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Russian-African Collaboration in the Diamond Industry RUSSIA-AFRICA SUMMIT

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Ladies and gentlemen,

According to data released by Alrosa's market research division, global diamond jewelry sales last year stood at \$85.9 billion. Sales of rough diamonds in 2018, as reported by the Kimberley Process, were worth about \$14.5 billion.

To put that into some perspective, consider that total exports from Africa in 2018 – and here I refer not only to exports of diamonds – stood at \$497 billion, which is only a bit more than five times the value of the sales of a non-essential luxury product like diamond jewelry. In fact, world diamond jewelry sales in 2018 exceeded the total export value of every single African country with the exception of South Africa.

The continent of Africa today contains approximately 30 percent of the earth's remaining mineral resources, and last year it was home to about 17 percent its population. This would appear to be a favorable differential, but clearly there is a problem when you realize that Africa's share of global export revenues in 2018 was only 2.6 percent.

The continent's share of global diamond jewelry sales was considerably better, however. Of the \$85.9 billion in revenues from diamond jewelry sold worldwide, African countries received about \$8.1 billion, or about 9.5 percent. That almost exclusively was the result the diamond-mining nations producing about 56 percent of the rough stones sold during the year.

Now one could argue that a 9.5 percent share of the value of a product category worth almost \$86 billion is insufficient, and many would agree. What is indisputable, nonetheless,

is the economic potential of the diamond resource, whose value increases by about 500 percent as it travels from the mine to the countertop of the retail jeweler.

And that, ladies and gentlemen, is why we are discussing diamonds in Sochi today.

Diamond deposits hold the promise of a better future for all African producing countries, and more specifically for the communities living in the areas where they are located. To realize this promise, those mining the product need to receive fair value for their labor and capital investment, and an appropriate proportion of the revenues generated must be used to create sustainable economic and social opportunities at the grass-roots level.

And there is another key factor that must be considered if the long-term developmental potential of the diamond is to be realized, for we are talking about a non-essential product for which demand is a function of the symbolic value assigned to it by consumers. Because they can live without diamonds, they will only buy them if they want to.

Reputation, therefore, is a key element, and defending that reputation is of paramount importance. If the integrity of the diamond is undermined, so is the economic potential of the product.

In essence, the Kimberley Process Certification Scheme was established to achieve two interdependent goals – to prevent the proceeds of diamond-trading from fueling conflict, and in so doing protect the security and wellbeing of people living in diamond-producing areas, and to defend the confidence of consumers in the product. Neither of the two can be achieved if the other is not.

The primary diamond consumers today are markedly different from those who dominated the market 19 years ago, when the KP was created. Today they are mostly Millennials or members of Generation Z, who studies show are more inclined to demand that the products they buy have both monetary and social value. They have a range of alternative goods from which to select, among them electronics, travel and laboratory-grown diamonds, and through the Internet and social media believe they have the ability to check the provenance of all that they buy.

Now I can appreciate the indignation of those African colleagues about having policy dictated to them according to the expectations of consumers in affluent markets. As an industry we have to be attentive to the perspectives and sensitivities of those who grew up in societies that historically have been exploited and disadvantaged. But at the same time, because our ability to sell product is entirely dependent on maintaining consumer demand, we also need to be sympathetic to the requirements of the diamond jewelry buyers. We cannot lose sight of the reality that there are 10 million Africans whose daily livelihood depends on diamond jewelry maintaining its status as an aspirational purchase in the major consumer markets.

This is not necessarily an impasse. I firmly believe that that common ground can and must be found. By being able to tell a compelling story about the economic and social benefits provided by diamonds in the countries where they are sourced, the value of the jewelry

product will be enhanced. Not only should we be protecting the integrity of our product, but we also should be releasing its full economic potential and differentiating it from other products that have no measurable social value or impact.

ALROSA is a company that has signed on fully to this vision. In its *Guidelines on Responsible Business Practices* it states, and I quote: “irrevocably committed to continuous development of the regions where its production facilities are located by creating jobs and improving living standards for local communities, generating tax revenues for budgets at different levels, building social infrastructure and protecting the environment, including contributing to the achievement of the UN Sustainable Development Goals.”

In one month’s time the Kimberley Process Plenary Meeting will take place in New Delhi. It is a gathering that is organized annually, but this one is particularly significant because 2019 is the third and final year of a review and reform process taking place within the KP. On the agenda are a number of proposals, among them measures to improve the efficiency of the Peer Review mechanism; the creation of a Multi-Donor Fund to assist the full participation of those KP members with limited financial capacity as well as civil society; and the creation of a Permanent Secretariat, where discussions are being led by ALROSA.

Most probably the most difficult issue on the table, and certainly the most critical, involves a number of proposals intended to strengthen the scope of the Kimberley Process Certification Scheme. More specifically, we are talking about amending the definition of “conflict diamonds” so that it better enables us to provide an assurance that the trade in rough diamonds cannot fund the types of systemic violence being seen in certain diamond-mining areas today.

Right now, the definition in the KP Core Document that is being used to define “conflict diamonds” is the same as that which has been used since the system was launched at the start of 2003. It narrowly defines “conflict diamonds” as rough goods that are being used to finance the activities of rebel groups against legitimate governments.

Under the existing protocol, the only country in which the KP has ruled that conflict diamonds are being produced is the Central African Republic, which in 2015, after an absence, was readmitted into the KPCS within a special operational framework. It was created to ensure the strict traceability of goods, which can only originate from approved “green” mining zones.

As part of the process, the KP set up a Monitoring Team that includes representatives from its various relevant working groups, civil society and the WDC.

Members of the industry are expected to conduct their own due diligence to ensure that any CAR-sourced rough diamonds they purchase are KP-compliant, and countries neighboring CAR and those with trading centers have been urged to practice enhanced vigilance, to prevent conflict diamonds from accessing their territories. All this being done to ensure that exports are channeled through the legitimate channels, ensuring much-needed income for the Central African Republic’s Treasury, and also to neutralize benefits to illegal and criminal gangs.

There is a growing understanding within the KP that, while political and ethnic acts of violence have become less commonplace in mining areas, economically-driven violence is more routine – sometimes involving state actors, at other times private security forces, and also criminal elements. Most commonly, the victims are artisanal miners, their families and the communities which rely upon their income.

To support countries to resolve these issues and so protect these communities, the definition of “conflict diamonds” must be strengthened.

The WDC has been working diligently within the structure of the KP, in cooperation with the Civil Society Coalition and a number of member states, to achieve consensus on an enhanced “conflict diamond” definition. At this stage, while constructive discussions are still ongoing, we do not know whether we will be successful.

But we are not standing idly by. Last year, the WDC Board of Directors approved a new System of Warranties, which has a scope that goes significantly beyond that of the Kimberley Process. It requires that all B2B sellers of rough diamonds, polished diamonds and jewelry containing diamonds include a statement on the invoice or memo document that the goods being sold are in compliance with the KPCS.

The new System of Warranties statement also includes a commitment by the companies that they adhere to WDC Guidelines, which expressly reference international conventions relating to human and labor rights, anti-corruption and anti-money laundering (AML). A special task force, headed by Peter Karakchiev from Alrosa, is developing a toolkit that will assist industry members abide by the new protocol.

Our goal is not to go it alone. In the 19 years since its establishment, the KP has proven to be a remarkably effective mechanism, and a forum in which all participants and stakeholders in the diamond value chain can be equally heard, irrespective of their size.

This dialog is absolutely essential, for the KP’s role is not to be a sanctions-imposing body, but rather the operator of a system that prevents violence and supports conflict resolution. In so doing, it will facilitate capacity-building in the mining areas, while maintaining and growing consumer confidence in diamonds.

Thank you.