposition of a 14 per cent value added tax (see below) drove diamond dealing underground, and the real action has largely moved to dealers' private homes.

Doing business in Ciudad Bolívar is thus a matter of having a name and a cell-phone number, plus an introduction or someone who can vouch for you. Business is kept on a first name, cash only basis, and receipts do not enter into the equation. The larger dealers doing business in Ciudad Bolívar include the Brazilian Piauí, Chiquinho, and Luiz Ortiz.

Some of these buyers sell to visiting importers. Partnership Africa Canada heard of one notable American buyer with offices in Manhattan, who makes periodic stops in Bolívar. Some of these traders take their diamonds directly to Guyana (see below). Most either finance or maintain relationships with a network of smaller buyers in towns such as La Paragua and mining settlements such as Chiguao.

The smaller buyers in the mining supply town of La Paragua are equally out of sight. They buy directly from miners coming in by road or boat from the nearby mining hinterland. The larger traders in La Paragua include men known locally as Maranhão, Matão, Peteca and Corongo.

<sup>2</sup> In one monthly report viewed by PAC, numerous individual co-op members reported monthly productions in the five and ten carat range. This is well below what it takes to break even. Miners can have spells of bad luck, but extended low yields such as these should be a cause for suspicion.

The mining settlement of Chiguao is one of the few places diamond buyers operate openly, perhaps because this collection of wood shacks by the Chiguao River can only be reached via bush plane to a clandestine airfield, followed by a two hour journey through the mud and dirt of a raw jungle track. There are some seven small-time buyers in Chiguao. Their shacks line the dirt track that forms the settlement's main thoroughfare. None displays a license from the Ministry of Mines.

Buyers in Santa Elena de Uairén and Icabarú are seemingly more legitimate. There are some ten establishments in Santa Elena, each of which displays a sign and a diamond trader's license. The seven-odd traders in Icabarú are similarly equipped with the trappings of legitimacy. However, this southern part of Venezuela falls firmly under the influence of Brazil. Much of the production bought by traders in Santa Elena and Icabarú finds its way into the hands of Boa Vista's two largest diamond traders, known locally as Dema and Manchão (for more on Dema, see The Brazil Connection, below). From there, it gets exported out to the rest of the world via Guyana.

## The Legal Environment

### Miban: Ministry of Basic Industry and Mining

Prior to January, 2005, the Ministry of Mines was joined together with the petroleum portfolio in the Ministry of Mines and Energy. However, as part of the Chavez government's drive to bring Venezuela's oil industry under closer government control, petroleum was split off into its own ministry, and Mines was combined together with Basic Industry into a new and separate portfolio, the Ministry of Basic Industry and Mining (Miban).

The ministerial re-organization resulted in a change of ministers, vice-ministers and government offices for personnel within the Department of Mining Inspection and Control (*Dirección de Fiscalización y Control Minero*), the department in charge of Kimberley implementation. In Caracas, the only departmental employee to maintain any continuity on the Kimberley file was a single relatively junior mining engineer. She has no contact with anyone in the tax, customs, or environment departments.

The regional headquarters for the Department of Mining Inspection and Control is in Ciudad Bolívar, the capital of Bolívar state. In the field, Miban has regional mining inspection offices at Santa Elena de Uairén, El Dorado, Ciudad Piar, Caicara del Orinoco, Las Claritas, and Puerto Ordaz. The office at Santa Elena has a manager and two field inspectors, and is expected to inspect and control the hundreds of miners in the area. The office has a 4x4, but no boats, and no access to helicopters or aircraft. The equipment and staffing levels are hardly adequate to do inspections even in the dry season. In the rainy season when the roads become bad, inspectors are lucky to get into the field at all. Little in Miban's mines inspection division is computerized. There is no national census or registry of miners, no central registry of diamond traders.

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### Within Miban and the Venezuelan government generally, the will to implement the Kimberley System appears to hover somewhere between very little and zero

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Within Miban and the Venezuelan government generally, the will to implement the Kimberley System appears to hover somewhere between very little and zero. To take one example, authority to sign Kimberley Certificates in Venezuela is vested by the Minister of Energy and Mines in the Technical Inspector of Region 1 (the Guyana region, which includes Bolívar state). However, with the ministerial shake-up, the Minister of Mines and Energy ceased to exist, and so the resolution empowering the regional head to sign certificates lost its legal validity. This is a small and bureaucratic matter, but in the 18 months since the ministry changed names, the Venezuelan government has apparently been unwilling or unable to pull the resolution document out of the file, change the word 'Energy' to 'Basic Industry' and get a new resolution authorized. As a result, since January 2005, no one in Venezuela has been legally authorized to issue Kimberley Certificates.

As a further result, there have been no legal exports of diamonds from Venezuela for almost two years.

### SENIAT and the IVA

Venezuela's unified tax and customs agency is known as SENIAT, the Service Nacional Integrado de Administración Aduanera y Tributaria. In 1999, SENIAT replaced the

wholesale tax (ICVSM) with a value-added tax (IVA) of 14 per cent. Diamonds are not exempt, with the result that diamond traders operating legally are assessed a 14 per cent tax on their diamond purchases. In late 2003 SENIAT began implementing a very aggressive tax collection program called “The Zero Evasion Plan”. The unfortunate by-product of both these otherwise worthwhile measures has been a net decrease in diamond revenue, as diamond traders closed their offices and began conducting their affairs from private, mostly hidden locations.

## Currency Controls

In February, 2003 the government implemented a system of currency exchange controls, which resulted inevitably in a black-market rate for the Venezuelan currency, the Bolivar. In late 2006, when PAC researchers visited Venezuela, the official exchange rate was around 2150 Bolivars (Bs) to the US Dollar. Small-time money changers found on city street corners were offering Bs 2500 to the dollar. In the diamond fields, buyers and traders were working with an exchange rate of Bs 2700-2800 to the dollar, a difference of some 25 per cent from the official government rate.

Diamonds exported legally from Venezuela must show the source of the funds used for their purchase, and thus can only be purchased with dollars exchanged at the official government rate. Smugglers, of course, suffer no such restriction, and so can purchase their diamonds with dollars worth some 25 per cent more. In effect, the currency controls act as second, larger, tax on legal diamond exports.



*Guri Reservoir, near La Paragua*

## Ministry of Environment

Theoretically, the Ministry of Environment is charged with ensuring that small scale miners obey Venezuelan environmental laws, in particular the laws protecting the nation's rivers and streams. Raft mining of the riverbed is no longer permitted, nor are miners allowed to discharge mining residue or slurry directly into a watercourse. Indeed, miners are prohibited from doing any mining at all within a riverside protection zone that extends 25 metres from either side of any river.

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In practice, this riverside strip is where most mining takes place, but the Ministry of Environment lacks the personnel and equipment to do much about it. In the municipality of Gran Sabana (the Santa Elena – Icabarú area) the environment ministry has but one inspector, equipped with one 4x4, responsible not just for keeping track of mining but also for inspecting the shipments of wood products coming in from Brazil (more than 60 shipments per month), for monitoring local industry, and the disposal of household and industrial waste, and for everything else related to the environment in the municipality. The Santa Elena inspector says that he gets out into the field about once a week, usually just for a day or two. He never makes it to most mine sites.

Unable to control or regulate mining, the Ministry of Environment and the Venezuelan government have recently moved to take drastic measures to protect the Caroni watershed, and with it one of Venezuela's most expensive pieces of public infrastructure, the Guri hydroelectric dam.

## The Guri reservoir

The largest man-made feature in Bolivar state is the Guri hydroelectric dam and reservoir, a cornerstone of the country's electric power supplies.

Unfortunately, the broad and relatively shallow Guri reservoir is particularly vulnerable to siltation. In the years since its completion, the reservoir has, according to Ministry of Environment officials, lost some 30 per cent of its capaci-

ty due to eroded material filtering down from the Caroní and Paragua rivers. The heavy siltation carried by these rivers is blamed on the upstream workings of small scale gold and diamond miners.

Accordingly, in late 2004, the Venezuelan government decided to put an end to all small scale mining activity within the Caroní watershed. However, having practised the same profession in the same location for as many as 40 years, the miners demanded, not unreasonably, that the government provide them with an assistance package to aid their transition, either to other lines of work, or to other areas of the country where mining was still permitted.

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**On television, local miners saw government officials saying that the reconversion was 80 per cent complete. On the ground in their town, there was nothing to be seen.**

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In subsequent months there were attempts at dialogue, but according to miners, little or nothing concrete was delivered. On August 26, 2006, Vice-minister of the Environment, Nora Delgado, arrived in Icabarú to inform miners that four days hence, on August 30, all mining in the area would cease. The government had a three-month contingency plan to see the miners through the transition.

The contingency plan called for food rations of 15kg per person per month; transport in the form of 14 boats, three helicopters, six trucks and two motorcycles to move miners in from the hinterlands and thence out of town; funds so that children's education would not be interrupted; help with reconversion projects; and a promise that the foreigners working in the mines – estimated at 70 per cent of the total<sup>3</sup> – would be repatriated to their homelands.

If the miners were disappointed at the stinginess of the package, their disappointment turned to anger when they discovered that items in the contingency plan existed solely on the Vice-minister's PowerPoint slides. On television, local miners saw government officials saying that the reconversion was 80 per cent complete, that new factories and power plants had been put in place, that more than 50 billion Bolívares (about US\$20 million) had been spent on reconvertng miners. On the ground in their town, there was nothing to be seen.

A few miners left town voluntarily. Most went back to digging diamonds. Having failed to win miners' cooperation through incentive and dialogue, however, the government began to turn instead to force, through recourse to the Venezuelan army.

## **The Venezuelan Army and Theatre of Operations 5**

There are four armed services in Venezuela: the army, navy, airforce, and national guard. The first three have traditionally looked after external defence, while the *Guardia Nacional* controlled the borders, managed customs, and policed the country's highways, airports and other transport links. Under the terms of Venezuela's mines act, the *Guardia Nacional* is also charged with aiding Miban in controlling and policing mining activity.

Where mining is concerned, however, the *Guardia Nacional* has also been a thoroughly corrupt and venal organization. In the Santa Elena-Icabarú area, the *Guardia* operated like a protection racket, with local commanders demanding and receiving a weekly payment of gold (usually on the order of 20g or about US\$350) from each mining operation in return for permission to continue operating.

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**The army took control of borders, highways and airports, soldiers have been stationed at all gas stations to control the disbursement of fuel, and army commanders have taken responsibility for policing small-scale mining activity throughout the state.**

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For this and other reasons, early in 2005 President Chavez decreed "Theatre of Operations 5", putting Bolívar State under a form of limited martial law. The army took control of borders, highways and airports, soldiers have been stationed at all gas stations to control the disbursement of fuel, and army commanders have taken responsibility for policing small-scale mining activity throughout the state.

To date, the Venezuelan army has not shown the same propensity for corruption evinced by the *Guardia Nacional*, though how long this will last is an open question. The recruits posted at highway checkpoints are both young, poorly paid and apparently poorly supplied. Miners and ordinary residents transiting the army checkpoints along the road from Santa Elena to Icabarú report the

<sup>3</sup> The government's figures here were seriously wrong. Brazilians do predominate in the small-scale mining field, but most have been in Venezuela for decades and are now Venezuelan nationals. Indeed, in the run-up to the last referendum on Chavez' continued presidency, there was a concerted drive to provide resident Brazilians with Venezuelan citizenship, in the expectation that they would vote for Chavez.

## CONFLICT DIAMONDS: The Massacre of La Paragua

On Sept 22, 2006, a pair of army helicopters landed at a diamond mining site in the Caroní valley hinterland outside the town of La Paragua. The area being mined was more than likely illegal. Exactly what happened next has not yet been determined, but when the dust cleared, six miners lay dead, shot and killed by army rifles, many at close range. The only surviving eye-witness to the raid says the army came in shooting.

It was but one of a series of incidents in that month. In mining areas close to Icabarú, helicopter patrols landed and blew up or burned mining rafts, motors, pumps and *resumidores*. The attacks made national headlines, engendering protests and then riots in the town of La Paragua. Near Santa Elena, protesting miners blocked the highway to Brazil. The miners' protests won them a three month exemption on the mining ban, until January, 2007.

The 14 soldiers who carried out the La Paragua massacre were arrested and confined to quarters pending charges. Early in October, the Venezuelan Minister of Environment said that the soldiers' use of force had been excessive, but that the army's control of the country's gold and diamond fields would continue.

The army massacre of miners at La Paragua, their raids on equipment and chokehold on gasoline supplies has somewhat reduced the number of mining teams at work in the upper and lower Caroní watersheds. The results have been limited, however, at great political and human cost. The government's best hope for eliminating mining in the Caroní watershed is to assist its miners in making an orderly transition to other areas, while expanding its corps of mining and environmental inspectors so that in their new areas these small scale miners do not repeat the environmental depredations of the past. Unfortunately, the prospects of this happening seem low.

Venezuelan government actions, should they continue in this vein, will likely scare off the more timid and law-abiding of miners, leaving a sizeable, radicalized and determined hardcore in place. From the perspective of the Kimberley Process, as well as from environmental and social perspectives, nothing could be worse. Those miners who remain illegally working the Caroní watershed will have no incentive to obey environmental regulations, and will have been driven so far into the shadows that their diamonds will never see the legal light of day.

soldiers regularly begging passers-by for food. Supplies, apparently, are spotty, and wages are too low for them to supply themselves.

Be that as it may, the real problem with armies is that they are trained to use force. That makes them effective in the defence of a country's borders, but problematic when used as a tool for enforcing environmental and social policy. Problematic, and in Venezuela, lethal. (See *Conflict Diamonds: The Massacre of La Paragua*.)

## Kimberley Compliance

### Venezuelan Kimberley Certificates

The Kimberley Process was put into legal effect in Venezuela through a trio of resolutions enacted by the ministries of Energy and Mines (Resolution 106), Finance (Resolution 1351), and Production and Trade (Resolution 042), published jointly in the Venezuelan government gazette on May 23, 2003.

Since the legislation came into effect, Venezuela has issued a handful of Kimberley Certificates covering a grand total of 33,300 carats. In the same three-year period, Venezuela likely produced – and illegally exported – between 12 and 16 times that volume.

As noted above, no Kimberley Certificates have been processed or issued in Venezuela since January 2005, when a name change at the Ministry of Mines invalidated the Kimberley authorizing resolutions. In the more than 18 months since then, no diamond trader has complained about the situation, for the simple reason that they have all long since bypassed the government.

### Venezuelan Production Controls

Theoretically, the Venezuelan system of production controls and chain of ownership documents is supposed to work as follows: When a miner opens his *resumidor* after a wash, an inspector from the co-op is supposed to be there to verify and record the miner's production. Partnership Africa Canada doubts the system actually functions much like that at all. As noted above, even co-op officials admit that most production doesn't get declared. Be that as it may, for the sake of form some diamonds do get legally declared.

In these cases, a miner and co-op member with a parcel of diamonds enters a diamond buyer's shop and negotiates the sale of diamonds. The buyer is registered with Miban, and licensed by the local miner's co-op, which also provides the buyer with a book of numbered receipts in triplicate. The buyer issues the miner a receipt and pays him his money, less a ten per cent fee which represents a combination of the four per cent mineral tax and six per cent in assorted co-op fees.

One copy of the receipt goes to the co-op, along with its share of the ten per cent levy. Each month, the co-op collates all the receipts from all the buyers in the area, and submits this information in the form of a monthly report to the regional mining office.

The buyer is required to record the purchase in a ledger, along with all other diamond acquisitions and dispositions.<sup>4</sup> With the remaining receipt, meanwhile, the buyer takes his diamonds to the regional mining office, pays the four per cent mineral tax, and obtains two documents. The first, called a *Planilla de Liquidación*, lists the stone and carat counts, the value, weight category, class (gem, industrial) and quality, along with the buyer's name and address. The *Planilla* is proof that the buyer has paid the appropriate taxes. The second document, a *Guía Definitiva*, gives the buyer the right to transport the diamonds within Venezuela, and to sell them to other buyers. Diamonds can be bought and sold a maximum of three times before export.

As a check on production figures, the mines officer in Ciudad Bolívar regularly reconciles the production numbers submitted from cooperatives with the production figures as compiled from the *Planillas* (created when the diamond dealers present their diamonds and pay their taxes at the regional office). When it comes time to make an export, a dealer presents his paperwork and diamonds to the mines inspection department in Ciudad Bolívar. The diamonds are weighed and compared with those listed on the *Guía*. If the numbers match, the stones are sealed, the certificate is signed and the diamonds are on their way.

Whether Venezuela's chain of warranties system – if properly implemented – would actually prevent diamonds of irregular origin from obtaining Kimberley Certification is unclear. PAC suspects it wouldn't be that difficult to get around, but the point is moot, as no one is trying. Instead, as noted earlier, the main problem in Venezuela is that the vast majority of diamonds are never declared at source,

never enter legal channels or obtain legal paperwork, but instead are smuggled out of the country, bound for Guyana, New York, Hong Kong, and parts unknown.

## Kimberley Impact: The Land that Kimberley Lost

### Export Figures: taxes rise, diamonds disappear

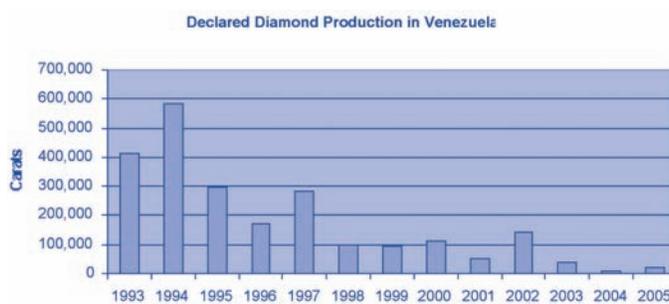


Figure 1: Declared Diamond Production in Venezuela, 1993-2005  
(Source: Ministerio de Energía y Minas)

A look at Venezuela's declared diamond production for the past dozen years shows a pattern of steady decline, from a high of nearly 600,000 carats in 1994 to a low of less than 10,000 carats in 2004. Some of this decline is undoubtedly real. Miners in both Icabarú and La Paragua remember the mid-1990s as a booming period, when the streets were jammed, the shops busy and the diamond fields full of dredges and mining teams.

The Venezuelan government decision in early 2005 to end mining in the Caroní Watershed has certainly had some effect, with a number of miners choosing to switch to gold mining and moving to other mining areas such as El Callao-El Dorado region. Efforts by the Venezuelan army to reduce fuel supplies to miners, halt raft mining, and destroy mining equipment has also certainly reduced production. However, a larger proportion, more than likely a majority of the reduction, is simply the result of miners and exporters hiding their diamonds from the government.

<sup>4</sup> Theoretically, these ledgers contain a running tally of a trader's current stock, which should match the diamonds a trader has on hand. These ledgers are supposed to be taken for inspection to the regional mines officer at three-month intervals. In practice, in Ciudad Bolívar, where there is one mines inspector charged with issuing Kimberley Certificates and overseeing all of the city's traders, some 13 of the city's 42 buyers had not presented themselves for inspection in well over a year. How often ledgers are inspected in other jurisdictions is unclear. Also unclear is whether mines inspectors ever require dealers to show the diamonds their ledgers say they have on the books.

It is instructive to correlate the production shown in the graph with recent changes in Venezuelan tax, currency and environmental enforcement policies. The decision to remove small scale miners from the Caroní watershed, the declaration of Theatre of Operations 5 and the replacement of the corrupt and ineffective *Guardia Nacional* with the effective and sometimes lethal Venezuelan army took place in 2005. But declared production had already plummeted by that time from around 100,000 carats yearly to barely 25,000. Thus, the increased enforcement efforts seem a poor explanation for the drastic fall in diamond production.

The sharp drop in production seen in 2003 does, however, coincide with the implementation of the Kimberley system in Venezuela. Figures from Venezuela's Ministry of Mines show that in the ten years before 2003, at least 50 per cent and often an even higher percentage of the country's diamonds were produced outside of legal mining concessions. As in many other countries, Venezuela's Kimberley system requires that diamonds be mined on a legal mining concession. It could be argued, therefore, that with the implementation of the Kimberley system in Venezuela, the irregular miners on non-concession lands were forced to halt, resulting in the production drop seen in Figure 1.

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### the increased enforcement efforts seem a poor explanation for the drastic fall in diamond production

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There are, however, problems with this argument. In site visits to the Icabarú area, PAC found irregular miners on non-concession land operating full steam, just as they always had. In the La Paragua area a good deal of the irregular mining had at least temporarily come to a halt, but that was entirely due to the September 2006 massacre of six miners working in a non-concession area, and nothing to do with Kimberley. Indeed, the production controls and paper chain in place in Venezuela are hardly rigorous enough to stop diamonds entering the system, should anyone want to try. But in contrast to its neighbours, Guyana and Brazil, the problem in Venezuela is not that stones of dubious provenance are entering the system, the problem is that diamonds from sources legal and otherwise are all fleeing the system as fast as they can.

A more plausible explanation for the radical drop seen in 2003 is the government's implementation in February of

that year of currency exchange controls, followed later in the year by the beginning of SENIAT's "Zero Evasion Plan", an aggressive program of tax audits designed to ensure full collection of the 14 per cent value added tax (first implemented in 1999).

Taken together, the IVA and currency controls amount to a 40 per cent tax on diamond exports. It is hardly surprising that most diamond exports began going underground. For diamond traders, every legal export represents a loss, something therefore to be kept to an absolute minimum, and only as a necessary price for maintaining at least the appearance of a legitimate business.

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As noted above, in January, 2005, a bureaucratic bungle stripped the mines inspection department of the authority to issue Kimberley Certificates. No certificates have been issued by Venezuela since that date. In other countries where exports have been brought to a halt, the outcry from diamond exporters has been loud and instantaneous. Diamond traders live off the percentages, and depend for their livelihood on the volume of rough they can move. In Venezuela, as far as PAC has been able to determine, not a single diamond trader has made even the slightest complaint to any official at any level.

There can be no greater demonstration of Kimberley's complete irrelevance in Venezuela. Diamond traders there simply do not care about legal export channels, because they are already exporting their diamonds illegally, in some cases directly to the United States, Belgium and Hong Kong, and many other cases via Guyana.

### Actual Venezuelan Production

Exactly how many diamonds are actually being produced in Venezuela is difficult to estimate. Miban, the Venezuelan mining ministry, has no census or registry of miners, or mining teams. Mining cooperatives do keep a registry of their members. However, in the Santa Elena – Icabarú area, both co-op managers and mines supervisors

agreed there were likely as many mechanized mining teams working outside the co-op system as within it.

What's more, even those mining teams registered with a valid cooperative declare only a fraction of what they produce. In Icabarú, the president of the largest co-op estimated that his members were declaring about half of their production. The accountant for the same co-op estimated members declared about 25 per cent of their actual production. In Santa Elena, the mines officer charged with supervising and controlling gold and diamond production in the region put the number at close to ten per cent. In Caracas, the mines officer charged with implementing the Kimberley System wouldn't even hazard a guess. What is certain is that miners and traders declare as little as they can get away with.

Given the spotty record of field inspections, and the near absence of oversight of diamond traders, PAC accepts the estimate of the mines officer: declared production is on the order of 10-15 per cent of actuals. If one takes the higher figure (15 per cent), and factors it into the average declared production of 23,744 carats for the period from 2003-2005 (i.e. post-Kimberley, VAT, and exchange controls), one comes up with a yearly production estimate of just over 158,000 carats per year.

As another way of estimating production figures, PAC spoke to individual dredge owners, who estimate that just to break even, they must produce an average of about Bs10 million per month. Bs 10 million represents US\$4000 or 40 carats, assuming US\$100/ct. Multiply that by the 84 coop members and the equal number of non-members, and one gets a production estimate for the upper Caroní area of some 80,640 carats per year. Assuming about an equal number of miners in the La Paragua area, and about half that number in Guaniamo, and the yearly total comes to just over 201,000 carats per year.

For a third methodology, PAC spoke to individual diamond buyers, in an effort to determine how many diamonds are passing through their hands each month. US\$22,000 a month was the minimum turn-over to break even, according to an established buyer in Icabarú. An average of US\$100/carats yields 220 carats/month, times the approximately seven buyers in Icabarú and ten in Santa Elena, yielding nearly 45,000 carats per year. In La Paragua there are about five active buyers, in Chiguao eight, in Guaniamo an unknown number, but allow ten, for argument's sake. The result here would be about 106,000 carats.

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## Large numbers of diamonds are being smuggled from Venezuela into Guyana. As they disappear from Venezuela's export numbers, they show up in Guyana's

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Crude as these estimates are, they point to yearly production figure of around 150,000 carats per year, plus or minus 50,000 carats. Put another way, since the implementation of the Kimberley system in Venezuela, something like 125,000 carats or 85 per cent of the country's diamond production, has been smuggled out of the country each and every year.

As a result of its investigations, Partnership Africa Canada believes a good number of these stones are being flown directly to the USA. Others are taken and sold to diamond dealers in Belgium and Hong Kong. Many more, perhaps the majority, are being laundered into the world's diamond markets through Guyana.

## Washing diamonds through Guyana

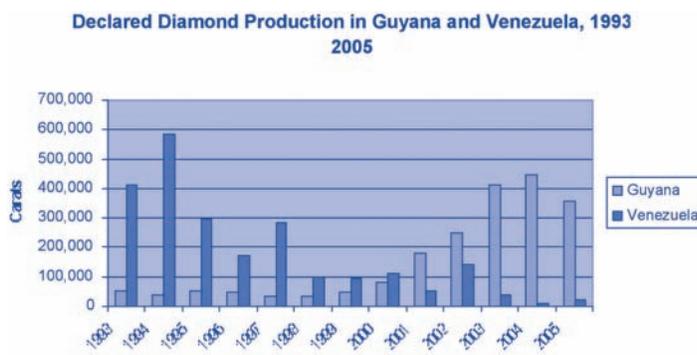


Figure 2: Declared Diamond Production in Guyana and Venezuela, 1993-2005 (Source: Venezuela - Ministerio de Energía y Minas; Guyana – Guyana Geology and Mines Commission)

The numbers from Figure 2 above tell an interesting story. As Venezuelan diamond production has declined from around 400,000 carats per year to less than 25,000, Guyana's diamond production has skyrocketed, from close to 50,000 carats to just under 400,000 carats per year. The figures from the two countries are perfect complements.

## The Long Day's Journey into Georgetown

Ciudad Bolívar's old commercial core runs along a boulevard built atop an embankment looking out over the Orinoco River. Now crumbling and shabby, the four-story office buildings are pierced through at mid-block by pedestrian walkways lined with small shops, and guarded by dubious looking young men who call out to passers-by with offers to change dollars and buy gold and diamonds. It was here that a PAC researcher had been told to meet one of the Guyana's largest diamond traders, a Brazilian known only as Piauí.

After a few false leads, the PAC researcher was led from the pedestrian Pasaje Bolívar to Piauí's unmarked office on the third floor of a nearby building at Calle Libertad number 5. PAC asked about diamonds, and Piauí pulled a 125 carat package from out of the hollow tubular leg of a disused exercise machine.

The price Piauí demanded for these diamonds was about 15 per cent above the going market rate, from which it was deduced that Piauí really wasn't very interested in selling. However, when the researcher idly mentioned a recent visit to Guyana, Piauí became very interested. What was Georgetown like? Were there Brazilians there? How rigorous were the customs agents at the borders? What was the drive like from Boa Vista up to Georgetown?

The conversation continued over dinner. Piauí, it transpired, had been doing a good deal of business with a New Yorker of Middle Eastern origin, with offices in Manhattan. The importer's name was already known to PAC. In Guyana, this individual has been documented as one of the larger buyers of Guyanese diamonds. There are also records of his imports from Brazil. In Venezuela, the New Yorker is said by diamond traders to be the single largest active foreign buyer. Presumably, the diamonds he buys in Venezuela are transported somehow to his offices in Manhattan.

At dinner, the PAC researcher was introduced to a Venezuelan known – in the first-name world of diamond smugglers – as Warner. Warner had flown in that evening from Hong Kong (via Frankfurt), where he had been selling Venezuelan diamonds.

The researcher's persona was that of a successful foreign investor with an excess of soft Bolívars, looking perhaps to buy diamonds as a way of converting Bolívars into a harder currency overseas. The prospect intrigued Warner, and the conversation continued over several days, during which Warner detailed some of his other activities as *contrabandista* of rough diamonds.

In addition to the Venezuela-Hong Kong and Venezuela-Antwerp runs, Warner had also paid several visits to Africa, in particular Namibia. In Windhoek, said Warner, there are numerous smugglers like himself, buying diamonds stolen from Namibia's mines, and others smuggled south from Angola. Warner himself, on

these African forays, typically spent just under a week buying up about US\$100,000 worth of merchandise, which he then took to Belgium.

Warner had planned to spend a few days in Ciudad Bolívar acquiring new stock before flying back to Antwerp, but Piauí had detained him with a new proposal. Piauí, it seems, had grown tired of dealing with the New Yorker, and was looking to explore opportunities in Guyana. However, he had never been to Georgetown, and spoke no English. Warner had and did, so Piauí asked for his assistance.

Piauí had already left town in his private plane, to make a tour through La Paragua and Icabarú, collecting diamonds from the mining teams and the network of field buyers that he maintains in these areas.

Warner himself in his few days in town had only managed to acquire some 50 carats, in 1.5 carat stones, worth about US\$12,000. Down in Santa Elena, however, Piauí was waiting with a kilogram of diamonds. The plan was for Warner to meet up with Piauí in Santa Elena, and together the two would travel on together overland, first to Boa Vista, Brazil, and then on up to Georgetown, Guyana.

PAC spoke again to Warner upon his return about a week later. As expected, the border controls at Santa Elena were negligible, and the 11-hour drive from Boa Vista to Georgetown went off without a hitch. In Georgetown, Piauí was so favourably impressed with prices and ease of processing that he now plans to set up a buying and export office there. His intent is to buy local diamonds, as well as the Venezuelan diamonds to which he has such abundant access, and export them through Guyana. Warner, who speaks English, plans to return to Georgetown to help him through the bureaucracy.

Sceptics might suggest that Warner was simply spinning a story. But in all cases where Warner gave details of cities, buyers or contacts about whom PAC already had information, the smuggler's story checked out. PAC was able to confirm Piauí's journey with people who met or saw him in Santa Elena and Boa Vista.

As for Warner's allegations about Hong Kong, Namibia, Antwerp and New York, they ring true, but they are certainly not iron-clad evidence. Rather, they should be taken as a warning that all is not well with the Kimberley Process. Importers in the consuming nations, or at least some subset of importers, do not seem to see any need to demand a Kimberley Certificate when buying diamonds, or to differentiate between diamonds of dubious origin, and those certified by a Kimberley Certificate as being conflict free.

Some of the decline in Venezuelan production is real. As noted in a previous PAC report on Guyana (*Triplicate Forms and Triple Borders: Diamond Mining in Guyana – www.pacweb.org*) some of Guyana's production increase is also real, the result of an influx of Brazilian miners and the opening of new access roads into the upper Mazaruni River area.

However, the message in the near perfect symmetry shown by Figure 2 is too clear to ignore, or to be explained away by isolated events in each of these two countries. Large numbers of diamonds are being smuggled from Venezuela into Guyana. As they disappear from Venezuela's export numbers, they show up in Guyana's. That is the unmistakable message of the graph.

As also noted in *Triplicate Forms and Triple Borders*, the most commonly used smuggling route runs through the northern tri-border region, from Santa Elena de Uairén to the Brazilian city of Boa Vista, and from there by one route or another up to Georgetown, Guyana.

## The Brazil Connection

In *Triplicate Forms and Triple Borders*, PAC reported on the activities of Adelcimar Pereira Bastos, known universally as Dema, a Brazilian national, Boa Vista resident and allegedly one of the largest diamond smugglers working the tri-border route. In Santa Elena and Icabarú, Dema is known as one of the biggest diamond buyers. When interviewed early in 2006 by PAC researchers working undercover, Dema was by his own estimate sending some 1000 Venezuelan carats a month north over the border into Guyana.

At 6am on August 18, 2006, Brazilian Federal police working on Operation Exodus raided Dema's Boa Vista compound, seizing computer files and taking him into custody while investigations continued. The raid was not specifically targeted at diamond smuggling, but was part of a wider police investigation into foreign currency violations, tax evasion and money laundering. In all, Federal Police executed 15 warrants and took six prominent Boa Vista businessmen into custody pending further investigations.

In Boa Vista, sources say that Dema had advance notice of the raid, and was able to dispose of incriminating evidence. Certainly, no diamonds were found in his office. (When PAC made a random visit to the same office earli-

er in 2006, Dema was busily classifying and packing up some 25,000 carats.) No charges have been laid, and Mr. Bastos has since been released from custody. Just a month after the raid, he was back into the diamond business.

Nor is he the only Brazilian deeply involved in this trade. (See *The Long Day's Journey Into Georgetown*.)

## Conclusions and Recommendations

Venezuela's Kimberley system does not work. There is no need for a Kimberley Process Review Visit to confirm this. That a country with a well-developed small-scale mining industry and historic annual production levels nearing a half-million carats can go for 18 months or more without – on paper – exporting a single diamond should be proof enough that something is very wrong indeed.

Venezuela has, in fact, suspended itself from the Kimberly Process through its failure to issue a KP certificate for more than 18 months, while at the same time allowing the diamond trade to continue.

### Recommendations to the Kimberley Process

1. **Expel Venezuela:** The Kimberley Process Certification Scheme has no sanctions whatsoever, apart from the expulsion of participants exhibiting significant indications of non-compliance. Venezuela must, therefore, be expelled from the KPCS if the KPCS wishes to maintain any semblance of order and integrity.<sup>5</sup>
2. **Create a trilateral commission of enquiry and adjudication:** The Kimberley Process should use its good offices to create and coordinate a three-country process of dialogue that would aim to create synergies among the diamond production and control procedures in Venezuela, Brazil and Guyana. This should be chaired by a government other than the three in question.<sup>6</sup>
3. **Find out where Venezuelan diamonds are going and put illicit buyers as well as sellers out of**

<sup>5</sup> A "Three Year Review" of the KPCS was recently completed. Suggestions for interim measures, including a suspension mechanism, were rejected by several governments.

<sup>6</sup> If successful, the lessons from such a commission might find useful application in parts of Africa where borders are porous and control systems weak.

**business:** Most illicit Venezuelan diamonds are going to Guyana, some by way of Brazil. But others are going to Antwerp, the United States and Hong Kong. The Kimberley Process has no research capacity; it must develop one if it is to deal with problems of this nature. The Kimberley Process must find more effective ways of halting the traffic in illicit rough diamonds everywhere, if it expects to prevent a resurgence of conflict diamonds.

4. **Get tough on Brazil and Guyana:** Brazilian diamond fraud, exposed by Partnership Africa Canada in 2005, was met with denials in Brazil and indifference in the KP, until the Brazilian Federal Police made widespread arrests in 2006. There has still been no reaction to PAC's June 2006 exposé of diamond smuggling through Guyana. The KP must, as a matter of urgency, review Brazil's new regulations carefully, and determine whether they are genuinely effective. It must work with the Government of Guyana to ensure that its regulatory systems are adequate to the task of halting smuggled goods.
5. **Become more proactive and more professional where statistics are concerned:** It is unconscionable that the Kimberley Process did not "notice" that Venezuela had exported no diamonds for 18 months. This should have started alarm bells ringing long ago.

## Recommendations to the Government of Venezuela

1. **Sort out the diamond sector:** There are people of intelligence and goodwill within Venezuela's mining ministry, within the mining cooperatives and among small scale miners. The same is no doubt true of SENIAT, the Venezuelan tax department, and within the Venezuela's customs and environmental agencies. As it stands, however, there is little to no interagency communication between the various government departments charged with regulating mining and implementing the KPCS. This must change.
2. **Convene a meeting of senior authorities from the departments of mining, taxation and finance to fix the tax and currency problems:** The 14 per

cent IVA or value added tax on diamonds is one of the key reasons why Venezuelan diamonds are leaving the country illegally. The approximate 25 per cent difference between official and black market exchange rates is another strong contributing factor. If Venezuela is to regain control of its diamond production, something has to change.

3. **Create a centralized, computerized registry of mining teams and dredges:** The mines inspection office urgently needs to create a central registry system for miners, or mining dredges (resumidores) or both. Properly designed, the system would allow mines officials to track and analyze diamond production per miner or dredge over time.
4. **Expand the corps of mines inspectors:** The only way the mines inspection department will ever obtain believable production numbers will be through stationing trained inspectors in the field to observe and record first hand as diamonds come out of resumidores. This will require a significant expansion in the number of mines inspectors.
5. **Create a computerized registry of diamond traders:** At present, diamond traders and their transactions are registered in paper ledgers kept at any one of several regional mines inspection offices. This makes any meaningful analysis and tracking impossible. Once the database is operational, local officers should make periodic inspections of diamond traders to see that they have the diamonds their transaction records say they should have.
6. **Remove the army from policing mines.**
7. **Negotiate the cessation of mining in the Caroní watershed with mining leaders, and do so in good faith.** The government must deliver on what it promises.
8. **Pass the long-needed resolution authorizing the issue of Kimberley Certificates:** The relevant authorities should make the necessary name change on the relevant document and pass a resolution allowing the Ministry of Basic Industry and Mines to issue Kimberley Certificates.





Partnership Africa Canada

The Lost World  
Diamond Mining and Smuggling in Venezuela

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