

**COMMENTS ON THE ANNUAL REPORTS TO THE KIMBERLEY PROCESS
BY THE UNITED STATES, 2009-2010**

Volume and Trends

The United States is the world’s sixth largest importer of rough diamonds, and it has remained so since 2004 when accurate KP statistics were first compiled. The total volume, however, is tiny in relation to the global total, and very small in relation to the five largest importers.

US Rough Diamond Imports and Exports 2004-9

Year	Import			Export		
	Volume, cts	Value, US\$	US\$/ct	Volume, cts	Value, US\$	US\$/ct
2004	3,550,626	\$792,176,740	\$223.11	5,175,584	\$440,268,670	\$85.07
2005	3,128,390	\$889,411,885	\$284.30	3,483,432	\$511,681,020	146.89
2006	4,314,741	\$816,854,631	\$189.32	3,443,105	\$544,005,437	\$158.00
2007	5,305,987	\$889,494,032	\$169.52	3,901,904	\$568,954,560	\$145.81
2008	4,882,666	\$784,072,076	\$160.58	3,441,657	\$440,484,868	\$127.99
2009	2,351,278	\$337,480,556	\$143.53	2,395,446	\$265,625,164	\$110.93
	23,533,688	\$4,509,489,920	\$191.61	21,841,128	\$2,771,019,719	\$126.87

Source: Kimberley Process Statistical Website

Major Rough Diamond Importers by Volume 2004-9

Country	Rough Diamond Imports (volume, billions of carats)					
	2004	2005	2006	2007	2008	2009
E.C.	193.7	202.2	194.1	186.7	147.8	116.6
India	186.7	182.9	172.3	173.8	147.8	119.7
Israel	41.8	36.1	27.1	23.9	20.7	18.8
UAE	28.2	37.0	42.4	42.6	38.8	29.2
China	26.1	21.1	24.6	26.6	26.7	19.6
Switzerland	12.5	13.0	9.9	9.9	8.4	6.5
United States	3.5	3.1	4.3	5.3	4.9	2.4
	2496.5	2500.4	2480.7	2475.8	2403.1	2321.8

Source: Kimberley Process Statistical Website

US exports of rough diamonds exceeded imports in 2009, although this was undoubtedly a consequence of the widespread destocking that took place throughout the industry as a result of the recession in 2008 and 2009. It is interesting, however, that over the six years between 2004 and 2009, net exports exceeded net imports by only 1.69 million carats. On average, only 282,000 carats per annum actually stayed in the US. More than 90% of the rough diamonds imported into the US (by volume) are re-exported.

This seems counterintuitive for two reasons. The first is that the bulk of US imports come from secondary sources rather than diamond producing countries. In other words the US is not a

major first entry point for rough diamonds. More than 70% of rough diamonds imports in 2009 came from the EU, Israel and Switzerland.

The second is that while the United States consumes the most significant volume of the world's diamond jewellery (an estimated 38-39% of global diamond value in 2010), the statistics demonstrate that very few of these diamonds – the numbers suggest that it is the higher value stones – are cut and polished in the United States. It would appear that the bulk of the trade – more than 90% – is about importing from, and re-exporting to a small number of non-producing countries.

In 2009, The US imported \$204.1 million from the EU and Israel, 62.2% of the total, and re-exported \$115.94 to the EU and Israel. A more detailed analysis by volume and per carat average might be of interest in the sense that it would better describe a \$700 million dollar industry based almost entirely on resorting diamonds among secondary and tertiary-level traders.

Inspection and Due Diligence

In 2006, the US General Accounting Office (GAO) issued a report calling for action to enhance the Clean Diamond Act.¹

This report ... recommends improvements in the (1) accuracy of U.S. rough diamond trade data; (2) processes for importing and exporting rough diamonds, including conducting periodic physical inspections and confirmation of rough diamond import receipts with foreign exporting authorities; (3) oversight of the activities of USKPA and its licensees who issue Kimberley Process certificates...

The 2009 and 2010 US Annual Reports to the Kimberley Process describe an enhanced system of checks and inspections that are commendably rigorous:

- The US Kimberley Process Authority (USKPA) conducted on-site performance reviews of 4 of the 19 US export licensees in 2009;
- US Customs and Border Protection (CBP) conducted examinations of 89 “targeted rough diamond export shipments”, representing 7% of the total number of shipments. The number of inspections in 2010, however, was reduced to only five;
- CBP conducted 172 physical inspections of inbound shipments, in 2009, roughly 15% of the total. The number in 2010 was reduced to 137;
- 18 shipments were seized for infringement of the Clean Diamond Trade Act in 2009, and 14 shipments were seized in 2010. Most of the seizures were said to be cases of misclassification and inadequate declaration, but over the two year period, six of the seizures were forfeited;

¹ *Conflict Diamonds: Actions Needed to Enhance Implementation of the Clean Diamond Act*, USGAO, Washington, September 2006, GAO-06-978

- Counterfeit certificates from DRC, Sierra Leone, Namibia and Ghana were intercepted during 2009 and 2010;
- State Department, CBP and Census Bureau officials “informally contacted and visited numerous diamond companies”, made presentations on KP compliance at trade shows, and issued subpoenas to importers and exporters who failed to provide annual reports – a new US requirement instituted in 2008. These reports must include annual totals of imports, exports and remaining stockpiles at the end of the year;
- USG officials and the USKPA conduct regular teleconferences and training programs with stakeholders.

Some questions arise that are not addressed in the reports:

- Annual Reports to the KP do not state whether CBP inspections were carried out by individuals with diamond valuation expertise. In other words, were the inspection officers competent to determine whether the goods were correctly described and invoiced?
- Civil society recommendations that governments undertake or commission spot audits of companies importing and exporting rough diamonds appear not to have been adopted by the USG. Given the requirement since 2008 that companies report imports, exports and year-end stockpiles, spot audits would not be an onerous burden for the government or companies, and would provide an additional level of confidence in the system;
- The reports note that there is no information as to any follow-up in the countries whose certificates had been forged.

Details of US imports and exports by trading country remain confidential, but the US Annual Reports for 2009 and 2010 note that there were efforts to conduct bilateral reconciliation of trade statistics with 15 countries in 2009 and the same number in 2010. This appears to be a work in progress in that results are not reported. If a regulatory system is to work effectively, anomalies need to be both identified *and* corrected.

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