



Diamonds, The Evil That men do...

Adam Smith; “Diamonds are a pure luxury. Water, which is essential to life sells for very little while diamonds which are almost useless, command a very high price.”

Tim Capon, De Beers Executive Director; “The policy object that De Beers has consequently been pursuing since the 1930’s is that of steadily increasing prices, sufficient to sustain the image of an article of lasting value, but seeking to avoid price increases of a size which would undermine the growing consumer market.”

They say that the Greek word “Adamas” is the root word of diamond, it means, unconquerable and indestructible. A diamond is made up entirely of carbon and is the hardest known natural substance on earth. Diamonds have a very high refractive index and thus, the power to disperse light, which is the element that gives the stones their brilliance. India produced diamonds long before the Christian era arrived. ¹

Diamonds are normally found 600 to 1000² feet below the Earth’s surface in temperatures of between 1050 and 1200 degrees Celsius³. They are created under an immense pressure of approximately 50-kilo bars, which is needed for them to crystallize. When molten lava, in the past rose to the earth’s surface it

¹ “Until the late nineteenth century, diamonds were found only in a few riverbeds in India, in the jungles of Brazil, and the entire world production of gem diamonds amounted to a few pounds a year.” Atlantic Monthly, Edward Jay Epstein, February 1982

² Most diamonds were formed more than 100 miles below the surface of the Earth, some from perhaps 400 miles down. San Diego Natural History Museum

³ 6,900 Degrees Fahrenheit.

ultimately cooled and the lava disintegrated over time due to erosion and deposition. Today we are left with what are called pipes, and in many cases this is where accumulations of diamonds can be found.

Diamonds are hard beyond belief; It was ever so, as Pliny the Elder (23 to 79 A.D.) recorded long ago. Pliny wrote that “the best way to test Adamas is upon the anvil; strike even upon the point of the Adamas with a hammer as hard as you can, it defies all blows and instead of the stone yielding, the hammer flies into pieces and even the anvil splits in half.”⁴ They are also old beyond belief; the youngest diamond that you can purchase was probably around when the dinosaurs were roving the earth. The San Diego Natural History Museum says that, “Most diamonds are over three billion years old, two-thirds the age of the Earth⁵. There are a few “youngsters, though, which are only 100 million years old.”

Early Use

Diamonds were used as engraving instruments as far back as 300 BC and Pliny refers to them as being “...the shape and size of a millet seed.”⁶ Diamonds were prized for their beauty and in ancient times, people of wealth in Egypt, Babylon, Mesopotamia, and India collected them as decorative objects. The French author Tavernier reported that “When the King seats himself upon his throne, there is a transparent jewel with a diamond pendant of 80 or 90 carats⁷ encompassed with rubies and emeralds so hung that it is always upon his eye. Upon each side of the throne are two parasols, the handles covered with diamonds. This is the (Peacock) throne, which Tamerlaine began and Cha-Jehan finished. It is reported to have cost 160 million livres. Behind this is a tub where the king bathes, the outside whereof shines all over with diamonds.”

It was the Romans who found that diamonds could be used for cutting and they created an industry, which used the gems to carve cameos from stone. Being industrious, they also convinced the Chinese that diamonds were the right material for cutting jade and drilling pearls.

Polishing & Cutting

The Indians, always trying to improve on a good thing, learned that the luster of diamonds could be increased by rubbing them together. The Indians also noted the grain within the diamond and did some rudimentary work in artistically shaping stones⁸. On the other hand, it was not until Louis de Berquem came

⁴ Diamante’

⁵ We are not sure exactly where the San Diego History Museum got their statistics on the earth’s age.

⁶ Industrial Diamond Review

⁷ “Named for the seeds of tree, probably the Carob tree or Ceratonia siliqua. A carat is 1/142nd of an avoirdupois ounce or, in metric terms, one fifth of a gram (200 milligrams). Each carat is divided into 100 points. Thus, a diamond is described a weighing 1.32 carats—or one carat and 32 points”. Ibid

⁸ Probably the first case of diamond enhancement

along and impregnated a wheel with diamond dust that polishing became an art form. In the seventeenth century, Vincent Peruzzi became the grandfather of cutting with his magnificent 58-facet cut⁹. This was followed in short order by today's brilliant cut. It was also noted during this period that light seems to bounce around within a diamond. By watching the way the rays twist and bend, a good cutter could see where the seams were and with this knowledge; once again cutting improved. In 1919, Miarcel Tokowsky, the 21-year-old son of an Antwerp¹⁰ diamond cutter, created what has become known as today as Tokowsky cut and changed the industry, perhaps forever. With one stroke he was able to maximize the four C's of diamonds, cut, clarity, color and carat weight.

While most diamond cuts have been successful to a greater or lesser degree, tension is high as the stone is analyzed from multiple perspectives. The process often includes the creation of models and the light images are scrutinized. The artisan may study a large, valuable diamond for up to a year before cutting. When the 3601-carat Cullinan was being cut, a doctor was brought in to minister to the diamond cutter should he fail. Although the first cut was unsuccessful, the head of Asscher Diamond Co. of Amsterdam redeemed himself on his second try, but fainted after doing so. Doctors worked on the fallen cutter for a substantial time until he opened his eyes and was told that he had succeeded.

Ultimately, that stone was divided into nine major gemstones and ninety-six smaller ones, one of which, the Star of Africa is still the largest diamond that has been cut in the world.

A New Method

The Jonker Diamond was a magnificent specimen at 726-carrats and the highly regarded; Lazare Kaplan was brought in to do the cutting. Kaplan, a perfectionist studied the stone for over a year while making two separate models of the diamond. Not satisfied with his own analysis, Kaplan brought in experts to help in making the investigation of where to strike the perfect blow. A serious argument ensued with the all parties involved and apparently no one agreed on exactly how the job should be done. Kaplan growing sick of the bickering grabbed his hammer and stuck with stone making a perfect cut.

Industrial Diamonds

Diamonds found use a drills in 1751 when Diderot, in his *Encyclopedie*", states "To pierce the rock, the operator uses a bar or iron with diamond points set in triangular veins which cross each other at right angles. This tool is alternately

⁹ A feat considered impossible to that point

¹⁰ "Eight out of 10 of the world's rough diamonds—about 125 million carats a year – pass through Antwerp's Diamond Center." *Africa's Gems: Warfare's Best Friend Part 1*, By Blaine harden, The New York Times, April 6, 2000.

raised and allowed to fall, and the operator rotated it in his hands, taking care to throw water in the hole.” By mid 1800s this had developed considerably, and diamond rock drills were now powered by machines. There is a report of 8th June 1852 that a 5 cm diameter hole 37 cm deep was drilled in granite in 87 minutes. This compares to a modern drill machine which could drill a similar hole in a matter of seconds.”¹¹

Extraction

Diamonds when they are located are classified in two different groups. Those that are found deep in the earth are called subterranean mines, these are usually found in what are called diamantiferous chimneys of the ancient volcanoes. The second classification is the alluvial deposits whose origins are similar but the diamonds found their way to the surface and then into rivers and ocean shores where they are mined.

Diamonds are extracted in many different ways but today’s major mining operations cut away the earth and create an open pit hundreds of feet deep where the pipes occur.¹² By and large, the ore is loaded on huge trucks, which bring the material to crushers. The machines break the stone into 18-millimeter sizes. (This method is used primarily for the mining of industrial stones where the diamond quality is not high) The ore is move from the crushers to the scrubbers where it is washed in large rotating drums, while they are constantly vibrating. Ultimately, through a screening process, several of the stones can be sized automatically. A material known as ferrosilicon is mixed with water making a material of substantial consistency. The diamonds being heavier then the rock go to the bottom of the mixture with the residue going to the top. This makes it an easy matter to separate the diamonds from the rest of the goop.

Sorting

As the process moves on, the diamonds pass through radial X-ray sorters. Because of the fact that diamonds glow when hit by x-rays, they are easily identified for removal from the mixture. The diamonds are then doused with acid, which removes any non-diamond substances from the material, and from there are sent to be sorted, valued, and sold.

This isn’t the end of the road in the process by any means. The gemstones are then cut¹³ and polished.¹⁴ The cutting¹⁵, usually done along the grain is used to shape the stone and remove its flaws. Diamonds are usually cut and shaped

¹¹ Ibid

¹² It take approximately 250 tones of ore to make a one-caret diamond and the resultant stone will have traveled over four continents

¹³ Antwerp around 1550 was the earliest place where diamonds were cut.

¹⁴ Polishing of diamonds dates back to India in about the fourteenth century.

¹⁵ The cutting centers started in Antwerp as the City was on the route from India. Later, Amsterdam, London, and Israel established themselves as centers as well.

through the use of other diamonds, which because of their hardness are necessary to do the grinding¹⁶. Diamond dust impregnated into a horizontal spinning metal wheel is used to grind and polish the stone. The finer the stone the less of the diamond is cut away during this process; but as a rule, 50% of the original rough diamond is lost during this procedure. As an example of the above, the largest diamond ever found was the South African Cullinan diamond. It was cut into one hundred and five stones whose total weight only represented one third of that of the original stone.

The Size

Diamonds are defined by how big they are in terms of "carats." Carats are made up of points and there are 100 points in every carat. Thus, if you were to buy a stone that was $\frac{3}{4}$ of a carat, that stone would have 75 points.

The Colors

Most diamonds are colorless but they can also be found in "red"¹⁷, yellow, dark blue¹⁸, black¹⁹, brown²⁰, mauve and violet²¹, pink, orange²², and green. (these extremely rare diamonds look black before they are cut because they get their color from exposure to uranium-rich ore over millions of years)²³ Canary yellow

¹⁶ Diamonds can be cut into various shapes, the more common are the Brilliant, The Marquise, The Pear, The Emerald, The Oval, The Heart, The Radiant and the Princess.

¹⁷ A rose-red stone purchased by Louis XIV and called the Peach Blossom Diamond is among the few remaining French Crown Jewels in the Louvre. Probably the most famous of the rose-pink gems is the pear shaped Conde Diamond in the treasure at Chantilly, near Paris. A 54-carat pink diamond was found in the Williamson Mine in Tanganyika in 1948. It was cut into a 23.6-carat round brilliant and presented to the then Princess Elizabeth as a wedding gift. Enhancements.

¹⁸ Colorless Diamonds can be turned blue by adding boron. Fine blue diamonds are extremely rare. Sapphire blue!! is the description of the 45.carat Hope Diamond which is now in the Smithsonian Institution. A fine-blue diamond of 35.56 carats, known as the Wittelsbach, was offered for sale by Christie's in London. The Wittelsbach Diamond was formerly in the Bavarian Crown Jewels. Recently, a number of blue stones with a depth of color comparable to medium-blue aquamarine have appeared on the mark

¹⁹ Black diamonds are opaque and appear much like black sealing wax. Most of the blacks are found on the Island of Borneo. And belong more in the industrial and curiosity departments than with the fancies.

²⁰ Brown diamonds are fairly common; reddish-brown, clove -brown and coffee-brown stones frequently reach the trade. These are particularly attractive, especially the coffees.

²¹ Mauve and violet diamonds are extremely rare and quite attractive. They are usually found at the high end of the fancies.

²² Orange diamonds are rare, very attractive and desirable.

²³ The 41 Carat Dresden Green Diamond has been referred to as an emerald-green stone, but it is actually yellowish green. Some stones classed as crystal or cape are more greenish yellow than yellow. Deeper greenish yellow stones are often called "champagnes."

diamonds²⁴, for example, occur when nitrogen atoms replace isolated carbon atoms. Diamonds of a definite color are extremely rare. Natural colored diamonds are basically a “freak of nature.” Brown (champagne/cognac), pink and red fancies are actually deformed diamonds. Defects in their crystal lattice structure change their color. Blue and yellow diamonds have trace elements of boron and nitrogen in their makeup. While it is known which chemical processes causes color changes, researchers are still not sure what makes some diamonds remain clear while others have beautiful colors.²⁵

In addition, diamonds can be bombarded with radiation and made to change colors. While the practice is considered unethical in many places, third world nuclear facilities turn out torrents of colored stones. While it is not inexpensive to bombard the stones with nuclear rays, the amount that the diamond’s value can be increased is even more substantial. The blood-red diamond is the ultimate in both rarity and beauty and on a carat basis, non-treated stones have gone for up to a million dollars a carat. To appreciate how rare colored stones are, you only have to consider that it takes over 10,000 clear diamonds to find one colored one.

While we will not delve into it at this juncture, a number of industrial companies have been doing substantial work with altering the colors of natural and synthetic diamonds. Those companies that appear to be leading the pack are General Electric, Novatek of Provo, Utah and a group in Sweden. The three consortiums are treating natural brownish diamonds to produce strongly luminescent, greenish yellow-to-yellow green colors, and also some saturated with yellow collars. All are using heat and pressure processes.²⁶

Tinting

The less color in most instances, a diamond has the more valuable it becomes, everything else being equal. Stones are designated letter values from D down through H if they are colorless. Those from I through K are slightly tinted, from L to O they are clearly tinted, and from P through Z, the stones have an unpleasant yellow cast to them.

Category

Diamonds have been categorized into over 7,000 sub classes of stones. These consist of gem quality, near gem quality, industrial and boart quality classes with numerous subclasses of stones under each grouping. Industrial and boart stones are usually of a much smaller variety or lack the clarity of the first two

²⁴ The Florentine Diamond and the Tiffany Diamond are both excellent of examples of superb fancy yellow diamonds.

²⁵ Gemology Canada – Special Edition

²⁶ Gemological Institute of America, Changing the Colors of Natural and Synthetic Diamonds, By Ilene Rekinitz, PhD, GIA, GTL.

classifications. Obviously there are enormous differentials in the cost of these stones as you travel up on down the perfection scale. On the lower end, the diamonds are primarily used for drilling and fillers in jewelry. A diamonds without the normal inclusions in the stones could be rated either, FL flawless or IL, internally flawless, which would put it at the top of the scale. A stone rated VVS has very, very small inclusions and a stone rated VS has very small inclusions. The SI designation indicates small inclusions and I stands for those stones bringing up the rear with visual inclusions.

Grading

In the 1950s the Gemological Institute of America came into being. The concept was that they would be an independent appraisal group that would be the final word on diamond evaluations and processes. They were given the assignment or rating diamonds relative to purity. In a surprising move, they announced that they were starting their grading system with D. Thus, while we would normally would think of an "A" diamond or even an "AAA" diamond representing perfection, the Institute felt that to many charlatan diamond dealers had already created their own grading systems which started from quadruple A and had no relationship to value of any kind. They felt that by starting with the letter D, being the most pure stone²⁷, they would distance themselves from criminals and charlatans that were using creative grading to increase their profits. As you went down the scale from D to J and H, the untrained eye could start seeing a yellowish tint in the stone. This was considered a color imperfect.

When you held up a visually flawless stones to the light you could not see any imperfections in the diamond itself. On the other hand, if you can't see a flaw in a diamond under a ten-power microscope, then you have a flawless stone. Thus, to have a D, flawless diamond is the ultimate position to be in²⁸, a stone that is not impaired under laboratory instruments and is of clear color. This has nothing to do with diamonds that are naturally colored to begin with and that is whole other subject, which will nr touched upon later.

Famous Stones

The Hope Diamond

As we have seen, diamonds come in all colors, sizes and shapes, but indeed, this is a world in which some diamonds are more equal than others are. The Hope Diamond named for the family that owned the stone at one time probably has the most interesting story. All of its owners have suffered substantial

²⁷ In effect totally colorless

²⁸ Gradations in this category go from flawless, very very slightly included, slightly included to imperfect with stops in the middle

reversals during their time of possession. Executions, death by rare diseases, improprieties, murder, bankruptcy and revolution are just a few of the bizarre events that have befallen its possessors. Ultimately the stone came to rest in the hands of Harry Winston, the Fifth Avenue jeweler who ultimately turned it over to the Smithsonian where it is seen each year by more people than any other diamond on earth.²⁹

The Tiffany Diamond

The Tiffany diamond is the largest yellow diamond ever discovered and it is aptly named after the fabled Fifth Avenue jewelry store only a stone's throw from Harry Winston down the block. The Tiffany makes the Hope Diamond look like a marble. The stone's illustrious history dates back to its discovery at the De Beers Mine, in South Africa in 1887. For whatever reason, almost a century passed before the stone was made into jewelry. It has been on display at the Chicago Columbian Exposition in 1893, the Pan American Exposition in 1901, The Chicago Century of Progress exposition in 1933-4 and the New York World's Fair in 1939-40. Today the stone resides at Tiffany's on Fifth Avenue and is seen by thousands of people everyday.

Dresden Green, Earth Star and the Hortensia Diamonds

Other diamonds that have made their mark on us for their beauty, clarity, size or color is the Dresden Green, forty one carats of shimmering green opulence, The Earth Star, a tad over 111 carats of coffee brown color cut down from a stone 249 carats in size and was still probably the largest brown diamond in the world, The Star of Africa which was just a small piece of the Cullinan and yet it weighs 530 carats and has 74 facets while holding on to the title of the largest cut diamond in the world, The Hortensia Diamond, a twenty carat pink five-sided stone owned by Louis XIV back in 1669. It is part of the French Crown Jewels today. We could go on and name the Tiros Lilac, The Excelsior (the second largest stone ever found), The Great Mogul (the third largest gem-quality diamond)³⁰, The Orloff often confused with the Great Mogul has been sitting in the Diamond Treasury of the Russia in Moscow.

The Darya-I-Nur, the Koh-I-Nur, the Regent and the Sancy

The Darya-I-Nur, (the class of the Crown Jewels of Iran at about 190 carats), the Koh-I-Nur, or the Mountain of Light (Now residing in the tower of London), The Regent, owned by William Pitt, The English Prime Minister and is now on display

²⁹ We are not aware of any great problems that have infected Winston or his firm during their reign as owners.

³⁰ Named after the builder of the Taj Mahal, Shah Hehan

in the Louvre, The Sancy owned by Henry III who wore it in his cap and Henry IV, James I and James II of England, The Taylor-Burton, a pear stone of 69 carats bought for Liz Taylor by Richard Burton. She sold it in 1978 to build a hospital in Botswana, and the Halphen Red and numerous more, but alas these are the stones from which the cult of diamonds arises and De Beers does such a grand job of spreading the news.

In spite of all these magnificent stones, diamonds may not necessarily be the most expensive gems on earth. "Natural Alexandrite, ruby and fine sapphire are all rarer than diamond geologically speaking and the price per carat can easily exceed diamond in any of those three...all three have been used at one time or another as engagement ring centers; alexandrite was the choice of Russian nobility for centuries, the ruby was the engagement gemstone of choice in the South throughout the 1700's and 1800's, and the sapphire has been the recent focus of many engagement rings including several members of the British Royal Family."³¹

Lineage

Nevertheless, throughout the ages, "Kings"³² wore diamonds as a symbol of strength, courage and invincibility. Diamonds have stood for wealth, supremacy, love, spirit, and magical powers. Kings in olden days would wear into battle heavy leather breastplates studded with diamonds and other precious stones. It was believed that diamonds were fragments of stars and the teardrops of the Gods. The diamonds possessed the magical qualities of the Gods and held powers far beyond the understanding of the common man. Because of these beliefs, the warriors stayed clear of the Kings and others who were fortunate to have the so-called magical diamonds in their breast plates."³³

When Archduke Maximilian of Austria in the 15th Century gave a diamond ring to his betrothed, Mary of Burgundy, scores of yet unborn diamond dealers gave both a silent and future cheer. On the other hand the placing of the engagement ring on the third finger of the left hand goes back to Egyptian legend, which tells us that a vein of love runs from the tip of the heart right into the third finger.

A Bad Drink

Diamonds had another use, when ground up, they acted as a most effective poison. The Turkish Sultan, Bajazet and Pope Clement VII were two of the more famous people to be done in by they precious powder. Catherine de Medici supposedly got rid of many of her adversaries by slipping some diamond dust into their food. On the other hand, while this makes great reading, in effect we can not be sure that these stories were not just conjured up to prevent workers in

³¹ Diamond Talk, Gregandmartha

³² A law in thirteenth-century France decreed that only the king could wear diamonds

³³ Leshem Diamond Services, History of Diamonds

the mines from gobbling down their finds and disgorging them at some later time on their own property.

Their Travels

It was Alexander the Great who was first to bring them from India to Europe in approximately 327 BC.³⁴ In the beginning, diamonds were found only in India and some obscure areas of Brazil³⁵. The exact quantity of these gems being mined was intimately known and the shinny gems brought a substantial price as jewelry. Oh sure, some diamonds were used in drilling when super-hard surfaces were going to be worked on but we are now in the last decade of the 19th century and these pretty things had really not yet caught on as drilling aids.

Early Production

Brazil

In the modern era, Brazil produced some diamonds in the early 1700s when a Portuguese soldier of fortune, Bernardo da Fonesco Lobo stumbled onto some weird looking pebbles while hunting for gold in Rio dos Marinhas, Brazil. He wasn't really sure what he had uncovered and sent the washed pebbles to Portugal for an expert opinion. They confirmed that Bernardo had indeed discovered a major diamond find.

On the other hand, you can image the pacing up and back that Bernardo was doing while he was waiting for the results of these lab tests. Portugal rewarded their gold hunters in the region by banishing them from any spot that might potentially contain diamonds and gave the land over to various royal favorites. These enterprising folks were soon able to put together massive slave crews of unbelievable proportions that made short work of the Brazilian diamond industry. One hundred years later, 16 million carats had been removed to Portugal and the diamonds had run dry³⁶.

South Africa

On the other hand, there is this tributary in South Africa called the Orange River and in 1866, "A water pipe leading out of a dam became stuck on the sun baked Jacobs farm near the Orange river in South Africa, in a poor district with the bittersweet name of Hopetown. Farmer Daniel Jacobs fussed with the pipe a bit and then asked his you son Erasmus to search the veld for a thin branch to poke

³⁴ Produced jointly by the Minerals Council of Australia and AGSO

³⁵ In a single mine in India they had on their payroll 60,000 persons at work, men, women and children, the men being employed to dig, the women and children to carry the earth.

³⁶ Basically, these diamonds were found on the surface. Little or no exploration was done in Brazil at depth. Recently several consortiums have gone back into Brazil and are optimistic that the industry in that country can be revived.

through it. Erasmus wandered around until he found the branch he wanted, and then sat down in the shade of a tree to rest.”

Some yard away, the glare of the sun, he noticed that a stone appeared to be blinking at him and, curious, he walked over and picked it up. It was to him, in his language, a *mooi klip*, a “pretty pebble.” Slipping it into the pocket of his corduroy suit, he took it home to his youngest sister. She was pleased to put it among the pebbles used in a game named “Five Stones.”

The children were playing this game when the local welfare officer, Schlak van Niekirk, came in about a month later. He too noticed the stone, picked it up, took it to the window, and tried to scratch the pane with it. Mrs. Jacobs told him that if he fancied it he could have it. So, Van Niekirk put it in his pocket and a few days later sold it for a few pounds to an Irish peddler who toured the district when he was not out shooting lions.”

There is some question whether Van Niekirk knew he was selling a diamond, but Jack O’Reilly was sure he had bought one. He wrote his name carefully on his own window with the stone and then took it to Grahamstown to geologist Dr. W. Guybon Atherstone for an expert opinion. Atherstone, who let a local bishop write his name on still another window pane with it, told O’Rilley in due course that it was indeed a diamond and worth five hundred pounds, or about \$2,500. O’Rilley took the stone to the governor of the Cape colony, Sir Philip Wodehouse, and sold it to him for just that.

Clear, blue-white and about the size of a sparrow’s egg, it weighed 21.50 carats and, as a very *mooi klip* indeed, attracted a lot of attention. In its home territory, it had been known as the O’Reilly, when put on exhibition in Paris soon after that, it was called the Eureka—Greek for “I’ve got it.”

With its exhibition the first diamond rush began.”³⁷

Serious mining commenced and it turned out that there were literally so many diamonds in the area surrounding the Orange River that pundits were soon talking about diamonds depreciating in value dramatically because of the oversupply.

Cartels and other things

What to do? One of the investors had an idea. “Why don’t we put all of the mining operations in the area into one holding company and mine only enough to keep the supply short and the price long. Other investors thought the idea folly but the fellah persisted with his concept. He continued, “we can call the company De Beers Consolidated Mines, Ltd, after my brother and I and it will control the world’s output; in turn, we will control it and become filthy rich. “ A fellah in back

³⁷ LaMaison D’or, The Mystique of Diamonds

piped in, my name is Cecil Rhodes and I have the biggest claim and I can whip any guy in the crowd, instead of calling it De Beers, I want it named Cecil's Consortium. While everyone agreed that it was not a bad name and that Cecil in spite of being a little wimpy at times could take any one of the people gathered, they also were aware that he could not take on any two. The De Beers brothers won the day but Cecil somehow wound up with most of loot.

In reality, what was going on was that a mass of civilization had descended upon the spot where diamonds were being found and thousands of workers, each having carved out a miniscule territory were busy at work digging deeper and deeper to get at the elusive stones. At times your neighbors hole might be 20 feet deeper than your own because he had his entire family working the plot around the clock. Thus, your plot would fall into his and if his family was not careful, they could become buried by the resultant earth. Eventuality, the madness had to cease before everyone's plot collapsed into everyone else's and there became a large pit with a lot of people buried in it with no diamonds to show for the experience. This more than anything else brought sanity to the situation. Two companies had already become the dominant players in the region, De Beers,³⁸ and their archrivals, the Kimberley Central Mining Company and it was that called the meeting.

Although the idea struck a responsive cord among those that had gathered, not everyone liked the name De Beers. Some with linguistic backgrounds said it gave the impression the company was involved in the purveying of an alcoholic beverage, but indeed, everyone did want to become filthy rich and thus, in 1888, the company became incorporated in South Africa under the name, De Beers. Those that didn't like the original name were soon assuaged as a subsidiary called Diamond Trading Company was formed in England. "Bully", said the British element of the group, "that is a capital idea". The rest of the European partners were not at all pleased and to keep peace the Continental affiliate was named The Central Selling Organization (CSO) which many people said is about as exciting as wait for the South African Bora Tree to bloom as it does religiously every 1800 years. On the other hand, these Europeans were button down folks who wore spats to bed and were ever so proper and they went bonkers for the name. Many thought they had lost it and shortened the handle to CSO, which is what it is known as today as it accounts for the sales of between 70 and 80 percent of the world diamonds.

A Rose By Any Other Name

For the South African's, the company was known as Diamond Development Corporation in some years and a much more appropriate handle, the Mining Services Company in others³⁹. However, the Israeli's took the cake with the

³⁸ Named after two brother named De Beer on whose land the first diamond rush had taken place.

³⁹ Some said that it reverted names every time the South African Bora Tree bloomed but we have no confirmation of that fact.

awe-inspiring name, “The Syndicate”. Many argued that the group would sound like a bunch of criminals but the Israeli’s said that if they couldn’t call their group “The Syndicate”, they wouldn’t cut the stones. As no else in the group had the slightest clue how to cut a diamond, many lauded the choice of name and the Israeli’s won the day. All of these names have persisted into the present and depending upon where in the world you are talking about these precious but highly un-rare stones you will be referred to the indigenous nomenclature which is all apart of the shadowy and mysterious “De Beers”.

The Hype

“Together with the artificial perception of rarity, what makes diamonds profitable to more than 2.5 million miners, trader, cutters and wholesalers around the world – and what energizes the \$50-billion-a-year retail diamond jewelry industry – is romance.”⁴⁰ De Beers holds what they call “sights” in London ten times a year where they create packages of diamonds which are given to the anointed “sight buyers”, of which there are 300 world wide to purchase on an all or non basis. By balancing the amounts sold at the “sights,” De Beers can create a shortage of diamonds and cause the price to rise or should they want the price down they can throw stones unto the market. If too many are offered, it will give the impression that there is an oversupply of stones and the price will drop. You do not have to ask in which direction De Beers skews the “sight” process in most instances⁴¹.

More Discoveries

In 1906, the Belgian Congo (Zaire) struck it rich followed in 1908 by the discovery of “important alluvial deposits in Luderitz in South West Africa (Namibia) in 1908 Angola struck pay dirt in 1912 followed by the Gold Coast (Ghana) in 1920 and Sierra Leona in 1930. Tanganyika (Tanzania) joined the diamond club in 1940 and yet through it all, the cartel not only grew but it prospered mightily as well. The problem essentially was only hiding the deep dark secret that more than enough diamonds were easily accessible than could ever be profitably merchandised. One of the cartel members suggested that they go to the United States and hire an advertising agency so that they could push even more of the pretty little pellets. It was determined that the States were the place to go for several reasons, one, it was where the money was, two, in Europe, the proletariat had this strange ideal that diamonds were only for the monarchy and many still felt it would be almost treasonable to found wearing one without being at least a queen. Other countries of the world either did not have enough money to be thought of as logical or they were too small to make a first class public relations campaign pay for itself.

⁴⁰ Africa’s Gems: Warfare’s Best Friend Part 1, Blaine Harden, The New York times, April 6, 2000

⁴¹ Most but not always, when the Israelis had so much inventory they were in a position to control the market De Beers forced prices lower and the Israeli banks called their loans.

A Problem And a solution

Harry Oppenheimer, son of the De Beers founder came to the States in September of 1938 to meet with Gerold M. Lauck, president of N. W. Ayer, a top flight American Advertising agency. He had been recommended by Morgan Bank⁴². After a meeting in which the tone was extremely serious because of the current weakness in diamond prices⁴³, Ayer and Lauck were hired. Not to long thereafter they came up with an ad, which indicated that if you were a young girl in the States and not getting a diamond from you Beau, he was dreadful cheapskate, you were being shortchanged, and it would be more logical to look around for someone more suitable. Furthermore, in a male directed campaign, Ayer promoted the fact that the bigger the diamond, the greater the young man's love for his beau was. Female directed advertising was subliminal but indicated that without a diamond, there was really no romance.

The public relations

Hollywood had just gone from silent movies to talkies and then to color and with everyone obsessed with the war in Europe; movies provided escape and heroics beyond all measure. As part of their campaign, Ayer made sure that every heroine wore diamonds and they were more than large enough to be seen. No Hollywood engagement, wedding or holiday whether real or in the movies did not include a large diamond presented as often as possible by the hero to the heroine on literally a silver platter. Newspapers and magazines were inundated with the size of the stone this particular Hollywood Starlet received from that particular star. The Academy Awards glistened with gems, which were shown to movie audiences around that world in the newsreels.

De Beers was even able to convince the Queen of England that it would make a lot of sense to help the diamond industry and she went to South Africa where she not only toured the diamond mines but also was given, with great fanfare, a large diamond, courtesy, the Oppenheimer family.

Talk radio was another great media for moving diamonds (no television yet). Fashion leaders and columnists did the talk show circuit blithering about how everybody, I mean everybody was giving and getting diamonds and that if you

⁴² "At this time, three quarters of all the cartel's diamonds were sold for engagement rings in the United States. Most of these stones, however, were smaller and of poorer quality than those bought in Europe, and had an average price of \$80 apiece." Have You Ever Tried to Sell A Diamond? The Atlantic Monthly, Edward Jay Epstein, February 1982

⁴³ In researching the state of the diamond industry, Ayer found that " Since the end of World War I, in 1919, the total amount of diamonds sold in America, measured in carats, had declined by 50 percent; at the same time, the quality of the diamonds, measured in dollar value, had declined by nearly 100 percent. An Ayer memo concluded that the depressed state of the market for diamonds was "the result of the economy, changes in social attitudes and the promotion of competitive luxuries." IBID

weren't involved, you weren't worth knowing and probably never would be. Diamonds were also placed into expensively laid out magazine advertisements along with other items usually associated with the rich such as; polo ponies, yachts, and famous paintings. The diamonds though were always at center stage.

Appealing to women

This campaign worked like a charm, women in their own way began to demand the lovelies, and the men used their women's diamonds to show either how macho or successful they were. The bigger the ring that their girlfriend had, the more important it made them feel or so they thought. The campaign was a screaming success. In just three short years, the sales of diamonds in the United States had jumped almost 60 percent. And yet, what had happened was unique in the annals of advertising history. There was no name brand name associated with the product, just diamonds, a truly generic product. It was almost like saying that vitamins are good for you, except for one thing, at that point De Beers owned the mines, the distribution and the outlets and it didn't matter a darn where people bought their diamonds, it didn't matter whether they were in the form of rings, bracelets or necklaces and didn't matter whether they were ¼ carat or 10 carats, De Beers was going to get their cut no matter how the sale occurred. This type of misdirected advertising could only work where a cartel owned the source of supply and people were suckered into believing that super-high-grade public relations wasn't advertising, it was more reporting. But then again, you know what P.T. Barnum said.

The size of it

The problem was that not everyone could afford a two-carat "D" flawless stone so that there were still women out there who were unadorned. A two-pronged attack was now begun, no matter what the size; diamonds not only looked well on but they always were going up in price. Thus, whether you bought an eight-carat stone or a more modest one measuring ¼ carat, they would both ultimately go up in price and the total return would really become only a function of the investment. Thus, this was not only something that your girlfriend needed, but if the time ever came that you needed cash, the diamond would be there and probably worth a lot, more than it was today. It was not also an investment.

This new ploy was accompanied by massive advertisements and public relations pitches on television, which had recently become a serious contender for advertising dollars. It was a natural media for Ayer and De Beers as in the early day of TV, talk shows, wrestling, and comedians seemed to be the only bill of fare. Every woman who was interviewed dangled a large diamond for everyone to see. This type of subliminal advertising was very successful and buoyed by a series of over-achieving publicity, De Beers felt the time to expand to Asia, and the Continent had arrived.

A new advertising agency that specialized in international advertising was brought in for the job with Ayer's approval. J. Walter Thompson was its name and it was not long before they were able to knock the socks off the Japanese by showing that a diamond was inter-connected to Western values. This was all the young women in Japan had to believe and in spite of the fact that until 1959, diamond importation was against Japanese law, in the five years from 1967 when the campaign began to 1972 the number of Japanese women sporting diamonds had risen from five percent to twenty-seven percent. In just little of a decade since the campaign had begun, the number went to fifty percent and sixty percent just three years later.

A change in plan

At this point, the Russian diamond mines had begun turning out stones at an unprecedented pace. In spite of the fact that the Russians were in the De Beers camp, signed sealed and delivered, De Beers' projections had not taken into account the fact that the quantity of Russian production would be so prodigious and yet the average size Russian stones so small. A strategy would have to be implemented to get move the Russian stones if De Beers was not ultimately going to forced to choke on them.

Would you believe, advertisements now suddenly started showing smaller stones and stressed quality over size? Special promotions were made to elderly American women that revolved around an "Eternity Ring" with as many as 25 diamonds in it of miniature size. The Eternity became the focus of a wide-ranging advertising campaign and once again, De Beers escaped by the skin of its teeth.⁴⁴ While De Beers could not keep up with their newly created demand for the small stones, large diamond sales languished and dealers that couldn't get rid of their stocks started to discount diamond prices substantially.

On the other hand, the perceived shortfall in the Russian Diamonds was a temporary anomaly. In fact, the more the Russians sold, the more their were able to produce and the J. Walter Thompson advertising campaigns that had been started in Asia and the Continent, excluding Japan had not been very particularly successful. De Beers was suddenly faced with two problems at once, the production of so many small stones from Russia that De Beers was having to buy a substantial percentage of them in order to stabilize the market and the fact that the small stones had replaced the large ones as diamonds of choice without any new major markets having opened up that could absorb additional inventory. This had created a profit shortfall because even though more gross stones were being sold, the profit margin on the small stones didn't come close to the large ones.

⁴⁴ "The average size of diamonds sold fell from one carat in 1939 to .28 of a carat in 1976, which coincided almost exactly with the average size of the Siberian diamonds De Beers was distributing. " The Atlantic Monthly, Have You Ever Tried to Sell A Diamond? Part two, by Edward Jay Epstein, February 1982.

Thrust and Parry

In 1978 the new strategy that emerged held that if the marketplace could be swung back to where it had been before the Russians had entered the market, there would be more money which to absorb the ever increasing amount of smaller stones that were being dumped into De Beers laps. The larger stones were geometrically more profitable and the plan was to go right back to the old campaign that had worked so well to begin with and use some of the profits to absorb the excess Russian inventory. A ten million dollar advertising budget was agreed to; probably the largest promotional campaign in history to that time was earmarked only to bring the market back to where it had been.

The Analysis

Ayer with the help of Daniel Yankelovich, set out to do an analysis to learn what went through men's and women's minds when they thought of diamonds and what the best way to position the purchase of a diamond upon the man. Women it was determined would not aggressively campaign for a diamond because when asked, they would have to revert to their conservative nature and say that it was too much money. Their inner nature told them that diamonds were vulgar and conspicuous and yet, if they could be surprised, these negative issues would never arise, and thus the advertising people came to the logical conclusion that promotional campaigns had to be male directed. The new promotion centered on the fact that a man by surprising his woman with a diamond would rise in the standing of both his lady, his friends and associates who could now visibly see that he had clearly arrived. The woman who can think of every reason in world not to ask for a diamond has been surprised with a gift and thus has been assuaged. Furthermore, it is just not polite to insult gift givers. Thus, everyone's egos had properly been addressed. In 1979, 100 times the sales of diamonds were made that had been sold forty years earlier. The total value came to \$2.1 billion at wholesale.

Into the equation was also built the fact that diamonds were constantly rising in price. Thus, the longer you keep you diamond the more you will make and in reality, a diamond is an item of love and you don't want to be selling love now do you? Thus De Beers was able to, for the most part keep the diamonds that were already out there, by this time, a prodigious number from every coming back to the market to haunt them. In the meantime, at the "sights," almost every year without fail the little black bags that contained the raw stones went up in price.

A Value?

While it is not the intent of this article to determine whether diamonds are a good investment or not, because of the fact that output is tightly controlled by a world-wide cartel which can make the price whatever it may wish, the conclusion is

rote. Various companies, magazines, and financial analysts have bought diamonds for their own account to test the validity of the marketplace and found it wanting. In all instances, they stored the diamonds in safekeeping for a period of time to see what the appreciation would be. We will dispense with the telling by quoting two stories from the Atlantic Monthly story of 1982 by Edward Jay Epstein. The first is short and bitter.

“In 1976, the Dutch Consumer Association tried to test the price appreciation of diamonds by buying a perfect diamond of over one carat in Amsterdam, holding it for eight months, and then offering it for sale to the twenty leading dealers in Amsterdam. Nineteen refused to buy it, and the twentieth dealer offered only a fraction of the purchase price.”

The second story is a little longer but equally provocative:

“In 1970, the London-based consumer magazine Money Which? Decided to test diamonds as a decade long investment. It bought two gem-quality diamonds, weighing approximately one-half carat apiece, from one of London’s most reputable diamond deals, for four hundred pounds (then worth about a thousand dollars). For nearly nine years, it kept these two diamonds sealed in an envelope in its vault. During this same period, Great Britain experienced inflation that ran as high as 25 percent a year. For the diamonds to have kept pace with inflation, they would have had to increase in value at least 300 percent...But the magazine’s editor, Dave Watts, tried to sell the diamonds in 1978 and found that neither jewelry stores no wholesale dealers in London’s Hatton Garden district would pay anywhere near that price for the diamonds. Most of the stores refused to pay any cash for them at all and the highest bid Watts received was 500 pounds, which would in reality to have amounted to an inflation adjusted loss of 700 pounds. Put another way, if the bid were calculated in 1970 pounds, it would have amounted to only 167 pounds. Dave Watts summed up the magazine’s experiment by saying, “As an 8-year investment the diamonds that we bought have proved to be very poor.” The problem was that the buyer, not the seller determined the price.”

“The magazine conducted another experiment to determine the extent to which larger diamonds appreciate in value over a one-year period. In 1970, it bought a 1.42-carat diamond for 745 pounds. In 1971, the best offer it received for the same gem was 568 pounds. Rather than sell it t such an enormous loss, Watts decided to extend the experiment until 1974, when he again made the round of the jewelers in Hatton Garden to have it appraised. During this tour of the diamond district, Watts found that the diamond had mysteriously shrunk in weight to 1.04 carats. One of the jewelers had apparently switched diamonds during the appraisal. In that same year, Watts, undaunted bought another diamond, this on e 1.4 carats, from a reputable London dealer. He paid 2, 595 pounds. A week later, he decided to sell it. The maximum offer received was 1,000 pounds.”

Another problem

De Beers new marketing strategy was successful for a time, but much to the consternation of the cartel, the Israeli banks had accumulated a humongous number of stones in their role as financiers for the diamond cutting industry in that country. Diamond prices were escalating quickly during this period and yet at the same time, the Israeli currency was falling apart at the seams, by over 50 percent a year. Thus, in terms of Israeli currency at least, if the dealers did nothing but keep their diamonds in the bank, they would increase their profits by substantially more than they could be selling the stones at a profit. This had an interesting secondary side effect; Israel had become a critical conduit to the diamond industry and their withholding of stones, which normally would have come back on to the market after cutting caused the world price of diamonds to spiral out of control. Between the two events, Israeli diamond cutters were getting filthy rich without doing a thing and De Beers was losing control of its cartel.

De Beers hoped to remedy the situation by threatening the Israelis with reduced shipments. This had exactly the opposite effect and the dealers in that country went into the open market to make their purchases making the diamond price spike even more. By 1978, the banks had extended almost a billion dollars to the Israeli cutters at rates that extraordinarily favorable and substantially below market. The banks' exposure measured in carats was growing at a rate of over 500,000 carats a month. De Beers saw that within several more months, Israel would control more diamonds than De Beers would and with it, the ability to control the price. De Beers had to act, and they had to act now.

De Beers took the interesting tact of assessing a surcharge on Diamonds that it sold of 40 percent. Thus, while that temporarily made the Israeli Cutters worth even more, if the diamonds were bought at the higher surcharged price and then had to be liquidated, the banks would be stuck. At the same time, De Beers abruptly cut off all dealers that were known to be reselling to Israel. The nation's treasurer took a look at the number of diamonds that were collateral at the banks and called De Beers. The simple message was, we are holding more diamonds in inventory than are produced in a normal year. If you would like to see these stones hit the market at whatever price we can get, then do nothing, on the other hand, if you like your little old cartel and want to keep in humming along like a well oiled machine, step up to the plate, buy the diamonds and no one will ever be the wiser. De Beers did not particularly flinch, they couldn't, and they had been hit with a worldwide recession and had been forced to increase the number of diamonds that it held inventory over the last several years. To put it mildly, they were strapped, if they didn't act, the game was over and everyone would really know what these shinny little stones were really worth. On the other hand, the Israeli banks had loaned out 5 percent of the gross national product of the country and had to have relief. A compromise was agreed upon and both sides blinked causing the day to be saved for everyone involved.

Diamonds are forever

Back to the advertising agency went the diamond merchants, something had to be done so that not only would people want to buy diamonds but they would also want to keep them no matter what the economic situation. De Beers was not in the mode to have to worry about rebuying diamonds under adverse circumstances anymore. New publicity must be discovered that will make it seem like a sin to sell a diamond. A new slogan was concocted which so far has seemed to work. "Diamonds are forever." Kind of sez it all and once again the diamond merchants were on their way to easy street. However, wouldn't you know it, grabbing defeat for the jaws of victory, new diamond properties started once again coming on stream at a rapid rate?

How successful was the advertising campaign? Last year alone, "American shoppers spent almost \$12 billion on diamond jewelry—30% more than they spent on all beauty aids and more than six times what they spent on furs. They said "I love you" with engagement rings. They said "I love you more than ever" with anniversary bands. They celebrated birthdays and Christmas and special private moments with tennis bracelets and cocktail rings and necklaces and pendants. All of them ablaze with diamonds. The top social set—and a few

The Plan

"Under any of the possible scenarios foreseen, however, De Beers will continue to produce plus or minus 50% of the world's production by value and with its active involvement in the outside market and possible relationships with other producers, will continue to market the majority of the world's diamonds. The signing of its agreement with Russia after a torturous negotiation, is particularly pleasing in the Presidential decree confirms the importance which the Russian government attaches to continued cooperation between Russia and De Beers...

CSO has built up over 60 years a distribution network, which represents the leading 160 diamond dealers and manufactures around the world, handle the diamonds coming onto the market in an efficient and expeditious way. To use the jargon of the investment banking world, this distribution network gives De Beers unique "placing power" when it comes to moving diamonds onto the market. De Beers will continue to be the leading player in the industry."⁴⁵

Hardball

Obviously the stakes in this game had become awesome. Trade secrets were zealously guarded and most of the major companies involved in the trade literally had their own policy departments along with sophisticated counter-intelligence operations. With so much aiding on the outcome of discoveries and production

⁴⁵ Address of Tim Capon, De Beers Executive Director

techniques this became a rugged game for the players and only the winner would be left standing when the battle had ended.

Industrial Espionage

General Electric is not a new comer to the diamond industry. They have had a division that has been making synthetic diamonds for half a century or more. As a general rule, most of the conditions that existed early on in natural diamond's creation can be recreated in the laboratory. The problem with synthetic diamonds is that they are the same as regular diamonds in every respect; except for the simple fact that they cannot be made of large enough size to be truly commercial and thus are the primary source of industry stones. Other companies have good technology in the synthetic diamond arena but at the time that this incident occurred, 1989, General Electric seemed to be the leader in the field.

For the most part, this intellectual property is a closely guarded secret and many nations would have given a fortune for the secrets coming out of GE's diamond laboratory and apparently they did. GE had an extremely competent Taiwanese refugee running a good part of that operation. His name was Chien-Min Sung, a top research scientist complete with a PhD degree from Massachusetts Institute of Technology. Chien-Min had risen rapidly up the corporate ladder because of his work ethic. He would put in countless hours every day at the lab and then bring home numerous documents for additional study. Unbeknownst to GE at the time, Chien-Min was working two jobs, the first where he was the ever-industrious research scientist with a staff of over a hundred working for him. The second was at home where he was running a profitable operation of selling GE's secrets to China, Korea and Russia.

Chien had gotten to the top by demonstrating his understanding the chemical properties of carbon transfer, which takes place when normal graphite is converted under heat and pressure into a diamond. Chien had shown GE ways of increasing the number of carats that were produced in each batch and at the same time, he was able to substantially enhance the size of the stone, two absolutely critical innovations. General Electric at that time controlled almost 50% of the industrial diamond market and had gotten so large by buying up competitors and closing them down, filing lawsuits against anyone that was trying to get into their territory and producing an excellent product. This was a tough game.

The intellectual property that covered GE's process, which dated back to the 50s, was available at the patent office and many of the procedures involved had already become "off-patent". Thus, for the most part, one could read these old patents and get into the business without infringing. The hard part of the deal was setting up the plant and the equipment in a way that it would be efficient and yet produce a very high quality product. This was the critical key.

Chien-Min was also good at names and he created aliases in his secret life for the new companies he set up to shield his operations and even his own name. He used the alias, Larry King a lot but was equally partial to the name Michael Lee. He also had a company that he had incorporated by the name of United Machinery Company that would buy parts from various suppliers based on the stolen GE specifications and he would resale these parts to all corners of the globe.

In January 1986, Mr. Sung incorporated the innocuously named United Machinery Inc. United Machinery, the civil suit contends, was one of a maze of companies he would start. It was a full-service operation: He sold technology, bought manufacturing equipment, gave marketing advice, even imported diamonds for sale in the U.S., according to affidavits by GE and Norton employees.

As investigators found out later, Shenzhen Asia Diamond Company, in China was currently paying Mr. Sung almost \$2 million for technology and some equipment. They weren't his only customers; Iljin Corporation in South Korea also had the illustrious Mr. Sung under contract for \$1 million dollars under a different name. As if this wasn't quite enough, apparently Mr. Sung was also supplying the Soviet Union with GE's saw-diamond technology.

Rumors abounded about Mr. Sung's strange extracurricular activities but no one could quite pin them down. For instance, many people socialized with Mr. Sung and his wife but nobody knew that they had been divorced for years. Nobody knew that Sung had stolen prodigious amounts of material from General Electric and was so sure that he would never be caught that he only changed the header on the GE documents using the name of one of his nominee companies.

The plan fell apart when Sung as Larry King called Joe Elliot, a GE technician who was involved in the production of the industrial diamonds. He was offered to have his salary double, a major bonus and two months of vacations a year, an offer too good to refuse. Elliot on the other hand believed that the offer was too good to be legitimate and reported the incident to General Electric authorities. The plot unraveled quickly as it was discovered that the same address that "King" had given Elliot was Sung's address in Massachusetts. Moreover the phone numbers were identical as well.

It did not take any rocket scientists at General Electric to figure out that something very serious had happened. GE called in what they called the garbage patrol. These were private detectives that would go to Sung's house every morning like clockwork, find the garbage collector and purchase the Sung garbage from the local collection truck. So much General Electric information was thrown out with the garbage everyday that literally no one could believe it⁴⁶.

⁴⁶ Sung by this time had left General Electric and was now with Norton in the ceramics area.

The General Electric facility was guarded with fences as high as prison and documents were routinely checked as people left. Apparently, Mr. Sung was so highly thought of, he was allowed to come and go as he pleased without as much as a security check.

A meeting was set up by Sung with Elliott and Kyuseop Kim, president of Imec Corporation a subsidiary of Iljin. A private detective that was posing as his lawyer accompanied Elliott; Kim restated the promises that had earlier been made by Sung as well as sending Elliott a round ticket to Seoul on Korean Airlines.

The stakes that these companies and Mr. Sung were playing for were astronomical. The field of industrial diamonds is so large and important that General Electric even took on De Beers and tried by every legal means at their disposal, unsuccessful to keep them out of what was literally the industry that they had created. Diamonds, whether they be synthetic or mined from the ground are much in demand all over the world. Thus, the players in this game are all experts at what we would call, ultimate hardball. Sung, was over his head but if he had used a modicum of judgment he would probably, at least gotten away with the con for a little longer. Moreover, Mr. Sung is very lucky that he was living in the United States when he was caught. Globally, the payoff for messing with the big guys in this field is disappearance and worse.

JUSTICE DEPARTMENT

So when you look at how General Electric took out after De Beers and tried to get them banned from their own industry you would think that these folks were not even on speaking terms. Well as the Hertz commercial goes, "Not Exactly" In an address given by Joel I Klein, Acting Assistant Attorney General of the U.S. Department of Justice gave at the European University Institute Conference on Competition, in Florence Italy, labeled the Internationalization of Antitrust: Bilateral and Multilateral Responses:

"And when competition authorities cannot get access to the evidence needed to prosecute a violation, the world's consumers and businesses ultimately bear the cost. Unfortunately, we have directly run up against this problem. For example, three years ago in the GE/ De Beers case, we filed criminal antitrust charges against a U.S. company, General electric, a Swiss affiliate of De Beers, and two foreign nationals, for conspiring to raise the price of industrial diamonds. Much of the alleged conduct relating to the cartel took place in Europe, and much of the evidence was located overseas and consequently beyond the Justice Department's reach, although we did seek and received some assistance from the government of Belgium. The case proceeded to trial, but in December 1994, the court entered a judgment of acquittal, observing that much of the "missing" evidence presumably was located outside the U.S, and beyond our reach."

Thus we can see that in one instance General Electric and De Beers are engaged in mortal combat on the diamond playing field and yet simultaneously, the U.S. Department of Justice is bringing an action against the two for jointly conspiring to manipulate prices of the stones.

Consumer Fraud

As we are learning, diamonds are a big business whose price at retail varies with what the traffic will bear. Even when careful buyers purchase a diamond subject to an appraisal, the industry being very protective of retail sales has a tendency to inflate the price that the stone is valued. What the real value of the appraisal is certainly open to question in itself. The appraisal only gives an opinion what that stone is worth at retail. It does not give any estimate relative what one could get for the stone on the open market as appraisals in real estate machinery and cars do⁴⁷. As a matter of fact, the jewelry industry is the only one in which we believe that it is an accepted fact that the appraisal has literally nothing to do with any real value of any kind. Thus, purchases of diamonds are made more on relationships between the buyer and seller, instinct and emotion rather than any logic.

If you know the diamond dealer socially, there is probably a higher chance that he will be able to take advantage of the situation. A good con requires there be a gullible buyer along with a Hollywood-style sell-job. De Beers supplies the setting.

One of the most blatant examples of a jewelry taking advantage of the public trust occurred in Palm Beach Florida where Jack Hasson set up shop. He was in all facets of the diamond business from retailing them, to cutting them, to cleaning them and consigning them. Hasson wove an interesting tale as he hobnobbed with Palm Beach society. He met Greg Norman while sport fishing and eventually sold Norman, who thought of him as a friend, a number of stones for his wife for a substantial sum. Norman later brought the jewels to Harry Winston in New York for an appraisal and was told the diamonds he had purchased had been irradiated to enhance their color, and was not worth a fraction of the \$488,750 that he had paid.

Hasson separated a lot of other people from their money in the same way; prosecutors charged him with fraud, conspiracy to commit fraud, money laundering, and witness tampering. A tally was made of the damage that Hasson had done to those that had trusted him and the total came to almost a \$100 million and is going higher by the day. So egregious were Hasson's crimes that he is now facing 65 years in prison along with \$162 million in fines. His co-defendant and loyal employee Clifford Sloan could be sentenced to 30 years and have to pay \$160 million in fines, to boot.

⁴⁷ Or just about anything else for that matter.

Hasson ran what was more a play than a jewelry store. He did better than Hollywood casting ever dreamed of when he had his manager's brother dress as an Arab Sultan replete with scepter and harem in waiting. To cap off the charade, Hasson supplied his phony sultan with an evil looking group of men to play his bodyguards. He topped the performance with a liberal sprinkling of celebrities that were purported to be clients of his establishment replete with names like the Sultan of Brunei, Bill Gates, Steven Spielberg, and Elizabeth Taylor. These people were bandied about as confidants and friends when they were discussed with potential customers in hushed tones when Hasson was asked who some of his more famous clients were.

As Hasson became more and more successful with moving money from the pockets of his clients into his own hands he became more brazen and rang the bell when he sold a 24-karat cubic zirconium valued at \$141 for \$1.5 million. This was done by renaming the unknown zirconium; Lombard's "Howeson Blue" and claiming it came from the famous actress's Carole Lombard's collection. He convinced other clients that they were buying world-class stones by claiming they came out of the "Getty Estates" or that they were previously owned by actress Loni Anderson.

The Defrocking of Russia

Yeltsin ran far from a tight ship and Russia and in a manner of speaking was out to lunch most of the time he was in office. In Yeltsin's inebriated state he was always concerned that many people who surrounded him were not really his friends and in order to both stay in office and to survive he played the ultimate game of musical chairs.

His way of playing that game had two parts, the first was to surround himself with only those fiercely loyal to him and then once they were ensconced, to let them steal endless amounts of money to maintain their friendship and goodwill. If the Kremlin had ever produced a real balance sheet, goodwill would have become a massive item on the asset side of the ledger. Unpleasantly for Yeltsin, most of his cronies were as left footed as he was and the whole bunch couldn't carry out a covert operation without the world finding out about it in a million years. However, you really had to give this bunch credit because they never stopped trying to get it right.

It didn't take the World Bank long to see that Yeltsin's happy campers had absconded with about \$5 billion in funds given to the country for relief purposes. It didn't take the global banking community long to find out that all of the banks in Russia were literally controlled by the mafia and that their only reason for their existence was to steal the few bucks that the starving peasants had left. Russia's friends stole or purchased their stockpiles of military goods, their

reserves of precious metals, and launched a major business in trading atomic secrets and materials with unfriendly dictators.

When there was literally nothing left to continue his bribes with, Yeltsin saw that he'd better get out while the getting was good and approached a gentleman named Vladimir Putin, then the head of the notorious Russian KGB with a deal. It went something like this: Yeltsin would make Putin his candidate for President in exchange for Putin guaranteeing safety for Yeltsin and allowing him to keep his stolen property. Putin seemed to like the deal, he has never said a bad word about his benefactor, Yeltsin is living in Russia in grand style and his family is doing as well as he is. Putin will not hear of charges against Yeltsin in spite of the fact that the following story may ultimately put him to the test.

The Gang That Couldn't Shot Straight

This story is about how Yeltsin and his cronies were able to literally sell off nearly all of Russia's diamond reserves in one of clumsiest operations in world history. The story begins in San Francisco, an American city that had literally nothing to do with any "facet" of the diamond business. A company by the name of Golden ADA was set up with lush downtown offices. The principals began spreading money around as if it was water and were soon shown in pictures with many of America's leading politicians. In order to endear themselves to the citizenry of San Francisco, they donated a fully equipped helicopter to the local police department with great fanfare.

On one occasion, a massive Kamov Ka-32 helicopter normally used for military transport set down on top of their magnificent office building knocking out windows all over the neighborhood. Golden ADA invited the Political community to join them at an event to celebrate San Francisco taking its proper place among global diamond centers, whatever that may have meant. In the meantime, on the roof with the helicopter as a prop, caviar and champagne were the order of the day as the Mayor of San Francisco, Frank Jordan, the chief of police, state officials and just about everyone that was anyone in government and business joined in the festivities.

The three hosts wore tuxedos and provided entertainment as they showed the gathered throng through the immaculate facilities. The cast included armed guards, state of the art palm print readers, opulent offices, modern equipment along with some of the finest diamonds and diamond cutters that Russia had to offer. The youngest Russian partner wore dazzling jewelry and the most elegant of watches. Those who had known him previously wondered how he could have rebounded so quickly from the recent theft of substantial money at the export company that he was responsible for in Russia. Many remarked that most of the people that had this type of problem usually could be found in a Siberian Gulag or had disappeared off the face of the earth. Well, the caviar was great and the

champagne flowed endlessly, and that didn't really important at the time. He announced to one and all that Russia was now going to find its place in the sun within the diamond industry as it was now producing 25% of the world's supply and no longer needed to be lead around by the nose by De Beers. The operation in San Francisco would be world class and it was his intention to make the city, the diamond capital of the world.

Several things must be noted at this point. De Beers had predicted early on that the Russian diamond discovery was a bit of an anomaly. While production could be fast and furious for a short period of time, it could not maintain its momentum. Contrary to the De Beers critique, diamonds continued pouring out of Russia at an ever-quickenning pace; sending De Beers back to the drawing board repeatedly. What they saw happening was not possible, they muttered.

The second consideration that must be placed on the table is the Russian installation called colloquially, the "closet". In the United States, we only keep gold in Fort Knox; at the "Closet," they keep everything of value in the country that isn't in a national museum. Gold, rare coins, silver, paintings and jewels could all be found at the vault. There is no one that really knows what is in the vault, as this is considered a critical state secret. Not many even know where the vault is located. Some have said that it is in the Ural Mountains buried so deep that no one can ever get to it, and others have said that it is located under the Kremlin in Moscow.

We often talk about having the keys to Fort Knox and what a great time one could have if they were allowed to spend a day collecting the odds and ends that one could find there. Well, at the closet there was such a fellow. His name was Yevgeni Bychkov and guess what, he was the best friend and father figure and benefactor to Andrei Kozlenok, the younger one of the San Francisco three. Not only did he have that key, but he was also in charge of all mining of precious gems in the country. Furthermore, Bychkov and Yeltsin had literally grown up together and when Yeltsin moved to Moscow, his good friend Bychkov was part of the entourage. Bychkov you see was one of those people that Yeltsin trusted and could, in that role, do no wrong.

Bychkov was a typical Yeltsin cohort, who only survived because he was close to the boss. Money always seemed to be missing, gem sales were always bringing less than was expected, and he was canned twice for incompetence, yet he survived. With that background in mind, it is clear, Bychkov was ready for the big time. He was given a promotion and was now the chairman of the Russian Federation's Committee on Precious Metals and Gems and held the rank of full minister. Bychkov came up with a bold strategy: he would open up the closet and sell off all of the diamonds to finance a company that would compete with De Beers. He needed the permission of others to do the job but with his credentials that was easily achieved.

Gems of the finest quality began to pour into San Francisco. While most of the inventory consisted of diamonds, there was a little of everything in each of the shipments to San Francisco.

It wasn't long before Golden ADA got everyone's attention by inking a contract with Unique Premium Metals, a Los Angeles gold distributor. The contract called for Unique to melt down and sell 5.5 tons of Golden ADA's gold. Simultaneously, in San Francisco, the trio was busily offering the first 22,000 carats of diamonds that had come in their original Russian shipment. In Russia, the government officials that had approved the transaction were told that the valuables were being put up as collateral with Bank of America to fund the new business venture.

Those in San Francisco didn't have to be told where the money was going, it was clear if you just opened your eyes. Kozlenok in one day purchased a Rolls Royce and two Aston Martins. The three partners in total purchased three identical yachts, a number of high-speed boats and fifteen other vehicles along with million dollar homes in San Francisco and a Gulfstream \$18 million dollar twin-engine corporate jet. Nevertheless, they were just revving up. In addition, they bought five luxury condo sites on Lake Tahoe, which were purchased for almost \$4.5 million, along with gas stations and other property throughout northern California. Kozlenok also bought a home in Bermuda for \$5 million in cash. His San Francisco digs had the walls liberally sprinkled with Rembrandts, Picasso's, and Faberge's. It looked like the Hermitage's West. But this was not yet the zenith of the trio's spending. The office building in San Francisco that they bought was on the market for some time for \$6 million dollars when they came across it.. This group of financial crazies offered the owner \$11 million if he would move out that day. The stunned owner complied and he never looked back while counting his good fortune.

All the money wasn't just being spent in San Francisco - Bychkov was getting his by wire as well. Millions of dollars were used by him to purchase an extravagant dacha and other real estate in the Moscow area. He also opened upon numbered accounts and wired money to Liechtenstein, Israel, and Bermuda.

It didn't take long for the Federal Bureau of Investigation to take some interest in the new company when they found out that two of the philanthropists had been itinerant street painters only a short time before they started spreading their newly found wealth around the Bay City. The operation also got the attention of De Beers, which promptly hired detectives to fathom out what was going on. They were aware that something big was about to occur but didn't have a clue about what it was. They were soon joined in their suspicions by folks from U.S. Customs, Interpol and the Financial Crimes Division of the Russian Interior Ministry.

Ultimately an Elliot Ness type operation was put together between some legitimate Moscow special police and the FBI. It was found among other things that most of diamonds that landed in San Francisco had been shipped back to Golden ADA's office in Antwerp, had been cut, polished and sold for \$77 million, which wound up in Swiss Banks accounts owned by the conspirators. Bogus certificates of origin were unearthed that purported to show that the diamonds came from Zaire. Payoffs to the people in the diamond industry in Antwerp in exchange for their silence were substantial, and everyone in Belgium was having a great time on Russia's crown jewels.

Nevertheless, the diamonds continued to pour into San Francisco at an ever-increasing crescendo. The handful of employees at Golden ADA were with expected to process deliveries of 90,000 carats of rough stones. Even with sophisticated equipment, they would have to spend years processing these diamonds. Investigators, however, were confused. The Shagirian brothers and Kozlenok had spent a lot of money to create the pretense of a legitimate business, but seemed unable to even make it look superficially legitimate.

In fact, the company was coming apart at the seams. As the Shagirians later alleged, Kozlenok made them an offer they could not refuse: \$5,000,000 "or a bullet to the head." Without the daffy brothers, Kozlenok, now firmly in control, proceeded to loot Golden ADA, and then turfed the job of covering up – or cleaning up – the company to his Chief of Security, a chap named Immendorf. As Golden's new CEO, Immendorf in turn hired Arthur Andersen, which found a gigantic undocumented leak of \$130,000,000. Immendorf quit and Bychkov hired Moscow entrepreneur Andrei Chermukhin, nicknamed "The Cleaner." Chermukhin promptly offered Bychkov the same kind of deal the latter had offered the Shagirians. In the face of Chermukhin's heavily armed security force Bychkov saw the logic of the offer. He was last seen in September 1995, heading for Belgium.

The IRS raided Golden ADA in San Francisco and came down with a lien of \$63 million for unpaid taxes. The IRS squad, which consisted of a fifty-person team, found massive quantities of gold, diamonds, jewelry, automatic weapons along with thousands of rounds of ammunition, explosives, mortars and bulletproof vests. In spite of that, there was little left of the total that had traversed through Golden ADA in San Francisco. A deal was cut where of the \$40 million dollars that were left, the Russians got 65%, the IRS kept 25% and creditors got back 10%.

Bychkov wasn't fast enough on his feet though, the portly Russian dilled when he should have dallied and was arrested for "criminal negligence" among other sordid treasonable offenses when found in hiding. Yeltsin could not save him this time because too many people were aware of what had happened. The so-called "cat was out of the bag." His agency was disbanded, and Bychkov was facing 10-years in Siberia or worse was then given what would be his last gift by

Yeltsin. It just so happened that he would be up for sentencing on the very day that Russia would be celebrating its 50th anniversary of the end of World War II. Yeltsin determined that this would be a fine time to pardon some select prisoners in order to show how much kinder and gentler the country had become in the ensuing years. Bychkov pleaded guilty as was orchestrated and was immediately given a pardon by Yeltsin.

Today, the resilient Bychkov once again has become a senior officer of one of Russia's largest banks and keeps his hand in the diamond industry whenever he fancies the need to do so. Naturally, he blames all of his problems on the "Evil Empire," in this case, De Beers along with his former protégé, Kozlenok. The other partners have not fared as well, Ashot Shagirian has been indicted on tax evasion, David Shagirian is wanted for questioning on a series of criminal activities and has not been seen but he is believed to be on the lam in Europe. Chermukhin is wanted for questioning in both San Francisco and Moscow and is believed to be living in Cyprus but local police there have not been able to serve him. Kozlenok moved to Athens using a phony Greek passport and was arrested for his trouble. When the Russians found out that the Greek's had him, they requested extradition and it is being fought on the grounds that Kozlenok's life expectancy would be about two minutes back in Moscow and he certainly has a point.

Golden ADA turned out to be only one of a series of efforts that were going on simultaneously that seemed to be emanating from a central control. Groups had been formed to steal timber, oil and there was even a competing group selling precious metals. While Golden ADA was only a \$200 million piece of the pie, the others were able to quietly steal over a billion dollars of the Kremlin's choicest property.

Many people believed that this case would be wonderful fodder an opposing party in Russia to use in claiming the presidency in the elections that were held earlier this year. If you are not aware, the scandal has blown over in spite of the fact that many of the Russian Crown Jewels are no longer residing in Russia.

Plain vanilla theft

Lindsay Roddan, was always good in school and teachers there said the he had a wonderful head for numbers. The problem that they said Roddan had was that he was always looking for the easy way out. For the most part, they were concerned with his tendency to cut corners, something bad would happen to him.

He had studied the world's largest diamond mine for years, the Australian Argyle Mine was his oyster from bottom to top, and he really knew what made it tick. The facility was state of the art and therefore when diamonds were found they were immediately catalogued into the on-site computers. From that point on

each stone developed a life of its own when it went to be washed, cut, polished and shipped it could be monitored. Anything that wasn't logged onto the computer would be quickly discovered and before too much harm could be done, management believed that they could have the source of any theft, tarred, and feathered.

What Lindsay came up with was the simple fact that if he could buy off the mine's security chief, the guy that was doing the logging into the computers, no one would know that the diamonds that he was planning to steal were ever there in the first place. He was right, Lindsay stole them blind, and Argyle never missed a stone. It really looked like Lindsay, the security chief and Lynette Roddan, Lindsay's accomplice wife were soon going to be on easy street.

As we have learned, Argyle produces a relative large number of pink diamonds, which bring a big premium on world markets. Naturally, Lindsay and his accomplices were not interested in the smaller colorless variety when it was just as simple to swipe those that had pretty colors and would bring 20 times as much..

However, the Argyle management began to believe that something was amiss when pink diamonds started to showing up in both Antwerp and Geneva. Other than, those produced at the Argyle, there you could on one hand the number of these stones that would come to market in a given year. After making certain that those stones had indeed come from the Argyle, but strangely did not appear in the computer printouts, management began narrowing down a list of potential suspects.

While Lindsay Roddan had always been a deep thinker and highly motivated towards money, his wife Lynette loved the good life but neither was she imbued with any burning desire to spend time in prison. It didn't take a lot of snooping around by Argyle security folks to cause her to start blabbing her little head off about how Lindsay and his accomplice had pulled off the heist. For ratting on her husband, she received a three year suspended sentence. In spite of her damning testimony, Lindsay was not going to go down easily, he coughed up \$40,000 which he handed to the police in an effort to curb their investigation which naturally was duly recorded on a camera and when he saw that this wasn't getting the job done he paid their boss some real money, \$200,000 to have everyone forget that anything had ever happened. No one forgot!

For his trouble, Lindsay got a stiff sentence but what if he had used some common sense and stuck to the literally untraceable colorless variety that did not wear the easily distinguishable marking of the Argyle mine. We are looking at a scenario in which this guy could be stealing diamonds for the next 100 years if he could live that long.

The story for the most part has been played down and almost nothing has appeared in the press. The simple reason is that Lindsay did build a better mousetrap, could have stolen billions and just needed to make to much to quickly. Someone with lesser ambitions could literally get away with this stunt forever with the right partner placed in the right spot. Exactly what Lindsay had.

Diamond Discoveries

Russia

On August 21, 1954, Laria Popugayea and Fyodor Belikov discovered diamonds deep in the permafrost in Siberia⁴⁸. Today, Russia produces about 20% of the cartel's diamonds. In 1990, Russia ran out of hard currency and was desperate need to shore up its currency. There were not a lot of people standing in line to help. But up stepped De Beers with a nice little package of \$1 billion in hard currency in exchange for a five year agreement to market just about everything, at least in terms of diamonds coming out of the Evil Empire. For the most part, the Russians kept their bargain but since that time, there relationship with the consortium has sprung a leak. Diamonds have shown up coming from anywhere and everywhere in Russia. Although talked about consistently, a new agreement has not been reached and although the Russians realize that they are better off playing ball with De Beers, they are trying to have their cake and eating it too.

In the diamond packages that they send to De Beers, only the most common stones are included, thus giving De Beers the neigh onto impossible task of moving stones that no one wants to buy. In addition, Russian diamond producer Almazy rossii-Sakha has been trying to raise the money to upgrade their equipment for some time, but they will not accept the old deal again. The, the diamond industry in Russia in really in the hands of the gods, if they make a deal with De Beers, they can get the money to upgrade their industry but must live according to the rules, if they don't, they can sell what they wish, but who knows what that will be at the rate of the seepage coming out of Russia.

Canada

Some twenty-five years ago miners started looking for diamonds in northern Canada. They found them, but not in large enough quantities to be commercial, especially considering the conditions existing close to the Artic Circle where the mines are located. Nevertheless, the Kimberlite pipes kept reappearing and miners hopes are not easily shattered so the search kept on. Ultimately, about a decade ago, Broken Hill Proprietary Company (BHP) hit pay dirt and came up with a find in the Northwest Territories that will probably produce 4 million carats a year or more for most of the next century.

⁴⁸ In the mining area is desolate, frozen with winter temperatures dropping to -140 F, LaMaison, The Mystique of Diamonds

While four million carats effectively represents only about three percent of the quantity mined on a year's basis worldwide, a little leak here and a little like, there and then the dam is ready to cave in. De Beers rushed in to make a deal for the production coming out of the Kati Mine as it is known, but the sophisticated Canadians were weary. They knew that while De Beers ran the sharpest public relations game around and there was not much question that they also were violating the anti-trust regulations of the United States Government.⁴⁹ As a matter of fact, the Canadians recalled, weren't these guys sited for anti-trust violations way back in 1945 and didn't they pull their assets out of the States at that time, lock, stock, and barrel?⁵⁰

Thus, while it is more likely that not that senior officials of De Beers, should they take a holiday in the United States might well find themselves incarcerated, Broken Hill had lots of assets South of the Border and didn't want to get Uncle Sam annoyed. BHP made a deal with De Beers that they thought the U.S. could live with and held their collective breaths. Thirty-five percent of BHP's production would go De Beers, they would market the remainder. They were not as naïve as the Russians to think that they could do anywhere near the job that De Beers had in convincing the world that these little bubbles had value. Hadn't De Beers proudly claimed that over 70% percent of the women in the United States had diamonds and they were probably conservative. The Canadians also knew that an unbelievable number of engaged women in Canada were given diamonds to celebrate the event. An outstanding 95% the highest percentage in the world.

So, one down without much damage, but the area appears highly prolific. Rio Tinto PLC owns a mine called Diavik that appears to be able to pump out about as many diamonds as does the BHP property and in the wings is a big Kennedy Lake find near the two others owned by guess who? De Beers themselves. This, one is also considered an elephant in terms of size and it doesn't take a lot of elephants to ruin the grazing land for everyone. These mines will be among the world's lowest cost producers ultimately because of the synergy and propinquity of the competing operations. These mines are just coming into production with more behind them, many possibly of the elephant variety as well.

Namibia

⁴⁹ "De Beers proved to be the most successful cartel arrangement in the annals of modern commerce. While other commodities such as gold, silver, copper, rubber, and grains, fluctuated wildly in response to economic conditions, diamonds have continued, with few exceptions to advance upward in price every year since the Depress. Indeed, the cartel seemed so superbly in control of prices – and unassailable – that, in the late 1970s, even speculators began buying diamonds as a guard against the vagaries of inflation and recession." *The Atlantic Monthly*, Have you ever tried to sell a diamond? By Edward Jay Epstein, February 1982.

⁵⁰ "The Company's senior executives dare not enter the United States because of an outstanding antitrust indictment that charges De Beers with fixing the prices of industrial diamonds." *The Orange County Register*, Blaine Harden, Currency of war, misery diamonds. 4/9/2000

Namibia is at the higher end of Africa's pecking order. Gross Domestic Product and education are just two of the many indicators making this country special. It too has a diamond industry, which dates back to their first discovery in the country in 1905. Namibian Diamonds are of very high quality and a fifty-fifty arrangement between its NamDeb Mines with the De Beers' Central Selling Organization produces 10% of De Beers' annual sales. But production in Namibia is strangely headed offshore with enormous production increases forecast for the coming years and this production is not tied into De Beers at all. It seems that in a Texan named Sammy Collins decided that the diamonds that had been produced by nature on shore may well be also taken offshore by the tide or the rivers. He developed a huge suction device and sucked up 400,000 carats of diamonds in the ocean just off of Namibia in fairly short order. Naturally this received a lot of attention and new techniques have been improvised to take over where Collins had left off.

In the meantime, Namibia is in the process of passing legislation that would bring all offshore diamond deposits under direct state control. What makes matters even worse for De Beers is that Almazay Rossii-Sakha, the enormous Russian diamond conglomerate is a new entrant in the Namibian Diamond Sweepstakes. They have made substantial commitments to the Namibian Government for exploration near the Kalahari Desert, near the Botswana Border and the most substantial sum is earmarked for undersea operations. It is interesting that De Beers Marine, which consists of eight vessels, was able to pull just about a half a million carats of diamonds up from the waters surrounding Namibia and was projecting an increase this year. Thus, it appears that the cozy relationship that that has been nurtured by De Beers is about to go up in Russian Smoke.

Botswana

Botswana was one of the poorest countries in the world at the time of its getting independence in 1966. "Although the size of France, it had just two miles of paved road. It also had had less than 10 college graduates, and no telephone system or water infrastructure.. By the 1980s, Botswana had the second fastest growing economy in the world, due to its mineral wealth."⁵¹ Botswana, Namibia's next door neighbor is the world's third largest producer of diamonds coming just after Australia and Congo, but in terms of quality and price, probably is sitting atop the heap. While diamonds had been mined in the country 1971, it wasn't until the Jwaneng mine was opened in 1982 that these stones became a substantial part of the economy. By 1983, Botswana was already producing over 10 million carats a year, which exceeded the production of South Africa for the first time. The De Beers operation in Botswana, (Debswana) produced the equivalent of 58 percent of the total De Beers Group Production⁵².

⁵¹ Botswana is an African Success story. Erica Burman, Ecodecision, autumn 1996

⁵² Newafrica.com, Botswana Mining Sector, Africa Today,, third Edition.

Botswana's diamond mines produce over 80 percent of the country's export volume and are sold only through CSO. Because of oversupply at times, Botswana had to stockpile diamonds and ultimately worked out a deal in which the country received a 5.3 percent interest in De Beers along with \$380 million in exchange for its inventory. In addition, Botswana received two seats on the De Beers board along with the cash and stock.

Small increases in Botswana's Diamond production would result in resounding crashes in the price of diamonds throughout the world. For this reason, production appears to be remaining steady and the relationship with De Beers, remains solid, at least for the moment.

The War Lords

"African blacks of seven nations are engaged in mutual slaughter of one another in a control game over diamonds, gold and other more mundane products. The death toll is in the hundreds of thousands and climbing. Large numbers of children die due to neglect and trauma created as a result of diamond-rich nations becoming war zones."⁵³

Angola

Angola received its independence in 1966 and one half of the people now living in that country have not seen a day of peace since Portugal gave them independence under duress. Original the two sides were drawn apart through ideology and the serving of different clients during the Cold War. Today, observers see little differences in the stances taken by the Maoist, MPLA, the government and the Marxist, Unita, Jonas Savimbi's, rebels. The engagement has become one of greed and avarice, not one of ideology. The rules of war are determined by the price of oil and diamonds and who can control their export from the country.

This is a war in which only the poor become conscripts. Sons of wealthy Angolans only have to pay for visas and plan tickets to Portugal or South Africa to avoid having to fight and possibly die. Many who do not have the funds tell neighbors that their boy has left the country while in actuality; he is hidden within their home. The problem with this is that he so much as goes out into the street the secret will be out and he will be conscripted. Not exactly a great life. On the other hand, more than half of this country's population has not seen anything else. They were born into a war-ravaged country and fully 1/2 of the population of 23 million has known no other existence.

UNITA's strategy is rather simple. Remove the ability of getting hard currency from the government and force the population under their control into the cities. Thus, almost the entire population under government control lives within cities

⁵³ Christina Lamb, The London Sunday Telegraph

and yet the resources and food are in the countryside. It is UNITA's belief that this strategy will effectively starve out the entire population with a short period.

The United Nations World Food Program, (WFP) would certainly agree with that statement. They said, "WFP says it has only two weeks of emergency food supplies left in Huambo (a large city), after which refugees face starvation." Angola's aid minister, Albino Malungo describes the situation in the cities as "very grim."

In spite of all this, the suffering has become selective and it is often hard to determine who is who when looking at the battlefield. The Government's military are dealing in everything from soup to nuts and senior officers are getting rich while their neighbors starve. Angola's defense minister stated that, "senior army officers and government officials are profiting from large commissions on weapons purchases, largely from Belarus. Lower down the line of command, soldiers are selling fuel, weapons and even uniforms to Unita, the enemy." Open Society Foundation, Rafael Marques de Morais says that, "The increased military budget and concentration of resources in the hands of the army is subject to corruption, commissions and overcharges."

The country's newspaper, *Angolense* exposed commissions paid senior military officers of tens of millions of dollars and when word of the story's publication became known, death threats were made against all the senior people at the publication. This comes at a time according to the defense minister when: There are generals and senior politicians making hundreds of millions of dollars out of this war while their soldiers don't have sufficient supplies or proper field hospitals for the wounded."

This is a country where the government's currency is not worth the paper it is printed on and yet foreign companies donate handsomely to Angola's President, Jose Eduardo dos Santos's private foundation. Tens of millions of dollars are contributed to mining concessions, but not to the country, to the foundation. In exchange, the streets in Luanda where these companies are headquartered and their missions are located have tree line streets, new pavements, running water, and electricity. None of these amenities can be found in the city's hospitals that even lack for medicine to treat patients and doctors to administer it. Unless other countries are in a giving mood, Angola will continue heading towards disaster, it announced last month that it had used up its entire foreign exchange reserves.

The enemy has now been somewhat rejuvenated with the Ukraine having recently supplied Unita with tanks and heavy artillery. This is very different from the time ten years ago when Angola was a Soviet vassal state and its army was trained and supplied by the Eastern Block. How interesting that Belarus and the Ukraine now side with Unita and no one is training the Government force anymore but corrupt generals.

The Role of Diamonds in the Angolan Conflict

Angola's civil war has seemed endless and the human suffering quotient is probably at global records. This is a war in which food is used by both sides to bring the other to heel. The rebels, The National Union for the Total Independence Angola or UNITA, have gotten control of much of Angola's diamond producing capacity are using the precious stones in exchange for munitions. The U.N. Security Council panel on Angola headed by Robert Fowler is attempting to have UNITA's diamonds subjected to a world embargo, which was approved over two years ago⁵⁴ and so far has been ineffective to say the least. Fowler's group has charged that the Ukraine, Belgium and South Africa as well as others are actively working to break the U.N. sanctions.⁵⁵

Angolan diamonds have long been in great diamond as between 70 and 80 percent of their production amounts to gem quality stones. When compared with the fact that of all of the global production of diamonds only 5 – 10 percent of the total falls into that classification one can readily see that the diamond industry in Angola is a resource to be reckoned with. Much of the diamond mining in Angola is either surface or deposits in rivers, which can be mined by unskilled labor (*garimpeiros* or illegal miners)⁵⁶ without any particular expertise. This is a nomadic band of miners that works the diamond fields, usually in servitude to whichever army is in power in that area at the time. Generally speaking, in exchange for protection and some equipment, the bounty is shared on an equal basis. Should the *garimpeiros* be found to be holding out on his buyers (*comptoirs*) justice is both immediate and severe. It is of great interest to note that in the years 1996 and 1997, "Angola supplied approximately \$1 billion of rough diamonds to De Beers. This accounts for approximately 20% of De Beers stated sales for both years."⁵⁷

Strangely, the mining by *garimpeiros* may cause the mined diamonds not to wind up in either camp. This production is only talked about in the most hushed of tones. It seems that generals from the FAA (*Angolan Armed Forces*) sponsor these miners to add a little income to their meager paychecks. This trade is

⁵⁴ The UN embargo: The United Nations Security Council Resolution 1173 which came into force on July 1, 1988 includes the following section "12. (b) to prohibit the direct or indirect import from Angola to their territory of all diamonds that are not controlled through the Certificate of Origin regime of the GURN.

⁵⁵ While we believe that the U.N. should well be taking action in Angola, we also believe that by embargoing all diamonds it is in effect taking away a valuable resource from the legitimate government that is running the country. As usual, the U.N. has taken the position of throwing the "baby out with the bath water."

⁵⁶ THE GUNMEN fell upon the remote Angolan mining town last weekend. They rounded up 30 *garimpeiros* or diamond prospectors in Chinguvo, and butchered them on the spot. But not before chopping off some miners' ears and forcing the victims to eat them, shaken survivors told Angola's state media. John Barthos, Diamonds of Death Haunt Africa, The Toronto Star ,3/10/2000

⁵⁷ Human Rights Watch

official called, non-UNITA unofficial production. The generals appoint an official *comptoirs* who shares the loot with his sponsor. So large has this sideline become that an official agency, *Endiama (Empresa Nacional de Diamantes de Angola)* has been established and it is responsible at a government level for licensing buyers to acquire this additional production⁵⁸. “There are at least four well known companies with such permission: De Beers, Steinmetz, Oderbrecht and Almazy rossii-Sakh.”⁵⁹

What is so bizarre about this situation is the fact that the government is dealing with a two-edged sword. The UN has banned the sale of Angolan diamonds without an official government Certificate of Origin and yet it knows that its generals are selling illegal stones into the same channels as the UNITA. Thus, if it cannot make the General’s contraband legal under the certificate program, no one will buy them. If that happens, the Generals will be much less enthusiastic about their support of the government and the country could entirely fall into the hands of the revolutionaries. We do not believe that is exactly what the United Nations in all of its wisdom had in mind. In the meantime, the Generals will not hear of giving up their additional sources of revenue. The generals add that the United Nations promised to give the country \$260 million in refugee relief aid and they have not seen a penny of it. The Generals may be right when they say that the United Nations may well be as bad as the butchers. They get the people’s hopes up and then deliver nothing.

In a very confusing world, today’s alliances are often yesterday’s enemies. In the days of the “Cold War,” Russia was cozy with Angola and as an offset to their power in that country, the United States along with South Africa backed the most nefarious group of killers that may have ever existed on this planet outside of Pol Pot and Cambodian execution machine. I memory serves me correctly, I think we also backed Pol Pot as well. When the Cold War ended, it seems that everyone could see that UNITA was plainly, just a ruthless bunch of thugs that would use any means to get what they wanted. They became a true, world-class pariah.

UNITA seized the Cuango River Valley, which is Angola’s richest diamond territory and used that currency to make up for the aid that they lost when the United States and South Africa could no longer stand the stench emanating from their party of the country.

In the meantime, four million people have been displaced, 90,000 have been maimed by land mine, 500,000 have died, and another 75,000 have died of starvation. To cap off the total misery of this country, The U.N. Children’s Fund now ranks Angola as the worst place on earth to be a child. When you consider some of the other choices that the Children’s Fund had to pick from you can get

⁵⁸ “Diamond traders in Antwerp have claimed that FAA generals are also involved in selling diamonds on UNITA’s behalf, although it is possible they simply use the same middlemen as UNITA.” Global Witness

⁵⁹ A Brief Overview of the Trade in Angolan diamonds. A Rough Trade, Global Witness

some idea of the utter misery, taking place here. On the other hand, it is easy to see why, "With a mortality rate of almost 30% among children under the age of five, Angola ranks among the world's worst for this critical health indicator."⁶⁰ "Two-thirds of the Angolan population lives on less than a dollar a day."⁶¹ "During the conflict, from 1992 – 1994, 27% of the children in Bie lost their parents, 89% were exposed to bombardments, and 66% saw landmines blowing people up."⁶²

The Bulgarians are the suppliers of choice to UNITA and as many as 22 deliveries a night are made on the giant Russian IL-76 cargo planes. UNITA's income from diamonds alone has been estimated by Global Witness at \$3.72 billion from 1992 thru 1998. Obviously, that has been more than enough money for the rebels to keep their standing army of 35,000 mercenaries. When the rebels are caught short of money they have been known to hold a sale on diamonds, marking them down as much as 1/3 from wholesale world prices. If you don't think that just about every buyer doesn't come sniffing around at one of these bargain basement deals you have another think coming. That is the equivalent of selling dollar bills for 66 cents. I am not sure I know many people that would turn that offer down in spite of morality.

De Beers has steadfastly denied that it dealt with UNITA in any way⁶³ and yet, those in the industry have been well aware for some time that De Beers was always the purchaser of last resort for the rebels in spite of the embargo⁶⁴. "Global Witness, the London-based human-rights group, embarrassed De Beers in October 1998 with a report that showed – citing the company's own annual reports – how the cartel had pumped large amounts of money into the coffers of the rebels as the war escalated."⁶⁵ Furthermore, Gary Ralfe of De Beers made this statement in October 21, 1997 at a press conference with Alrosa Company and De Beers Corporation. In that press conference Ralfe stated, "You are absolutely right to say that in fact it is Unita that has over the recent few years been responsible for most of the production in Angola. One of the essential jobs that we De Beers (sic) carry out worldwide is to ensure that diamonds coming onto the markets do not threaten the overall price structure and therefore although we know (sic) direct relationship with Unita, there is no doubt that we buy many of those diamonds that emanate from the Unita-held areas in Angola, second hand on the markets of Antwerp and Tel Aviv. And as the diamond

⁶⁰ Kofi Annan, UN Secretary General, 23 November, 1998. S/1998/1110 Report to the Security Council on the United Nations Mission In Angola (Monua)

⁶¹ President Eduardo Dos Santos, DiÁrio De Noticias, 20th April, 1997

⁶² CCF Reptot, October 1998

⁶³ Julian Olgivie Thompson, Chairman of De Beers in the 1996 annual report said, "Outside buying. The CSO buys diamonds in substantial volumes on the open market, both in Africa and in the diamond centers, although its extensive network of buying offices, staffed by young diamond buyers often working under difficult conditions. Purchases in 1996 reached record levels largely owing to the increased Angolan production. Angolan diamonds tend to be in the categories that are in demand, although in the main these buying activities are a mechanism to support the market."

⁶⁴ "The De Beers diamond cartel and other international dealers are buying gems mined in rebel-held territory in violation of Angolan law." Human Rights Watch Angola report 1994

⁶⁵ The Orange County Register, Blaine Harden, Currency of War, Misery, Diamonds. 4/9/2000

markets have weakened recently (inaudible)... in buying up this Angolan production which otherwise will be threatening the overall price structure has increased.”⁶⁶

With a life expectancy of 42 years, with 54% of the population not having access to fresh water, with 65% of the population having no access to health care along with an over 50 percent illiteracy rate, Angola is truly hell.⁶⁷

Recently, the newly reborn De Beers announced that they would not purchase any diamonds from Angola under any circumstances⁶⁸. They along with the U.N. seem bent on destroying what little is left of the country. The Angolan Government has attempted to put together a Certificate of Origin that they would issue. Thus, Angolan diamonds could be marketed and sold without cutting the government from this substantial income source. While the Government's "Certificate Program" is still substantially flawed, it seems that both De Beers and the United Nations have overacted. The end result will be that Angola will need substantial funds to replace their lost source of income and the geniuses at the United Nations will have to supply it. In the meantime, both the rebels and the government will undoubtedly find some other way of marketing their stones and if it is done *sub rosa*, there is a much greater chance that the proceeds from the government's share will wind up in a numbered account at a Swiss Bank.

Sierra Leone

By way of history, Sierra Leone was ruled from 1968 to 1985 by a benevolent gentleman by the name of Siaka Stevens, a former trade unionist. He ruled as though king and worked earnestly by stripping the land of anything valuable it may have contained. This is a man whose manifest destiny seemed to have been stealing every thing of value located in the entire country. Logically, during this period of time, Sierra Leone became the absolute pits of the world in terms of human suffering while, Stevens' kleptocracy continued to grab everything that was not bolted down. Stevens, by 1985 had accumulated so much loot that at this point all he was looking to do was to get out of town in one piece and enjoy the fruits of his prodigious thefts.

⁶⁶ "That we should have been able to buy some two thirds of the increased supply from Angola is testimony not only to our financial strength but to the infrastructure and experience personnel we have in place." De Beers, 1992

⁶⁷ Sources are UNDP Human Development Report, Angola 1997 and UNICEF

⁶⁸ In quoting a diamond dealer in Tshikapa, in the Congo, a article in The Guardian, March 4, 1993 stated; "I would say about one-third of all the diamonds we handle comes from across the border (Angola) and they all end up in the hands of De Beers. It knows where they come from, that's De Beers' job."

In a retort to The Guardian Article, a De Beers spokesman, Tom Tweedy as saying, "The buying offices are open to all comers and unless an offeree of diamonds openly showed his affiliation we wouldn't be aware of it. We have no arrangement with Unita to buy diamonds illegally exported from Angola."

General Joseph Momoh, head of the army became President of the country by appointment. This was a man of some distinction who was lovingly called *Dandogo*, “the idiot” by literally everyone in the country. He had watched Stevens carefully over the years and often had vowed to friends that if ever given the chance to loot and pillage the way Stevens had, he would do a thorough job of it, and Stevens would be proud. Momoh worked himself into a lather and within a short period of time, Sierra Leone’s infrastructure had totally collapsed. Transportation, communications, health services, and education no longer functioned at even the most fundamental of levels. Inflation rose to the highest rate in Africa, which is saying a lot and when the treasury became insolvent Momoh saw his visions of emulating Stevens start to go up in smoke. Currency as we know it ceased to exist and with no treasury and no money, all ability for the government to buy necessities come to an abrupt end. As fast as inflation rose, that is how fast both the people’s life expectancy and the literacy rate fell.

It was into this environment that Sankoh began his revolution with the aid of Liberia and as we pen this report, that war is now entering its ninth year. He had a winning way and was easily able to recruit farmers in the outlying districts with his glowing personality and promises of “cutting off hands, arms, ears, and genitals; gouging out eyeballs; and eating the organs of victims.”⁶⁹

President Momoh was becoming increasingly ill at ease as the country literally lied fallow at his feet. In April of 1992, while Momoh was attending to his choirs in his counting room he heard a commotion. It was a group of loyal junior officers that had not been paid in years, were given no supplies, no medical support and were forced to live off of the land wanted and audience. They had come to stage a protest over their working conditions. Momoh thinking that a coupe was occurring escaped the palace by a side door, fled the palace by a tunnel, and kept going until he had crossed the border. The junior officers were at a loss. Whom would they complain to if there was no one in command. One of them who seemed smarter than the rest suggested that if no one was in charge, why don’t they just take over? They did and that young man whose name was Valentine Strasser, 28 years old became the new president by acclamation, his own.

Well you know the expression, boys can be boys. The new group known as the National Provision ruling Council took over the Palace and turned it into a disco. “They danced, smoked pot and snorted cocaine through the night.”⁷⁰ They confiscated all of the big cars that the government honchos owned but found to their chagrin that they roads were in such a state of disrepair that they were stuck with hanging around the palace, having sex and doing drugs.

⁶⁹ An Army of One’s Own, Harpers Magazine, February, 1997

⁷⁰ Harper’s Magazine, February 1997, An Army of One’s Own

In the meantime, the people had had enough. “Gangs of soldiers, rebels, and even the two opposing in war, collaborated on endless looting sprees, ambushing convoys, plundering diamond mines, stealing supplies, and setting up random roadblocks. When the civilians figured out that their attackers were not only rebels but also government soldiers gone goul (Crazy), they took to calling anyone in uniform a “*sober*” –soldiers who took the guise of rebels to pillage, rape, maim and murder. They were no coherent front lines, no political causes and for the terrorized public no place was safe. What began as a civil war had become civil chaos.

Meanwhile, the rebels had taken control of just about all of the country’s natural resources. Thus, they had completely striped Sierra Leone of any chance of earning hard currency. On occasion, Strasser and his men would come out of their trances and wonder out loud what the hell they were gong to do next. It turns out that Captain, President Strasser was a big reader of Newsweek, and he had read about a company called Executive Outcomes, a civilian militia that had been fighting proxy battles all over the world and wining. Between the various articles he read and the advice of some confidents, the President decided to hire Executive Outcomes as his proxy army. In that way he would not have to give serious thought to running anything and would have the peace of mind that whatever he was doing could be done in peace.

The rebels were now at the gates of the palace so Strasser was motivated to act. He contacted EO and entered into a contract with them that in part agreed to the following things, “to combat and destroy the “terrorist enemies of the state”; to restore internal security; and to help build and maintain an economic climate where new investment could be attracted and allowed to flourish”⁷¹ The fee was fifteen million which did not exist probably in the legitimate gross domestic product of the country so the cash portion of the payment was converted into an IOU for future mining revenues. The EO soldiers received up to \$7,000 a month and many were airlifted right out of Angola which country was another satisfied retainer of the company.

The EO army came supplied with the real thing. Bombs that sucked out all the oxygen in square mile radius killing all life, gatling guns that could maim and kill hundreds in a matter of minutes, They arrived with helicopter gunships, Boeing 727 for transport and an evacuation aircraft, land rovers, 30-mm cannons and Kalashnikovs, a truly a professional undertaking. When asked how they would be able to distinguish rebels from civilians, they were told not to concern themselves with those kind of decisions and to just kill everyone in sight. They followed their orders to the letter and left corpses strewn about the landscape wherever they were engaged.

Soon the tide of battle had turned and the financial pipeline that was supplying the rebels was cut at Kono. EO received the world’s credit for restoring

⁷¹ IBID

democracy and the election process to Sierra Leone. Wherever they went the men were lauded but those knowledgeable saw things differently. Martha Carey and employee of Doctors Without Borders put the situation in proper perspective: "She had only to see their helicopters flying over her house to know that it was time to rush to the hospital and prepare for an influx of wounded. The pilots, were racist killers with no interest in the country."

The party boys at the palace decided they better get out while the getting was good and called a general election in which Ahmed Tejan Kabbah was elected. The party boys had stolen everything that was left standing and left for places unknown to continue a life of debauchment and satisfaction. In a naïve attempt to make his country a better place to live, Kabbah signed a peace accord with the RUF and as one of the preconditions, the immortal EO who had saved the county Democracy were sent packing.

Kabbah, not a brain surgeon to begin with, had not thought this whole thing out, the Sierra Leonean troops had not been paid for so long they couldn't even remember the last time they had money. With the EO out of the picture they determined that if the government wouldn't pay them, they would pay themselves and began pillaging and looting what was left.

These were not basically bad people and to show that they were equal opportunity looters they invited the rebels to join in the party and called it "Operation Pay Yourself." Certainly an apt name under the circumstances. Well, the raping and pillaging went on for a time during which Kabbah got himself together and remembering how well EO had performed, made a joint deal with Sandline International (SI), a British Para-military group similar to EO. But Kabbah wanted to make sure that he would win and additionally offered Nigeria the choicest of concessions if they would join SI. Well, they did and a big push was started to win back the diamond fields.

Well, the rebels weren't going hang around and become sitting ducks so they did two things, the first was to start working the mines twenty-four hours a day by bringing in floodlights and conscripts who did not want their body parts severed from their torso's. For a time, this caused a very earnest work ethic until many of the conscripts started dropping from exhaustion. On the other hand, the rebel group had finally come up with a winning slogan, "work or die" and were able under those circumstances to find replacements for any conscripts that had opted out for health reasons.

Phase two of the plan was not as sophisticated, RUF leaders made a deal with a neighboring country, Burkina Faso to transship weapons in exchange for their increasing production of diamonds. This was warmly greeted and a joint defense agreement was hurriedly signed between the RUF and Burkina Faso. In the meantime, under the category of "old friends never let you down," Liberia in exchange for a marketing agreement on the Sierra Leone diamonds continued

supplying whatever weapons were not flown in by Burkina Faso. In spite of absolute proof to the contrary, Ormie Golley, RUF spokesman stated that it gets all of its weapons by capturing them from government forces.⁷²

Not yet satisfied that they had done enough to at least insure that there would be a stalemate in the fighting while they were able to plunder the last of Sierra Leone's diamonds, the RUF asked their good friend Charles Taylor, President and Dictator of Liberia to lend them Fred Rindle, a retired South African Army intelligence officer who was providing training to Taylor's army. Taylor and his son, Chuckie, were our kind of people, not the kind to let you down when you needed something and contributed Rindle's expertise to the RUF cause. It is Rindle whose extraordinary tactics that have proven to be the difference in the fighting since the EO pulled up stakes. Rindle, the ultimate mercenary had scored major successes while in the employ of UNITA, the Angolan rebel movement. Even after South Africa pulled the plug on UNITA, the ever-loyal Rindle stayed the course in spite of only receiving massive amounts of diamonds for his loyalty. Rindle comes and goes in Liberia when he is taking a fortnight off his busy schedule and is always seen in the company of countless South African Mercenaries.

There are others that help separate the RUF from their diamonds by the promise of weapons. Exotic Tropical Timber Enterprise is a Monrovia firm operated out of Zug, Switzerland and is controlled by Leonid Minin. Leonid uses the timber operation as a front and delivers endless supplies of military equipment into his logging enterprise in Liberia for later transshipment to the RUF. These weapons usually originate in the Ukraine and Belarus.

However, the rebels didn't want to be obligated to only one or two suppliers and found out about a man by the name of Yair Klein. What attracted the rebels so much to Klein was that he seemed to always be willing to help other oppressed people no matter where they were located in the world. Klein received kudos for his training of the soldiers working for the Medellin Drug Cartel. Klein also provided the Medellin with absolutely the finest weapons money could buy. His tactics in the field were superb and all Klein had gotten from the Israeli Government for his work in smuggling and delivering contraband in exchange for drugs was a conviction by that government and a long jail sentence. Undaunted, Klein has resolutely taken this new assignment and says that he is going to put the past behind him. In passing, he also mentioned that it was easier to transport diamonds than drugs and he was looking forward to a long and healthy relationship with his new employer.

⁷² Other trade routes for illicit diamonds are through Cote d'Ivoire and Guinea. Things have gotten so bad in Guinea that because of the illicit behavior De Beers that has an interest in properties in the country has indicated that it will probably be attempting to ban Guinea diamonds from world markets. This statement would probably be meaningful if Guinea had any type of real production. They don't, and the De Beers statement, while it shows intent, has little teeth in it.

So the war continues to wax and wane. First one army and then the other maintains control but whoever remains top dog literally means little or nothing to the people whose lives remain equally oppressed and hopeless no matter who is in charge. You have a government in power and the ever-present opposition, who are both using every horrifying force available to try to win the day. Guerillas sometimes take over the diamond mines and just in case anyone has any thoughts about messing with these guys, these pleasant souls hack of an arm here or a leg there just to show that they are very serious about what they are going about. Things have gotten so frightening here that out of a population of 4.5 million people, 500,000 have left the country, a massive immigration considering the percentage of the country's total population and it is especially large when you consider that the alternatives to Sierra Leone are not so hot either.

They bring slave labor into the mines and have upped production considerably. No legitimate diamond distribution group would touch the stuff coming out of Sierra Leone so most of the diamonds are filtered through Charles Taylor's Liberia which acts for all revolutionaries on the continent and has built up quite a tidy little business for itself.⁷³ The Guerillas, The Revolutionary United Front (RUF) have disarmed the U.N. Peacekeeping group that was sent in to monitor the peace which was recently signed and are going about their business in the same fashion that existed before the futile peace talks began. When the government forces go on a roll is not a difficult matter for the RUF forces to meld across the Liberian border under the heat diminishes and then once again begin their senseless routine of making cripples out of the remaining population.

Tens of millions of dollars in diamond sales accrue to the RUF and this money almost in totality is being used to buy more weapons to aid their efforts in overthrowing the government. Activists say that both Sierra Leone and Liberia should be quarantined by the world's diamond buyers and De Beers has been asked on a number of occasions whether they purchase diamonds from this source.⁷⁴ Whether they do or not, it has been estimated that between 10 and 15 percent of the diamonds mined in Sierra Leone wind up in American Jewelry stores⁷⁵. An even more interesting statistic is the fact that "31-million carats,

⁷³ The head of the Sierra Leone rebels, Foday Sankoh and Charles Taylor, president of Liberia share a common bond. They were both trained in the same class in terrorism in Libya.

⁷⁴ "A new report on the diamond trade by Partnership Africa Canada, a coalition of Canadian and African nongovernmental organizations, urges Belgium to end its complicity in fueling Africa's war and take the steps needed to end its attraction for organized crime syndicates. It rightly points out that "by accepting Liberian exports (of diamonds) as legitimate, the international diamond industry actively colludes in crimes committed of permitted by the Liberian government." And it calls diamond merchants to close the trading offices in Liberia and Ivory Coast that encourage smuggling and make their capitals a magnet for guns, terror, money laundering and diamond smuggling" *Diamonds and Dictators*, Tony P. Hall and Frank R; Wolf, The Washington Post Co. 1/25/2000

⁷⁵ "Sierra Leone officially exported 8,500 carats of diamonds in 1998. Belgian imports of Sierra Leonean diamonds amounted to a staggering 770,000 carats that same year." Canadian NGO, Partnership Africa. 3/1/2000

more than 200 years worth of its own national capacity, has been exported from Liberia to world diamond market.”⁷⁶

Peace agreement after peace agreement has fallen into disarray because the stakes are just too high. At the moment the rebels seem to have the upper hand but in this war, tomorrow always seems a little different than today. The only thing that remains the same is death, it has been pervasive in this small country. We thought the following press clipping would put things here into perspective:

“Sierra Leone Rebels Seize UN Workers

By CLARENCE ROY-MACAULAY=

Associated Press Writer=

”FREETOWN, Sierra Leone (AP) _ Rebels seized U.N. workers as the West African intervention force that defended the government during eight years of bloody civil war completed its pullout of Sierra Leone, U.N. officials said Tuesday. Revolutionary United Front rebels captured 16 U.N. military observers and peacekeepers in the central city of Makeni, U.N. force commander Maj. Gen. Vijay Kumar Jetley said. Another 27 people were seized in the eastern city of Kailahun and seven others were captured in Magburaka, Jetley said. All were taken in the past two days, he said, adding that rebels promised to free the peacekeepers early today. The government condemned what it called the “recent incidents of indiscriminate violence perpetrated by some misguided ex-combatants against the international peacekeepers” in a statement issued Tuesday night.”

“The United Nations force “has been exercising considerable restraint,” the statement said. But that does not mean “it does not have the mandate, the means and capability to discharge its responsibilities.” In New York, the U.N. Security Council held emergency consultations to discuss the incident and issued a statement calling the rebels’ actions criminal and “tantamount to violations” of a cease-fire agreement signed last July. The council demanded that rebel Revolutionary United Front leader Foday Sankoh immediately give instructions to his followers to end attacks against the United Nations, withdraw his forces immediately and abide by the cease-fire agreement signed in Lome, Togo.”

“Sankoh, who was brought into the government as part of a power-sharing agreement last year, was not available for comment. Secretary-General Kofi Annan condemned the “outrageous and criminal” seizures and demanded the rebels cooperate with the United Nations. “It seems as if Foday Sankoh is trying to derail the peace process,” Jetley said.”

“Jetley insisted, though, that the U.N. mission called UNAMSIL was capable of enforcing Sierra Leone’s shaky cease-fire agreement, signed by both sides in July. The United Nations was expected to boost its force from the current 8,500

⁷⁶ The Orange county Register, Blaine Harden, Currency of War, Misery Diamonds. 4/9/2000

soldiers to 11,500 by July. But many Sierra Leoneans have expressed skepticism that U.N. troops can enforce the fragile peace. While authorized to use force, the peacekeepers _ mainly Indians, Kenyans and Nigerians _ have avoided confronting the rebels, who during the war killed tens of thousands of civilians and intentionally maimed many more.”

“Tens of thousands of rebels also have refused to give up their guns, U.N. officials said. The kidnapping Monday occurred after about 100-armed Revolutionary United Front rebels surrounded a Makeni disarmament and demobilization center, demanding the return of 10 fighters who had turned in weapons. When U.N. troops refused, the rebels fired into the air and seized a U.N. military observer. Another three observers and three peacekeepers were captured when they went to negotiate their colleague's release.”

“The two pilots and three passengers captured Tuesday were taken at a rebel roadblock in Kailahun, where they had gone to drop off U.N. supplies, U.N. officials said. U.N. officials said they were attempting to negotiate the release of the hostages with other RUF leaders. “We have the military option as we are a trained force,” Jetley said. “But that is the last resort.”

In the meantime, De Beers has been working closely with the Canadian Government on a methodology, which might be able to identify all diamonds as to national origin. Thus, an effective embargo could be placed the endemic problem of diamonds being used to finance revolutions all over Africa. Many other countries are in the same boat as Sierra Leone, it is just that the RUF uses particularly gory methods to insure indenture and seems to steal all of the publicity. Along with the numerous people that have lost limbs, at least 75,000 have been killed outright in the country in just the last several years. “Sierra Leone’s diamonds are top quality, and RUF is getting them to market one way or another, and it must be stopped or else the U.N. mission will be a total failure.”⁷⁷

Congo

The Congo was previously know as Zaire when the benevolent leader Mobutu Sese Seko came to power over three decades ago. He was a Cold War dictator and was propped up on his flimsy throne by the American CIA. The Congo easily ranks as one of the richest countries in the world relative to natural resources. The problem with the resources that the Congo possess is that in many cases they are extremely portable and better yet, fungible. Mobutu set up shop in Kinshasa, the country’s capital in 1960 after the country gained independence from Belgium (Formerly known as the Belgium Congo). During the ensuing period, the population of the capital has grown from 400,000 to over 6 million and is growing everyday as refugees from the war seek sanctuary in

⁷⁷ Ian Smillie, Partnership Africa Canada

that and other large cities.⁷⁸ Mobutu did not have a substantial interest in the people's welfare as he established world class records for looting his own country which did not leave a lot to go around for infrastructure and the like. Thus, the cities, which provide some shelter, do not provide much more.

People have flocked to other cities to get out of harms way. Kisangani is another one of them." The phones have not worked in years. The banks are empty. The cars were all looted in the last rebellion."⁷⁹ This then is the condition in Kisangani, the largest city in Eastern Congo, the area nearest the diamond mines.⁸⁰

While the situation in Sierra Leone can best be described as grisly, the state of affairs in The Congo would more likely be described as bizarre. The Congo has been a significant diamond producer ever since their discovery in the country in 1906. Production is currently estimated to be around 19 million carats. Interestingly enough, the national diamond mining company, Minierre de Bakwange (MIBA) owns 80% of the country's production and Sibeka of Belgium, 20% owned by De Beers has the rest.

Congo diamonds go off in many different directions, some are sold locally to licensed buying offices, some are smuggled out of the country and sold primarily in Antwerp,⁸¹ and many are sold directly to De Beers. In addition to its own production, The Congo acts as a conduit for Angolan contraband diamonds delivered by the UNITA Revolutionaries. These are redistributed in the same way that the Congo mined diamonds are with little or no differentiation. Thus, the distribution of both the diamonds mined in the Congo and those mined by the revolutionaries in Angola have been mixed together for so many years that they are hard to tell apart.

Moreover, least we be misunderstood, the Congo isn't the only country using Antwerp as the facility of last resort to launder diamonds.. A recent U.N. report revealed that Antwerp is flooded with diamonds exported from countries with literally no diamond mining facilities at all, passing off smuggled diamonds as their own. These stones come complete with false, but legally official, certificates of origin. Experts indicated that most any country in Africa will certify the stones as coming from their counties for a price but the big hitters in the global game of musical chairs are the countries of , "Liberia, Uganda, Rwanda and Zimbabwe."

⁷⁸ "The European aid group doctors Without Borders issued an angry statement on May 16, 97, criticizing Kabila' s forces. It said that relief aid had been used as a lure by the Congo military in order to draw the refugees out of the forest and onto the road, where, according to witnesses, they would be killed.

⁷⁹ Kisangani Journal; Where War Is Forever, the Diamonds are Cheap, Ian Fisher, The New York Times, December 25, 1998

⁸⁰ "Elumbu Kakokola Kenneday, the president of the city's association of diamond dealers, said that before the rebellion last year that ousted the Zairian dictator, Mobutu Sese Seko, and brought Mr. Kabila to power, there were 465 dealers. After he took office, the numbers shrank to 342. That number has slowly dropped to a new low of 47 since the latest rebellion began in August." Kisangani Journal, Where War is Forever, the Diamonds are Cheap, Ian Fisher, The New York Times, December 25, 1998.

⁸¹ "Antwerp is a diamond smuggler's dream." Partnership Africa Canada

⁸² Alex Vines of the Human Rights Watch in London stated, “The illicit diamond trade is never going to be stopped but the costs (of smuggling) can be raised. ... There needs to be more tightening up.”

“The U.N. report on how Angolan warlord Jonas Savimbi defies sanctions to fund his guerrillas reads like a post-Cold War thriller, with a cast of shadowy South African arms dealers, Ukrainian mercenaries, Eastern Mediterranean gem traffickers and African leaders bribed with packets of diamonds. According to the report, many of the strands in this web lead to Antwerp, where 85 percent of the world’s rough diamonds are traded.”⁸³ And what could anybody do about it anyway, Mark Van Bockstael who heads the Angolan task force set up by the Diamond Council stated, “Although some diamonds can be recognized as coming from particular mines, high quality gems panned from the rivers of Angola’s remote northeast are indistinguishable from those of neighboring Congo and are similar to Canadian gems. A lot of production is simply not identifiable. We are trying to develop a technology but it’s going to take at least another five years before we have a reliable instrument. Furthermore, once cut and polished, the diamonds are impossible to track and by forging certificates or shipping stones through (certain) nations this is not a real problem.”

But that is only the beginning of the confused story in this country. They former dictator, Mubutu set global records in confiscation when he was able to expropriate over 50% of Congo’s (the Zaire) total domestic gross national product. This number is so mind boggling that it probably has no equal in the world’s history. Ultimately, an opposing faction arose, led by Laurent Kabila and he was able to take control of the country by promising the people a new beginning. What they didn’t understand at the time was that what he meant was then when he got into office he would begin pillaging the nation “one more time.”

Without soldiers who had to be paid, Kabila, was running an uphill battle and it was difficult finding something of value that had not already been ripped off by the previous regime. Kabila was at his wits end and promised his senior people rights to oversee various diamond properties and when it was their turn, they could steal whatever they could carry. The senior officers went back to their men with this proposition and they became grumpy and indicated that they really didn’t want to maim, pillage, shoot and kill people unless they could be paid a fair wage. Senior officers sat down with their disheartened troops and read them chapter and verse on the deal that they had just cut on their behalf and they conscripts became overjoyed when they learned that they would be able to buy food. Kabila didn’t have a lot of time to put things together as foreign neighbors were ravenously looking over their shoulders at the diamond fields that lay fallow as Kabila’s men took a well-deserved holiday at his expense to finish negotiations..

⁸² The Orange County Register, Blaine Harden, Currency of war, misery, Diamonds. 4/9/2000

⁸³ Antwerp Belgium, Associated Press, April 3, 2000, Global Diamond Business Changing

First one country then another started advancing on Congo's borders and before you know it a number of foreign governments had put down stakes right in the middle of Congo's diamond mines and enforced their claims with thousands of soldiers carrying very large rifles. Laurent Kabila could do little or nothing about it. But being resourceful he came up with an alternative plan. Approaching non-confrontational neighbors that had not as yet begun stealing what was left in his country he made them what appeared to be a logical offer that he believed they couldn't refuse,. "If you will defend our borders against those criminal nations that are stealing everything we have left, I will allow you to steal more than a fair share of what you produce." This made a lot of sense to everyone involved and a number of countries sent armies into the Congo to rid it of its predators, promote democracy and pick up a few of the little pretties along the way.

Things didn't go exactly as planned because many nations visited and few ever left. It seems that everyone grew to like what they found in the Congo especially when they saw the size and clarity of their diamonds. Armies from Burundi, Rwanda, Uganda, Zimbabwe, Namibia, Angola, and Chad now have taken up residency in the country and are assiduously working the diamond mines for all they are worth. They are joined in one fashion or another by tens of thousands of Hutu militiamen, their sworn enemies the Tutsi, and indigenous warriors called the Mayi-Mayi who believe that water protects them from bullets. Indirectly involved are the countries of Burundi, Sudan, Tanzania and Zambia which although not belligerents are receptacles for refugees of this vicious conflict⁸⁴.

Rwanda, Burundi and Uganda whose troops form the backbone of the rebel forces, pay their way by diamond and gold mining in rebel-held areas of eastern Congo, and act as conduits for UNITA's diamond and weapons smuggling. Commanders friendly with the Congo rebels are constantly rewarding themselves over and over and over again for a job well-done and small planes are often seen taking off from local airfields, filled with gems headed to secure bank vaults out of harms way.

Zimbabwe, which backs the Congolese government enjoys a particularly lucrative diamond concession granted by President Laurent Kabila."⁸⁵ That country in exchange for the use of 11,000 able bodied troops got the diamond mines at Mbuji Mayi, a truly massive complex. So big is the production at Mayi that Zimbabwe has become a world-class diamond exporter in spite of the fact that diamonds have never been found in that country. Rebels have been

⁸⁴ "Some expert argue that the war in Congo is actually three wars: The first is the battle between Mr. Kabila and the Congolese rebels fighting to overthrow him. The second war is an ethnic war in the eastern provinces of Congo, primarily against ethnic Congolese Tutsi. The third war – really a series of conflicts – involves all the outside countries: Rwanda and Uganda on the side of the rebels: Zimbabwe, Angola and Namibia on the side of Mr. Kabila." Chaos in Congo, Armies Ravage a Rich Land, Creating Africa's First World War, Ian Fisher, Norimitsu Onishi, Rachel Swarns, Blaine Harden and Alan Covell reported and was written by Mr. Fisher and Mr. Onishi, February 6, 2000

⁸⁵ Glittering Currency of African Warfare, Diamonds Finance Rebel Armies- But Industry under pressure to Reform, The San Francisco Chronicle, Robert collier, Staff Writer, 3/6/2000

massing in this area because they feel that without Zimbabwe's help, Kabila will rapidly become chopped liver. Thus, if the rebels grab Mayi, it is anticipated that with the flow of cash alternatives greatly diminished, Zimbabwe will conclude that Kabila is not such a wonderful guy after all and pull up stakes. In addition, they could also conclude that they have high-graded the diamond fields and that any additional pillaging of Congolese gems will actually take work.

Amputees could give us a bad name

This situation is making diamond merchants around the world very uneasy. You have a situation in Sierra Leone where it is *de regiore* to hack off people's limbs in order to insure diamond production schedules and in Congo you have so many countries dividing the pie that you can't tell who is killing whom without a scorecard. In the meantime, the whole bunch of them are acting as agents for Angolan rebels fighting a war that has included starvation and defoliation as the terms of engagement. Diamond people are articulating, "This sort of stuff can give us a really bad name."

Only one-third of the Congo's production is sold into normal wholesale channels with the rest being smuggled into neighboring countries. After deduction of the substantial surcharges accessed by friendly neighbors, both sides reconvert the cash into weapons and then continue with their efforts to destroy each other on a grandiose scale.

The San Francisco Chronicle stated, "The industry is running scared, fearing that any bad publicity could hurt sales. Gem diamonds have no intrinsic value, and their value depends totally on the upscale image the industry has created over the years through slick advertising campaigns."

"De Beers Consolidated Mines Ltd., the South African conglomerate that controls about two-thirds of the wholesale diamond trade worldwide, announced last Tuesday that starting later this month, diamonds sold by the company will be accompanied by a certificate stating that they do "not include any diamonds which come from any area in Africa controlled by forces rebelling against the legitimate and internationally recognized government of the country."⁸⁶

It would seem that this announcement plus one New York subway token will get you a ride on the New York City Transit System. There is no way that De Beers can really differentiate where diamonds come from and even if they could, Global Witness⁸⁷ head, Charmian Gooch points out that "U.S. importers buy as much as one-third of their diamonds from wholesalers in Antwerp, Tel Aviv and elsewhere that, unlike De Beers, refuse to crack down on rebel-mined gems or give verifiable information on their origin." Jeffery Fischer, vice president of the Diamond Manufacturers and Importers of America seems to think that labeling is

⁸⁶ IBID

⁸⁷ A group that has led a campaign to stop the purchasing of what they call "African Conflict Diamonds."

something whose time has not come. He stated, "The diamond industry is very fluid, fast-moving business. (Mandatory controls) would only burden the industry, and ultimately the consumer, with much higher costs." God Forbid, Mr. Fischer that your people would ever give their customers a certificate which says in plain English what they are buying. I mean, what do people think a diamond is, a car or a washer?

Andrew Laoont, a De Beers company spokesman estimated that only 3 percent of the diamonds entering world markets are coming from so-called conflict areas of Africa and when asked what a conflict area was became tongue-tied and was unable to be understood. On the other hand, "Christine Gordon, a London-based journalist and independent diamond analyst who has been critical of De Beers, said that as recently as the mid-1990s, diamonds from African war zones accounted for 10 to 15 percent of the world supply."⁸⁸ It was further estimated that American's consumed easily 50% of that total.

Where's Africa

Living in this country though, you just know that the U.S. Government will go to the aid of anyone that is downtrodden. That is what makes this country so great. In view of the position that the U.S. Government has publicly taken though we can no longer be sure that our Government is bothered by the murder in exchange for diamonds business going on in Africa and at this time it does not seem to be an event that will take precedence in our universal order of importance. Thus, sadly, Senior American statesman seem to believe that this conflict is not in the strategic, long-term interests of the United States.

But this is at the executive level, Representative Tony Hall of Ohio and Frank Wolf of Virginia have sponsored legislation, which will require the labeling of diamonds as to country of origin. This, they say would be the first step in "forcing the guerrillas' diamonds off the American marketplace." While this legislation will probably pass in spite of industry opposition, the amount of value that it will have in stopping the flow of diamonds into the United States will wind up to be somewhere between none and zero.

I would only point out that with severe penalties such as incarceration, counterfeiting of U.S. currency is an avocation practiced by professionals around the world and between the Treasury, The Secret Service, the FBI and local law enforcement professionals, literally nothing has been done to make a dent in it including the prodigies counterfeiting of the non-counterfeitable new holographic bills.

The San Francisco Chronicle put the systems of Angola, Congo, and Sierra Leone in prospective. "They mine some of the best-quality gem diamonds, mining is done by smaller firms linked to guerrilla groups or corrupt government

⁸⁸ The Orange County Register, Blaine Harden, Currency of War, misery, Diamonds. 4/9/2000

officials. The diamonds are then flown by bush plane to other nations, where they often are registered with false information about their country of origin, and sold by the wholesale firms in London, Tel Aviv, and elsewhere. Most final cutting and polishing is done in Bombay, Tel Aviv, Antwerp, Hong Kong, and New York.

Australia

Australia has delineated“ a large proportion of the world’s economic diamond resources. It has some of the highest diamond grades in the world and alone, produces nearly twice the diamond output of any other country. Oddly this find was discovered at Devil Devil Spring in the arid region of Kimberly in Western Australia. It is a sacred aboriginal site with a water hole that is used once a year for young people’s religious initiation ceremonies. The Aborigines that inhabited the region were not exactly excited about a bunch of people tearing up their ancestral plots and negotiations went on between the Australian Government and the Aborigines for a substantial time. What finally broke the ice was the fact that no one had bothered to tell the Australian Indians what their take was going to be. Having gotten by that problem and working out that miners were not to be digging for diamonds in burial sites things finally got moving.

Australian Gem diamond production is probably comparable to many of the world’s other mines abut as only 5% is of gem quality (4-0% near gem, 55% industrial) the total value of production is less than that of several other countries.”⁸⁹ Australian production is not limited to the land, shark cages are routinely used in areas inhabited by crocodiles were substantial numbers of diamonds have been recovered. This may or may not result in additional finds offshore but at present Australia has more than its hand’s full with onshore operations which are going “swimmingly.”

What is most interesting about the Australian find is the fact, that with its enormous production capacity, for the most part, Australia sells it stones directly into the world market completely eliminating De Beers, something unheard of only a few years before. On the other hand, the world’s economies are once again booming and diamond sales hit record peaks in 1999 and new yardsticks are expected to be bettered once again in 2000. We will wait to see how Australia fares when things are not so good.

⁸⁹ Mineral Council of Australia – Mineral Fact Sheets

Murfreesboro, Arkansas

Well, production seems to be coming from all over the place and maybe in the not to distant future it will come from the United States as well. There's this place in Murfreesboro, Arkansas called the Crater of Diamonds and its right in the center of a state park that has been charging tourists \$3 a day to dig for gems decades. Last year 80,000 paid the freight and they took home 1,400 diamonds. Among the stones taken out of the region earlier is the 40.23-carat, Star of Arkansas found in 1924 followed by the 32.45-carat Star of Murfreesboro found in 1964. It seems that people think there really may be something there now and a four-company consortium is talking about putting up some real money to test the waters.

De Beers Hold on the Diamond Market

What is going on in the diamond distribution business is rather simple. The Electronic Mail & Guardian in an article date 5/1/97 entitled, Kabila dumps De Beers stated, "Of the top seven diamond producers in the world, who account for 80% of the world's rough diamond supply by value, according to De Beer's latest annual report, four are no longer securely in the organization's net.

"Australia's Argyle diamond mine, the world's largest diamond producer by volume, quit the CSO last July, claiming it could secure better prices on the open market."

Russia, long a thorn in De Beer's side, leaking high-quality diamonds worth \$1 billion a year onto the market, has also still to renew its sales agreement with the CSO, 14 months after signing a memorandum of understanding with De Beers that it would."

Congo punches another hole in De Beer's control over low quality gems. Its neighbor Angola, a top-quality gem producer, has already reduced its dependence on the CSO, seeking other buyers alongside De Beers.

The most interesting thing about this whole deal is that, of course the Cartel is falling apart and well it should be. The rules of the game are changing and with strong antitrust laws arising in Great Britain and the Continent, if De Beers wants to continue is silly little game, they will wind up with a lot of egg on their faces.

Those people at De Beers are as sharp as they come and they have analyzed what is going on in the global diamond business from every conceivable point of view. They know the game's over and they have to make the best of it. There is new competition coming on stream in all areas of production, manufacturing and labeling. Diamond prices are still rising, the world's economies have bounced

back and people are more affluent than ever. De Beers sees a market coming like nothing that has ever happened before and they want to be the guys with white hats. Nevertheless, as we shall see, not everything is always that easy.

A new and deadly technique

New innovations are coming into the diamond industry in torrents. Diamonds are becoming high-tech. Some of these will change the face of diamond cutting, mining and sales forever. General Electric, a fearsome competitor whose Chief Executive Officer has publicly stated on more than one occasion, “we will not knowingly enter any market in which we can’t be at least second.” Having thrown down the gauntlet they announced that they have developed what they call a unique diamond enhancement technique, which is capable of turning rough, brownish type diamonds of little value into a pure white (colorless) stone of substantial value. What is more important is the fact that the process is irreversible, undetectable and enhances, color, brilliance and brightness. “Even an expert might not be able to distinguish a G.E. diamond. The Amazing thing about this treatment is that it’s not detectable by the major laboratories.” Said Martin Rapaport, a diamond broker and publisher of Rapaport diamond Report, a monthly magazine that covers the gem industry.”⁹⁰

General Electric has made the deal even sweeter by entering into a ten-year contract with the prestigious New York Diamond firm of Lazare Kaplan, with GE indemnifying Kaplan against the diamond change being detectable or reversed.

It may be interesting to note that in 1994, both General Electric and De Beers were indicted together by the United Department of Justice on charges of fixing industrial diamond prices. General Electric was ultimately dropped from the case but the charges against De Beers are still outstanding. They share some additional recent similarities, both De Beers and General Electric are now branding their product while in the past all advertising was generic, at least at the retail level General Electric’s Entry is called Monarch after the butterfly and De Beers is called the Millennium after the year. Both stones are engraved with a nearly invisible identification markings, which can be seen only through a jeweler’s loupe and both, believe, probably realistically that these markings will increase the inherent value of the gem.

To add some seasoning to the sauce, one of the GE, Kaplan conglomerate’s first test market customers is Borsheim’s Fine Jewelry and Gifts in Omaha, owned by none other than Warren E. Buffett’s Berkshire Hathaway. Talk about a royal flush, General Electric, the best run company in the world, Lazare Kaplan, one of the most respected diamond merchants in the world and Warren E. Buffet, easily

⁹⁰ Personal Business; Diamond Buyers Wonder: Is it Real or Treated? And Does it Matter, The New York Times, Money and Business/Financial Desk, December 19, 1999

one of the best business men on the planet all getting together to push a product that they must each believe will change the diamonds are sold.

These are not the only blockbuster innovations that will be effecting the industry in the coming months. Processes called fracture filing and another called laser drilling have produced some astounding results in removing faults and improving clarity.

Fracture Filing

Another process is labeled fracture filling or “clarity enhancement.” In this instance, a glass-like material containing bismuth which adds literally no weight to the diamond is inserted into the stone under an artificial vacuum along with both intensive heat and extraordinary pressure. The bismuth is inserted into flaws in the diamond removing any visual evidence that the stone is not perfect.⁹¹ The vacuum sucks the bismuth into open fissures in the stone⁹² and because of the fact that the material’s refractive index is the same as that of its host, the resultant product is even more transparent than when it began. The impurities in the gem appear to have vanished. There is little or no question that the process improves the clarity of the stone.

Laser Drilling

Our next so-called newcomer to the diamond scene is called laser drilling. In reality, there is nothing new about laser drilling other than the fact that it now seems to have been refined to the point of perfection. It was discovered in the 1960s by Zvi Yehuda who also invented fracture filling. The process has been improved on over the years by Raytheon, Perlman, and the Korad division of Hadron Inc. The laser will be able to polish out all inclusions that are at or near the surface of the diamond. The laser process will remove a negligible amount of diamond material in the process but in reality the amount will not effect the stones overall weight. The process is also effective when crystals or feathers are too far from the surface to be polished away. One of the additional magic tricks that laser cutting with modern equipment provides is the ability to avoid re-cutting a stone. Drilling using a laser can reach the inclusion without creating a wedge, thus, many say it just become a minor part of the fashioning process.

A laser of another variety

While it is not the intent of this article to try to delve too deeply into developments that are occurring in this fast paced, newly high tech world of diamonds, there has been a recent announcement by the Gemological Institute of America calling the attention of its members to a new type of laser drilling treatment, unseen

⁹¹ We are not quite sure what a diamond like substance is.

⁹² It is sucked into what are called the diamonds “cleavages” or “feathers.” In reality the material doesn’t fill anything, it coats it but the difference cannot be discerned.

previously that “does not have the surface reaching drill hole traditionally associated with laser drilling. In tradition laser drilling , a hole drilled to a dark inclusion is a channel of strong acid which removes the dark material. In this process, one or more pulsed lasers are focused on the near-surface inclusion to heat it so that it expands and creates sufficient stress to extend the cleavage to the surface. Thus the boiling of the diamond in strong acids reduce the dark inclusion but there is no surface drill hole. There have been only a few stones found to date that have had that treatment used on them. Nobody seems to know who has invented this monster or what they intend to do next.

Coating Diamonds

While not on our list of amazing discoveries or things that we believe will have an bearing on the ever changing diamond industry, dishonest practitioners have for years used various substances to make a yellowish diamond appear more attractive at least until the unknowing customer can pay for the stone and get ushered out the establishment’s front door. Although highly trained professionals are required for the most part to do the “coating,” this practice is unsavory and should be banned from the Industry..

The Federal Trade Commission has come to the conclusion that stones whose changes are permanent do not have to be disclosed. This would cover both General Electric’s entry was well as the laser drilling process. Filling the stone along with hitting it with radiation to enhance or change the color probably are more temporary and this is where the FTC makes their distinction. If the change is going to be permanent, it does not have to be mentioned, if temporary it does.

It is clear that the rules of the game have changed and that while diamonds have always been a consumer minefield, today they have become an atomic bomb. Jewels admit that they cannot monitor all of their salespeople’s pitches when selling diamonds so that they really can’t be sure whether they have made the necessary disclosures or not. Even an appraiser made be hard pressed to be able to find the real story.

A powerful team

Early discussions regarding the pricing of diamonds treated with the product indicate that both GE and Kaplan are planning to sell the end product at price not to much more than stones of similar quality that have not been treated. The process is purportedly one of treating the diamonds at very high temperatures and will apparently work with a small fraction of the diamonds now being produced. The stones will contain a certificate from a leading gemological laboratory authenticating its color, clarity , proportions, and shape.

A strange voice

Naturally the industry is not enthused. Out of joint in the worst way may be the Gemological Institute of America whose offices have been given literally no information on the process and will not be making any of the certifications. They have thrown a series of meaningless “red herrings” into the equation, such as “the process was really invented by the Russians” and “the trade has a right to know and so does the consumer” and “the integrity of the industry is at stake.” These are hopelessly flawed arguments in consideration of the fact that the industry is an illegal cartel to begin with, whether the Russian invented the process or GE has absolutely no bearing on anything and the fact that the diamond industry has been bamboozling the public for years with their high priced public relations campaigns, controlled inventories, along with ever escalating rigged price increases hardly put the diamond industry into a position of being holier than thou.

As could well have been expected, Nicky Oppenheimer addressing a GIA symposium with 1,600 participants indicated that “all diamond treatments should be disclosed in full, all the way down the chain to consumers in order to avoid compromising consumer confidence.” Oppenheimer went on to state that “diamonds should only be sold in their natural state, without any changes except cutting and polishing.”

Strong Evidence

Industry spokesman admit that apparently hundreds of GE’s stones have been to various gemological laboratories for certification and not one has been able to detect the slightest problem. This innovation and its acceptance by two major American public companies of substantial reputation may have some constructive elements for the diamond industry in spite of the ominous first look. With diamond supplies increasing at an ever-expanded volume, a system, which actually would label the diamond with the country of origin, would have a semi-positive effect. It would tend to hold off the market, stones which are used by revolutionaries to buy arms thus making the market a tad tighter⁹³. We believe that De Beers will come up with the same solution ultimately and it may save the day for them for a bit. Our crystal ball becomes a little cloudy at this point and we are not clear about a few things. Let us see how we progress.

⁹³ We really don’t believe that that is a possibility. Was is a possibility is the fact that if a really good labeling method could be developed we could turn the problem over to the same people that destroyed the fur business and let them pick on the revolutionary stones. There are massive problems with this approach as well.

Et tu Tiffany

In another public relations bombshell announcement, Tiffany announced that it was making a significant investment in the Aber Resources, Canadian Diamond operation scheduled to go on stream in 2002. Their investment was made in exchange for a right to buy a substantial number of high-quality stones in perpetuity from Aber on a preferred basis. This transaction defies the laws of diamond merchandizing, which have been so successfully carried out by De Beers in the past. The theory had been held that unless you sell a package of diamonds of various grades, sizes and clarity you will be left when the day is over with an awesome inventory of the lower grade stones. Today's announcement sends ripples indicating that this economic theory no long holds true. One only has to look to both the Australians and Russians who have been able to move a prodigious amount of low quality stones over the last several years to see the change. As a matter of fact, many in the industry say that even more of the smaller stones could have been absorbed had they been available. Why couldn't this be equally true of the larger, better quality stones, which are the ones that Tiffany is contracting to buy? Obviously, it is.

Although Tiffany has historically been a De Beers site buyer, thus getting the entire liter when it makes a purchase, it is strange that they would go this far to tie up a source. Those in the know are indicating the they believe De Beers is readying a diamond which will be branded with the De Beers name. Thus, they would start to compete with their own customers. Tiffany believes that in a retail sense, they are as well or better known than De Beers who has stuck to purely generic advertising in the past. Should these two go head to head in this arena, more will follow and the cartel will once again have reasons to fall apart at the seams. Every distributor or retailer looking to insure an ongoing supply will attempt to make the same kind of arrangement that Tiffany made with Aber, making the cartel concept about as valuable as last months newspaper.

A brand to call their own

De Beers has placed a foot in the water already in England with mixed results. The De Beers name has turned out to be dynamite and the stones are flying off jeweler's shelves. With that kind of news, what could be bad? Well we will turn you over to Nicky Oppenheimer himself for the answer to that one. "There is a very good chance that the EC might say it is an abuse of your dominant position because you're doing something for your sight-holders which is not done for the world at large." That was not De Beers' only shot at a branded product. The De Beers publicity machine turned people onto the fact that for some strange reason, diamonds by De Beers and the Millennium had something in common. Would you believe that the PR people were right once again? People bought the unbelievable story.

De Beers has gotten together an inventory of 25,000 1 to 2 carat diamonds containing a microscopic De Beers' logo and unique registration number. These stones are only now being completed and one-third have already been sold at a substantial premium of market prices. Will wonders never cease? And yet when you analyze the cost of advertising in the diamond market relative to sales, you see the industry is spending only 1% of its gross sales to move product. When this is compared to other luxury items, the result becomes frightening. The norm seems to rest somewhere between 6 and 10 percent. Thus, those in the diamond market seem to still have a lot of room left relative to ramp sales still higher.

Not so fast Nicky

No sooner had the EC indicated that what Nicky was doing could be non-competitive, De Beers' reinstated talks with the American Justice department. The only thing that stopped an immediate meeting was the fact that Justice determined that one of its top officials, Klein, should not be meeting with a person under indictment. De Beers has put on the table the fact that it is ready to start branding its stones with certificates of origin with no other pre-condition. Justice will probably set up a meeting between legal beagles on both sides.

Amicus Curiae

No sooner does it look like there may be an opportunity of De Beers putting one fire out than another comes to take its place. The UK in March of 2000, implemented what is called the Competition Act and it come under Britain's Office of Fair Trading. The Competition Act is almost an exact copy of the United States' anti-trust laws and Britain has announced its intentions of falling into step on cartels that they believe are running afoul of these regulations. Our understanding is that De Beers got the message as is already involved in dialogs with the Office of Fair Trading.

What's happening here?

It does not take a rocket scientist to see where this one is headed. By controlling branding, the General Electric, Lazar Kaplan combination loses some of its oomph. The cartel game is over anyway so if De Beers dropped it, they probably wouldn't be giving up much and would get a lot of mileage being the guys in white hates with officials from the U.S., The U.K and the E.U.. This would be a 100% shift from where they are today. De Beers are becoming the bad guys by being accused of purchasing diamonds from revolutionary groups in Africa while people are being maimed and murdered. It would not be too much longer before the De Beers name become more associated with bloodshed than with quality stones. Thus, the De Beers label would have a negative value. By cutting and running, De Beers gets the best of both worlds.

We predict that De Beers will to some degree walk away from the cartel concept opening up Europe and the United States to their branded product. They can then turn their powerful public relations machine into pushing the De Beers name as synonymous with fine diamonds. On the other hand they have to make their push before Tiffany steals the show. They must settle the cartel problem before they can deal with their branded name but it has lost most of its value anyway. We believe that this is the only way that the scenario can play out.

Not bad for a rigged market

In the meantime, sales of rough diamonds by the Central Selling Organization went through the roof. "Sales in 1999 reached a record \$5.240 billion, a 57 percent leap over 1998 sales of \$3.345 billion. But much of this increase was achieved by discounting some boxes (better goods) during seven consecutive sights. During the first six months of the year, sales had increased by a dramatic 45 percent totaling \$2.5 billion, compared to \$1.7 billion for the same period in 1998. As the year progressed sales of rough continued to rise with the year's second half sales totaling \$2.8 billion, an amazing 70 percent increase of 1998 second half sales of \$1.65."⁹⁴ It does not appear no matter which way this whole thing comes down that we are going to have hold a charity auction for De Beers.

On the other hand, it is interesting to point out that in real terms, the sale of diamonds declined by 1% per annum throughout the years 1990-1998. During the same period, De Beers inventory increased from \$2.5 billion to over \$5.0 in 1998. During the same period, the United States and Japan went from absorbing approximately 1/3 of the supply of diamonds to where last year the United States purchased over 50% and Japan less than 14%.⁹⁵

People in the diamond trade follow what has happened in the fur industry very carefully considering it extremely analogous. The fur argument simply put is that we shouldn't be killing animals just so we can have furs to wear on our backs. This aligned with dreadful pictures of animals caught in traps and dying along with Hollywood celebrities announcing to anyone that would have an interest that they would be seen dead in fur totally destroyed a major industry literally overnight.

Picture this

How would people react to seeing amputee children working the diamond mines in Sierra Leone who have obviously not had a decent meal in a long time? The only thing that has prevented a campaign along these lines is the utter economic destruction that this would bring to so many underdeveloped-third world nations who are totally dependent on diamonds to help them fight their way out of

⁹⁴ Tacy Ltd. Diamond Industry Consultants, February 8, 2000

⁹⁵ I The Economic Times, 3/6/2000 India dazzles in diamond world

poverty. For this reason and only this reason have some strange alliances taken place such as that of Nelson Mandella and De Beers. They need each other and know it. Even a small hole in the dike will blow the whole thing into a cocked hat and nobody will be able to put humpty dumpy together again.

And this

A member of the Universal Alliance of diamond workers, Yamina de Laet told the Namibian, the countries largest publication that “they had filmed children as young as six-years-old working on dangerous polishing wheels, as well as “people living and sleeping at their workplaces and trash, human faeces and industry was clogging the open sewers that run between the warren of the gemstone shops.”

India has come out of nowhere and has recently achieved the distinction of “becoming the largest manufacturer and exporter of cut and polished diamonds⁹⁶ in the world”⁹⁷ (50%) The Namibian scenario played out about the same way in India. The International Conference on Child Labor based in Oslo, Norway stated, “But while the international gem industry generated hundreds of millions of dollars in profits, tens of thousands of children in India worked in cramped, filthy and dangerous conditions for poverty wages.”

One more time

Lung disease and potential blindness is an additional problem for those in the business of cutting and polishing the precious stones. “The International Confederation of Trade Unions (ICFTU) stated ‘While the diamond and gemstone industry generated hundreds of millions of dollars in profit around the world last year, the workers who cut and polished the precious stones often receive poverty wages and work in conditions which leave them with lung disease or have blinded.’”

The scenario is simple, this ad from let’s say Green Peace can show a child with his legs amputated at the knee, suffering from incurable black lung diseased and who obviously hasn’t eaten in several days, digging for diamonds in a pit in Sierra Leone while being supported by a cane, as a soldier with a large sword sands over him. I don’t think that if Ayer or Thompson ran that shot, another woman would ever buy a diamond again. As an alternative we can snap the picture in an child working in an Indian diamond-polishing factory where the average age of the workers is 10, the average hours worked per day is 12 and the average pay is bare subsistence. Take your choice. De Beers is getting out while they still have time and once slip can mean disaster.

⁹⁶ Israel’s second International Rough Diamond Conference, April 16, 2000.

⁹⁷ The Economic Times, 3/6/2000 India dazzles in diamond world

Addendum

1998 production table

Worldwide production

Country	Mines	Tonnes ('000)	Carats ('000)	US\$/ct	US\$ ('000)	Operator
South Africa	Venetia	3,326	4,495	90	404,550	De Beers
	Premier	3,058	1,392	80	111,360	De Beers
	Koffiefontein	2,302	158	160	25,280	De Beers
	Kimberley	4,170	683	120	81,960	De Beers
	Namaqualand	6,069	768	180	138,240	De Beers
	Finsch	3,969	2,165	55	119,075	De Beers
	Marsfontein	116	532	150	79,800	De Beers/Southern Era
	Klipspringer	50	35	120	4,200	Southern Era
	Bellsbank-Ardo	240	36	220	7,920	Rex
	Baken	4,750	180	220	39,600	Transhex
	Alexco	1,200	130	260	33,800	State to be privatised
	Benco	60	25	140	3,500	Benguela Concessions
	Others	300	50	175	8,750	Various
	Total South Africa	29,610	10,649	99	1,058,035	
Botswana	Orapa	8,389	6,300	55	346,500	Debswana (De Beers)
	Lethlakane	3,419	785	110	86,350	Debswana (De Beers)
	Jwaneng	9,266	12,688	90	1,141,920	Debswana (De Beers)
	Tswapong	149	25	75	1,875	De Beers/Botswana
	Total Botswana	21,223	19,798	80	1,576,645	
Namibia	De Beers Marine	2,000	497	220	109,340	Namdeb (De Beers)
	Namco	150	128	145	18,560	Namco
	ODM	90	57	150	8,550	ODM
	Namdeb contractors	1,050	73	325	23,725	
	Namdeb onshore	25,862	705	325	229,125	Namdeb (De Beers)

	Total Namibia	29,152	1,460	267	389,300	
Angola	Catoca	1,700	1,020	68	69,360	Alrosa/
	Luo	375	75	200	15,000	DiamondWorks
	Luzamba	500	100	190	19,000	Ashton/
	Smaller mines	900	200	180	36,000	Endiama+various
	Artisans	various	1,200	248	298,000	Various
	UNITA artisans	various	2,500	102	255,000	Various
	Total Angola		5,095	136	692,360	
D.R. Congo	Mbuyi-Maji	5,000	6,500	10	65,000	MIBA
	Artisans	various	14,862	40	595,800	Various
	Total D.R.Congo		21,362	31	660,800	
Tanzania	Williamson	1,384	93	150	13,950	De Beers/Tanzania state
Central African Rep.	Artisans		550	211	116,050	Various
Ghana	Mainly artisans		525	23	12,075	Various
Ivory Coast	Artisans		166	136	22,600	Various
Liberia	Artisans		256	105	26,820	Various
Sierra Leone	Artisans		900	140	126,000	Various
Guinea	Small operators+artisans		596	195	115,922	Various
Lesotho	Small operators+artisans		53	367	19,290	Various
Brazil	Small operators+artisans		1,400	46	116,050	Various
Venezuela	Small operators+artisans		350	128	44,800	Various
Guyana	Small operators+artisans		15	80	1,200	Various
China	Small operators+artisans		150	90	13,500	Various
Indonesia	Cempaka	3,750	35	190	6,650	Ashton
Australia	Argyle	17,000	40,900	10	398,000	Rio Tinto / Ashton
	Merlin	55	20	80	1,600	Ashton

	Total Australia	17,055	40,920	10	399,600	
Canada	Ekati	250	250	130	32,500	BHP / Dia Met
Russia	Udachnaya	8,000	10,200	95	969,000	Alosa
	Jubilee	7,000	4,200	60	252,000	Alosa
	Others	1,000	700	90	63,000	Alosa-other state enterprises
	Total Russia	16,000	15,100	85	1,284,000	
World total			119,723	56	6,728,147	

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Diamond sales are expected to be even stronger this year in spite of new properties coming on stream Debswana, a partnership between the government of Botswana and De Beers, is shooting to double their annual production at the Orapa **diamond** mine to 12 million from 6 million carats. While Russian production is not particularly going to rise this year, new and import diamond finds seem to be the order of the day in that country.

The world's second-largest producer, Russia, cranked out US\$1.6 billion worth of stones last year. De Beers feels that the major producing mines -- Udachnya, Jubilee, Mir, and International -- will hold **production** steady, while the potential for new discoveries remains high. Everyone is going to try to prime the pump while prices are fairly high and demand is excellent.

Estimated diamond production by region in 2000 is listed below as a percentage of the total value.

Botswana,	24%
South Africa	15%
Namibia	6%
South America	5%

Canada	4%
Australia	4%
Russia	18%
Angola	10%
Congo	5%
Rest of Africa	5%
Illicit & Other	3%

These figures seem to indicate that the trade in illicit diamonds will get somewhat under control in the current year. We doubt it.