

**TESTIMONY****TESTIMONY OF ALAN W. EASTHAM  
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BEFORE THE SENATE COMMITTEE ON GOVERNMENT AFFAIRS,  
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT,  
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"U.S. Government role in fighting the conflict diamond trade."

Chairman Durbin, Members of the Committee, thank you for inviting the Department of State to participate in this important hearing to discuss the role of U.S. agencies in fighting the conflict diamond trade.

You asked the Department of State to address developments in the Kimberley Process and the potential effectiveness of the proposed global certification system under discussion in reducing the trade in conflict diamonds. In addition, you asked whether the proposed multilateral regime would be useful to prevent terrorists from financing their operations through diamond trading. These are both important questions that are central to the issues facing our country, and the diamond trade, today.

The natural wealth represented by diamonds should be a source of funds for development and human welfare in all the diamond-producing states. In many countries, it is. But in too many cases, the money produced by diamond sales provides the funding for rebel movements to purchase arms illicitly and to support rebel armies, prolonging civil wars that have terrorized societies and destroyed communities.

-- In Angola, where UNITA exported between \$3 and 4 billion worth of diamonds from 1992 to 1998, over half a million lives have been lost, more than three and a half million people have been displaced, and over 300,000 refugees have fled the country.

-- In Sierra Leone, diamonds have helped transform a band of about 400 rebels of the RUF into an army of thousands that has become infamous for its brutal treatment of civilians, including particularly horrific atrocities against children. The civil war in that country has killed more than 50,000 people, displaced over one-third of the country's population of 4.5 million inhabitants, and sent over 500,000 refugees abroad.

In addition to the human tragedy in the conflicts in which diamond proceeds have played a part, diamonds have also been reported by the press to have been traded in support of terrorist groups, a subject I will address later in my testimony.

We have attacked conflict diamonds multilaterally through the United Nations and the UN-endorsed Kimberley Process. In doing so, we have kept two objectives in the forefront: First, that we must break the link between diamonds and conflict, and second, that we must do so thoughtfully, in a way that enables the trade to continue, because the diamond industry is a multi-billion dollar global trade which provides important revenue for national development, particularly in Africa, and hundreds of thousands of livelihoods elsewhere in the world.

In the first instance, the solution to the conflict diamond problem falls to the U.N. Security Council, which is charged with responsibility for the maintenance of international peace and security. As others will testify in more detail, we have implemented Security Council resolutions that affect the diamond trade through three executive orders issued by the President. And to support the Security Council's actions, we have participated actively in the Kimberley Process, which adds the expertise of

industry and non-governmental organizations, thus greatly enhancing our efforts. This approach is deliberative, thoughtful, and inclusive. And it recognizes the reality of the inherent nature of the diamond trade, a global business in a commodity only imperfectly identifiable by origin.

In the United Nations Security Council, we strongly supported Council action to prohibit the direct or indirect import of diamonds from Angola and of rough diamonds from Sierra Leone, except through government-controlled certificate of origin regimes. USAID assisted the government of Sierra Leone in developing a certification system that provides a secure, legitimate channel for diamonds to be exported from that country.

More recently, we have supported efforts by the Security Council to reduce sanctions leakage to try to dry up funding for these insurrections. The most significant of these was UNSC Resolution 1343 last May that banned rough diamond imports from Liberia, in response to its government's support for the RUF. U.N.-appointed panels of experts have been tracking the linkages between conflict diamonds and illicit arms trafficking which have perpetuated the bloodshed in those regions in Africa.

To supplement and enhance the Security Council measures, we have participated actively in the Kimberley Process, which seeks to establish a global system of certification for all rough diamonds in order to eliminate conflict diamonds from global trade. The Kimberley Process was initiated in Kimberley, South Africa, in May, 2000, when representatives of key producing, trading and consuming countries, the diamond industry, and civil society began a series of meetings to examine the conflict diamonds problem. Kimberley Process efforts were endorsed in December, 2000 by the U.N. General Assembly, which called for participants to broaden participation and develop proposed minimum acceptable standards for certification.

An expanded Kimberley process, with over 35 governments participating, met through 2001 to establish detailed proposals for an international certification system. At the first meeting a year ago in Namibia, delegates set up a work plan that established benchmarks for subsequent meetings, with the objective of presenting the details of a system to the United Nations by December, 2001.

We kept to the road map. At the last meeting of 2001, in November in Botswana, we completed the report to the United Nations and anticipate that the General Assembly will consider it and offer additional support to this work when the General Assembly resumes its activities in March.

A brief outline of how the system would work is as follows: Every country that trades in rough diamonds, including the United States, would, under the scheme as envisaged now, validate an export document called the "Kimberley Process Certificate" which would attest that the rough diamonds in the shipment were handled in accordance with the Kimberley Process, that is, in compliance with a system of internal controls designed to eliminate the presence of conflict diamonds from the trade. It is our expectation that this system will eventually cover the entire global trade in legitimate rough diamonds. We believe -- and the other participants in the Kimberley Process believe -- that this set of rules will enhance measures taken by countries to implement UN Security Council resolutions on conflict diamonds by further deterring the entry of such diamonds into the legitimate trade. This will both strengthen the legitimate trade and enable us to focus enforcement resources on combating the black market.

As to where we stand now, at the Botswana meeting, the Kimberley Process set up four working groups to continue work on several issues in the proposed system which require more study. The United States is actively participating in all four groups. These groups are considering:

-- the question of designing the Kimberley Process trade provisions so that they are targeted to achieve the aim of combating trade in conflict diamonds in a way consistent

with existing international structures and obligations in the world trading system;

- the contribution statistics can make to the Kimberley certification system;
- how we can meet any ongoing organizational requirements of the proposed Kimberley system; and
- further elaboration of a sensible system for monitoring the effectiveness of the proposed Kimberley Process certification scheme.

All these questions are under intensive debate now, in the Kimberley Process working groups. The working groups are scheduled to report to the Kimberley Process plenary on March 18 in Ottawa.

At the same time, we are working on a number of other fronts to encourage universal participation in the certification scheme. We are also considering what changes in U.S. law and procedure might be necessary in order to implement the proposed scheme on our part and are also exploring actions the UN might take with regard to a finalized system. There is some urgency in this task, since the Ministerial meeting at the conclusion of the Gaborone meeting declared that the system should be implemented as soon as possible, with issuance of certificates beginning immediately by those countries in a position to do so. The expectation of the Kimberley Process participants is that the Kimberley system will be put into complete effect by all participants by a date to be ascertained before the end of this year. With the strong support of Congress and active efforts by the Administration, we believe we can meet this goal, setting up a system that will be simple, effective, cost-effective, and global.

Mr. Chairman, let me conclude with a brief discussion of the role of diamonds in terrorist finance. This is an area related but quite distinct from the problem of the conflict diamonds that are the subject of the Kimberley Process, that is, those diamonds the import of which are prohibited by the United Nations Security Council as fueling conflict.

Let me explain. In contrast to the popular image, experts in the diamond business tell me it is hard to make a lot of money trading diamonds. The business is very capital-intensive, a business where it takes a great deal of money to make a lot of money because the margins at each step in the trade are ordinarily fairly small. Second, it is expertise-intensive, a business in which you have to know what you are doing in order to profit from those small margins. Third, it is a hard business to enter, because it is a relatively small and somewhat insular industry based on personal relations and a high degree of trust among traders. Most of the traders at particular stages of the trade and in particular segments of the business all know one another, by reputation if not personally. These characteristics of the trade argue against the possibility that a terrorist group could enter the industry, or if they did through front organizations or companies, that they could make a great deal of profit trading diamonds. Shady or unusual practices soon become generally known in the legitimate diamond trade.

However, there is another risk: that diamonds are being used to hoard "wealth" and avoid legitimate banking circles by terrorists. The possible use of diamonds by terrorists falls within this category, along with other forms of criminal activity including drug smuggling, theft, fraud, and tax avoidance.

Diamonds represent perhaps the most concentrated form of wealth known to man. They are easy to move, whether lawfully or through illegal channels, and are subject to fewer trading restrictions than many commodities, in fact to fewer restrictions than is that other form of concentrated wealth, cash. It is not illegal per se to possess or trade in diamonds, as it is for example for narcotics. What this means is that a person or group wishing to hoard wealth or move resources across international frontiers without drawing the attention of banking channels or government authorities might certainly consider

diamonds as a way to do so. This has several implications: It creates demand for diamonds from conflict zones to be held as a highly convertible currency by people who want to avoid regular banking institutions, thus intensifying the problem of conflict diamonds. Terrorists could participate in this trade. The potential for diamonds as a vehicle for these purposes also enhances the incentive for theft, fraud, and other illicit transactions quite apart from conflict diamonds. And since ultimately these diamonds have to enter the legitimate trade, regrettably there are some on the fringes of the diamond trade who are willing to overlook certain warning signs when an opportunity to buy rough diamonds comes along.

Mr. Chairman, the reports that terrorists may be buying and hoarding diamonds are cause for immense concern. Many agencies are working together to see what further information can be obtained and what can be done to prevent terrorist from cashing in diamonds to fund their activities. It will undoubtedly also be important for the industry to avoid being implicated in this evil, and it is particularly important at this time for the diamond trade in this country to heed the best practice of "Know your supplier." That is an essential first step in taking effective action against both conflict diamonds and the use of rough diamonds as a financial tool.

As you can see, the State Department is intensely involved with multilateral and inter-agency efforts to eliminate "conflict diamonds" from international trade and to pursue leads to shut down terrorist financing by diamonds as well. Let me close by thanking you again for your interest in this subject. We look forward to working together with members of Congress in these important endeavors.

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