



# World Diamond Council

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WORLD DIAMOND COUNCIL 4TH ANNUAL MEETING  
CATANIA ~ FEBRUARY 5 - 8, 2006

SERGEY OULIN  
President,  
Russian Diamond Chamber

Dear President of CIBJO, the World Jewellery Confederation, Dr. Gaetano Cavalieri,  
Dear Chairman of the World Diamond Council, Mr. Eli Izhakoff,  
Ladies and Gentlemen,

Should I reiterate that Russia which is among the leaders of the world diamond business accounting for about one fourth of the world's production of rough, fully understands an imperative need for our business to be absolutely legal, transparent and regulated by unambiguous principles and rules?

This is the task to be implemented through the Kimberly Process. The WDC was actually established by WFDB and IDMA to respond to the challenges of the so called "conflict diamonds" that the world diamond industry was facing. The WDC led the diamond industry to tackle the issue at both international and national levels, and to find pro-active solutions - like the role of our industry under the Kimberly Process Certification Scheme.

## **Russia's Contribution as KP Chair**

Russia has been a devoted participant in the Kimberly Process since its very start, and in 2005 Russia acted as its Chair. We accepted the honorable duty with a strong sense of responsibility. We tried to facilitate the work of KP structures and work groups as much as it was practicable. We devoted much time and effort to strengthening the existing working mechanisms of control in the form of regular peer review visits, and statistical data collection and processing system; and of developing technical guidelines by WDC experts.

I would like to emphasize, that being at the Chair, Russia worked to further develop the relations between the Kimberly Process and renowned international organizations, first of all with UNO structures.

### **Implementation System of the Kimberly Process Certification Scheme in Russia**

The Government of the Russian Federation resolved to charge the Ministry of Finance with organizing implementation of the international certification scheme of rough natural diamonds in Russia. The requirements of the KP Certification Scheme are being implemented in interaction with the Ministry of Foreign Affairs, the Ministry of Economic Development and Trade and the Federal Customs Service of the Russian Federation. The Administrative Department of the Ministry of Finance and Gokhran (State Treasury) of Russia act as organizing and facilitating structures.

According to the resolution by the Government of the Russian Federation, export and import compliance control with the Kimberly Process Certification Scheme requirements should be implemented in the process of state quality control over diamond sorting, evaluation and circulation. Gokhran is in charge of such control measures.

The Russian Federation has a strong legal basis ensuring strict supervision and registration of any natural rough diamond movements along the whole pipeline from the production site to the final customer. To a great extent, Russia inherited this legal basis of diamond production, export and import from the Soviet Union. In some aspects it turned to be even stricter than the internationally approved requirements of the Kimberly Process Certification Scheme. Thus, to be able to accept the Chair functions we had to put much effort into adjusting the Russian legislation to the new circumstances – or, to be more concrete, to liberalizing it, removing confidentiality limitations on rough diamond statistics to be able to submit this data to the Statistics Work Group of the Kimberly Process.

Pursuant to the above legislative and normative acts, in the Russian Federation provision is made for conditions excluding conflict diamonds from entering the legal trade as to Sections II and III of the KPCS.

### **Outgoing rough diamond shipments**

Russian certificates of export of rough diamonds (KP certificates) are filled in and issued only at one place in the process of executing state

control over the quality of sorting and valuation and customs clearance of rough diamond shipments.

Russian KP certificate has nineteen degrees of protection at the polygraphic level. Besides, it is electronically protected and identified. Russian certificate fully meets the requirements set out in Section II (c) and Annex I of the KPCS document.

In conformity with Russian legislation, all rough diamond exporters hold licenses for export issued by the Ministry of Economic Development and Trade of the Russian Federation, as well as registration certificates of the Russian State Assay Chamber.

An exporter submits documents proving that the diamonds purchased are legal, i.e. of Russian origin or imported with a KP certificate from the supplier of a KP Participant who can be trusted.

Every shipment of rough diamonds exported is subject to physical expertise performed by state controllers of the Ministry of Finance. The check may be carried out by way of random or 100% expertise. An act of state control is made up as to the results of this expertise and is presented at the customs.

In export, every rough diamond parcel is placed in a tamperproof container which is a special plastic package. In so doing, a duly authenticated certificate copy is put into the container so that it is seen through the container transparent window. A KP certificate original is placed into a tamperproof plastic packet together with shipping documentation. The KP certificate number is indicated on each container and in the shipping documents.

As to the fact of completing documents for every shipment exported, Gokhran of Russia sends an advance notice of shipment by e-mail to the relevant Importing Authority of the country of destination. Pursuant to the recommendations of the Diamond Experts Working Group on confidentiality of information on shipments carat weight and value, a notice by e-mail contains only the certificate number and date of issuance. Certificate details (carat weight, value, number of parcels in shipment, etc.) are sent only at a special request of the relevant authority of the country of destination. All details of KP certificates are recorded on a computerized database.

### **Incoming rough diamond shipments**

All incoming rough diamond shipments arrive at one point only, that is at the Specialized customs checkpoint in Moscow where the state controllers of the Ministry of Finance of the Russian Federation check certificates for authenticity and carry out special procedures of state control, after that customs clearance is completed. A KP certificate is checked for authenticity by visually comparing the certificate accompanying the shipment with the specimens available and, if needed, by means of instruments, as well as by correlating the certificate data with the information received by e-mail.

Allowed for customs clearance and state control are only shipments of rough diamonds which arrived from KP Participants placed in tamperproof containers without traces of having been tampered with, with shipping documentation in due form and accompanied with a KP certificate.

All the procedures of customs clearance and state control completed, an advance notice is sent by e-mail to the relevant authority of the exporting country stating that the rough diamond shipment has been registered in compliance with the KPCS requirements. According to the national legislation requirements, all incoming rough diamond shipments are subject to sorting performed by Gokhran of Russia in compliance with the diamond grading system accepted in the Russian Federation.

This routine is necessary for subsequently recording the operations with rough diamonds. On finally sorting and valuating the diamond shipment as to the criteria of the Russian diamond grading system and price lists and upon drawing up the final state control report, the detachable import confirmation coupon is filled in by an official of Gokhran of Russia, certified with appropriate signatures and stamps and sent back to the relevant Exporting Authority.

After sending the detachable import confirmation coupon back to the relevant Exporting Authority, the certificate originals are kept in the vault of the authorized person of the state control service. Access to the certificates is authorized only by the head of the state control service or by the authorized person for the Kimberley Process in the Russian Federation. The certificates data are recorded on the computerized database.

Last April the KPCS sent an observation mission in Russia. It inspected all the components of the compliance system with the Kimberly Process Certification Scheme thoroughly. The members of the mission received all the required data, got access to diamond producing and cutting entities,

and to state institutions constituting parts of the state control system, and met participants of the diamond industry of Russia. As a result of the visit the mission concluded that Russia fully implemented the KPCS. Besides, Russia has established a unified electronic registration and control system of rough movement, installed in the Comprehensive Documentation Center of Export and Import Operations with precious metals and gems utilized by both state bodies and diamond industry. In May 2005, the system was demonstrated to Secretary General of the World Customs Organization Mr. Michelle Danet during his visit to Russia. The head of the WCO assessed highly the system and Mr. Danet even invited Russian specialists to make a presentation for one of WCO meetings.

### **Role of Russian Diamond Industry in Implementing the Certification Scheme**

I would like to dwell upon the Russian diamond business activities and role in establishing national compliance with the Kimberly Process Certification Scheme. The Russian diamond business through the Diamond Chamber of Russia fully accepts the Kimberly Process self-regulation principles and establishes a chain of guarantees at each stage of the diamond pipeline such as rough, polished and diamond jewellery.

Following the resolution of the World Federation of Diamond Burses (WFDB) and the International Diamond Manufacturers Association (IDMA) based on the results of the 30<sup>th</sup> World Diamond Congress, the Diamond Chamber of Russia took measures to implement the guarantee chain in gem trade. In particular, the members of the Diamond Chamber developed and approved the Declaration of Cooperation in Prevention of Trade in Diamonds Originating from Conflict Zones, which was further signed by other participants in its trade operations.

Furthermore, the Declaration was accepted by non-governmental organizations of the Russian diamond complex and jewelers that are members of the Diamond Chamber – Russian Diamond Manufacturers Association and Russian Guild of Jewellers.

All the participants of our trade operations received recommendations to include a provision into their contracts for sales of natural rough, polished and diamond jewellery on personal responsibility for maintaining the chain of guaranties.

The participants of trade operations are required to present documentary evidence of legal sources of diamonds sold through the DCR and to have

a Kimberly Process Certificate for deals with rough imported into the Russian Federation.

We made appropriate amendments to the Internal Regulations of the Diamond Chamber of Russia related to the Kimberly Process Certification Scheme chain of guarantees and responsibility of trade participants, and established an internal registration system of rough and polished deals concluded through the Diamond Chamber.

In practice, the activities of the Diamond Chamber to implement the norms of the KPCS guarantee chain can be described as follows. Any seller willing to sell a batch of natural diamonds through the Diamond Chamber should:

- Be registered in the Regional State Inspection of Assay Supervision and have its certificate of special registration;
- Submit a copy of the Declaration of Cooperation in Prevention of Trade in Diamonds Originating from Conflict Zones signed by the head of the company;
- Submit a sales inventory of diamond package with diamond characteristics, weight, price per 1 carat, cost, as well as the company name, legal address, data on initial procurement of the gems (under the Russian legislation, rough diamonds subject to a deal should be sorted);
- Several documents to confirm the legal source of the diamonds: copy of the initial procurement contract, release act, and inventory lists. If the diamonds were imported into Russia, the seller should submit a copy of the KP Certificate together with the above-mentioned documents.

Purchasers of gems applying to the Diamond Chamber should submit a formal application specifying categories of required rough and polished, the Declaration and a copy of their certificate confirming special registration with the State Assay Inspection.

All the operations in the Diamond Chamber, such as sales offers, procurement applications, and internal market deals with rough and polished are registered in special registers of the Diamond Chamber and can be disclosed to government and control authorities on their requests for information and compliance control.

The Diamond Chamber recognizes that reliable and compatible trade data on rough diamonds is an important tool for effective implementation of the KPCS and especially for detecting any nonconformities that may signal of penetration of diamonds from conflict zones into the legal trade, and so we maintain and submit data on diamond offers and

concluded deals to the State Controllers of the Ministry of Finance on a weekly basis. Besides, the Diamond Chamber submits its analytical materials based on incoming offers to sell batches of natural diamonds belonging to Russian manufacturers as placed on the web-site of the Diamond Chamber, and data on diamonds sold in the internal market and exported.

In 2005 two major organizations of the Russian diamond industry such as the Diamond Chamber of Russia and Russian Diamond Manufacturers Association signed a Joint Memorandum with the Gokhran and ALROSA on the Main Cooperation Principles. The Memorandum provides for the following measures:

- Exchange of available information on issues of diamond market function and development;
- More active interaction on issues of improvements in legislation related to diamond and diamond product circulation;
- Joint activities to raise customer demand and develop the infrastructure of the internal market aimed at increased sales of polished and diamond jewellery in the Russian Federation.

Furthermore, representatives of the Russian diamond business, government and control authorities agreed about joint evaluation of cutting capacities according to an inter-sectoral methodology. Results of such joint audits of cutting enterprises will allow us to compare actual cutting capacities with procurement volumes of rough diamonds and output of polished.

The members of the KPCS observation mission to Russia I have already mentioned expressed their special satisfaction with the complementary system of controls on production, sorting, valuation and export and import by both, the state authorities and the industry which they found very reliable and complete. The industry and the RF use a unified computerized database for these controls.

Despite the load of newly assumed responsibilities, Russian diamond organizations generally agree that the requirements by WDC, WFDB and IDMA based on the KPCS principles with regard to establishing a regime of industry guarantees are in no way redundant, nor do they hinder the work of the industry. On the contrary, they facilitate an environment of market transparency, predictability and confidence.

### **Future of Kimberly Process**

At present, according to our earlier resolutions taken at the Moscow Plenary Meeting KP structures are working to develop proposals to review the Kimberly Process, as required by the Certification Scheme rules.

Russian governmental bodies and the industry try to contribute to this work. Our common aim is to find optimal ways to improve, strengthen and implement the Certification Scheme.

I hope this Meeting will be another step to finding proper solutions.

Thank you for your attention.