



# World Diamond Council

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WORLD DIAMOND COUNCIL 5TH ANNUAL MEETING  
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Dear Ladies and Gentlemen,

Diamond business is facing a high priority task today: Enhancing the **consumers' confidence** in the diamond industry products. The Kimberley Process activities convincingly demonstrated that such issues as trading in conflict diamonds and the possibility of using diamonds for criminal and terrorist purposes cannot and should not be ignored by industry professionals. Russia and ALROSA have supported the Kimberley Process since its establishment and have been heavily involved in the development and implementation of its decisions. We also have accurately performed our obligations with regard to this initiative. The fact that Shtyrov, the President of Yakutia, was elected Chairman of the Kimberley in 2005 demonstrates the high regard for the Russian diamond industry's contribution to the Kimberley Process's work.

The Kimberley Process is the first far-reaching step toward enhancing the diamond industry transparency. And this important accomplishment deserves high praise. However, just like any other initiative in progress, **The Kimberley Process is facing new challenges today**. The four-year long practice of using the Kimberley Process Certification Scheme brought to light the following issues:

- **First, it is important that the real efficiency of the Kimberley Process is determined.**

According to the information reported, the flow of "blood diamonds" is down from 4% to less than 1% of annual world diamond sales. Let's assume it is so. However, no one has ever revealed the calculation used to obtain these numbers. If these are expert estimates, then the sources of information used by the experts were not clearly indicated. Assume that diamonds produced in conflict areas and diamonds crossing the borders of countries with on-going armed conflicts can somehow be monitored. The what about the diamonds handled by the cutting and polishing industry, which are often of particular interest to criminal organizations? Or does a diamond that becomes part of illegal turnover via a shell "cutting factory" represent a smaller danger to the industry than a diamond produced in a country struck by civil unrest?

It is quite unlikely that any terrorist group has ever used rough diamonds for their payment purposes.

- **Second, in most countries the Kimberley Process Certification Scheme relies on duly authorized government bodies.** However, it is crystal clear that the efficiency of the government administration and, correspondingly, the corruption levels can differ in different participant countries. Can one ignore this fact and think that one and the same system operating in a country with a long democratic tradition and well-balanced bureaucratic establishments will be as effective in a country torn apart by nightmarish civil unrest over many decades? And is the bureaucratic certification procedure the only possible way to go in order to enhance the industry's transparency?

- **Finally, over the years of the Kimberley Process sanctions were imposed against a number of African countries.** This resulted in significant reduction of inflow of diamonds coming from these countries. Meanwhile, conflict-free countries were continuously increasing their output and sales, often in the same price categories. Whatever the reasons that the KP

participants might come up with, objectively it can be viewed as killing competition using methods that have nothing to do with the market economy.

A number of analysts have already noted this. And you can't yet tell what might have a greater negative impact on the industry's image: child labor on the African alluvial fields, or use such regulation.

Generally speaking, it should be admitted that the Kimberley Process is currently **far from being perfect both in terms of methodology and implementation**. In fact, we do not know how many diamonds end up in the grey economy and are used by criminal or terrorist organizations. The notorious 4% or 1% may be conventionally attributed to conflict zones, but in no way to the shadow dealing in diamonds in general. The levels of corruption in a number of KP member countries calls the efficiency of the bureaucratic certification procedures into question. And we have multiple examples of that insufficiency. Any increasing bureaucratic influence on the business will sooner or later result in an attempt to take advantage of this factor in unfair competition. Therefore, we should do our best to prevent such a turn. To a certain extent, today's reports about the Kimberley Process progress create an illusion of market wholesomeness, which is a misleading illusion, real transparency is still far to reach.

We believe that transparency of the companies operating on the diamond market is a proven and efficient way to maintain consumer confidence and establish a real impeccable image for the industry. Today, family-run or private enterprises are major players on the diamond market. According to modern standards, they almost entirely lack transparency, and this fact gives rise to a great deal of uncertainty and suspicions that tarnish the industry's image. The Kimberley Process does not deal with this problem, but rather touches upon a narrow range of issues and applies rather primitive tools.

Therefore, the Kimberley Process should be supplemented by activities focused on attaining the maximum level of transparency for diamond-mining companies, developing a set of minimum compliance requirements such as mining history track, sales volume, and possible market cap. The certification process should apply to everyone in the pipeline, except the mistress, of course. We are prepared to go ahead and make such a move.

In the nearest future, ALROSA intends to become a public company, the first company of that size on the diamond market.

Ladies and Gentlemen,

The world diamond market is changing, and the Kimberley Process is just another manifestation of the global change. The market regulation system, the structure of supply, demand and pricing are going through changes, and new players are coming on board. Market participants are developing their own strategies of responding to new conditions dictated by the times, which will shape a new picture of the global market in the future.

ALROSA starts to implement a new distribution strategy, which we believe will help facilitate civilized market transformation. Our sales to De Beers are being significantly cut for objective reasons. And we look forward to developing cooperation with De Beers in the area of mining, geological prospecting, and improving mining and processing technologies.

Also, as you are probably aware, the Russian President's decree cancelled export quotas for rough diamonds, which will certainly change the existing trade rules.

We plan to sell most of our goods using the single market in Russia, which calls for establishing all the required infrastructure, including ensuring an efficient customs clearing service, trade finance, etc.

In relationship with our clients, we are going to switch to long-term contracts, which, in my opinion, will help to secure global market stability.

So, to recap, let me reiterate:

Common efforts to enhance the Kimberley Process efficiency, ALROSA going public, and a stable sales system designed for long-term relations with customers are key steps that the Russian diamond industry is able to offer as its contribution to the establishment of the future global diamond market.

We also plan to participate in joint projects aimed at increasing the demand for diamonds that nature gave us and maintaining the reputation of the real diamond for present and future consumers.

Thank you for your attention.