

RAPAPORT®

UN Global Compact Communication on Progress

4th COP

Rapaport Group

May 2012

In this document **the Rapaport Group** describes how it upholds and supports the ten principles of the United Nations Global Compact Initiative.

Statement of Support

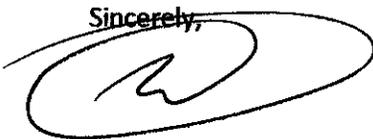
The past year has been a time of exciting growth and development for ethical initiatives at the Rapaport Group. In our fourth year of membership to the UN Global Compact, we remain committed to its ideals *and are continually working to further them through our position as leaders in the diamond industry.*

Our Fourth Communication on Progress highlights new initiatives and groundbreaking steps we have taken over the past year. In August of the past year we announced Rapaport Ethical Diamond Certification, a project which builds upon our experience working in Sierra Leone, as well as on our widely known position within the diamond industry that alternative systems to the Kimberley Process must be developed in order for ethically sourced diamonds to be made available to the public. This will be a long term process but we are excited to have begun the journey.

Additionally, in April of this year we launched a redesigned website, www.rapaportfairtrade.com, and the Rapaport Ethical Jewelry Directory. Both the website and the Directory are landmark achievements *in the diamond and jewelry industry. The Directory is a resource for consumers and industry members to search for, learn about and connect with suppliers of ethically sourced diamonds, precious metals and finished jewelry.* [Rapaportfairtrade.com](http://www.rapaportfairtrade.com) is the first ethical diamond and jewelry information website made accessible to both consumers and industry members, providing both educational and practical sourcing opportunities to the public free of charge.

We look forward to maintaining an active pace of growth and development for our ethical initiatives over the coming months as well. The launch of our Ethical Jewelry Campaign is set for June 2012 at the JCK Las Vegas Show. Through social media and in person events, we are growing a dedicated base of industry members and consumers committed to eradicating conflict diamonds and metals from the marketplace. We are excited to be the driving force behind this powerful movement, and to embody so many of the integral principles of the UN Global Compact in our initiatives. We look forward to furthering these ideals through our expanding efforts in the coming years.

Sincerely,

A handwritten signature in black ink, appearing to be 'M. Rapaport', enclosed within a large, hand-drawn oval.

Martin Rapaport

Chairman, Rapaport Group

The Ten Principles of the United Nations Global Compact

Human Rights

Pages 1-2

- Principle 1: Business should support and respect the protection of internationally proclaimed human rights;
- Principle 2: make sure they are not complicit in human rights abuses.

Labor

Page 3-4

- Principle 3: Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labor;
- Principle 5: the effective abolition of child labor;
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Page 5-6

- Principle 7: Businesses are asked to support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility;
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Pages 7-9

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Human Rights

Principle 1: Business should support and respect the protection of internationally proclaimed human rights;

Principle 2: make sure they are not complicit in human rights abuses.

GRI indicators represented: HR1, HR2, HR3, HR4, 4.8, 4.10, 4.12, 4.13, 4.17, SO 5

Human Rights and the Diamond Industry

The heart and soul of the Rapaport group revolves around human rights principles. In an industry often fraught with human rights issues and undefined ethical requirements for mining and sourcing practices, we have made ethical sourcing and human rights a priority both within our own operations and in our dealings with other industry members.

The past year has seen many changes in the diamond industry with regard to human rights issues, and Rapaport has maintained our strong non-tolerance policy wherever there has been any concern of human rights abuses. In November of 2011, the Kimberley Process authorized the release of millions of carats of diamonds from the controversial Marange region of Zimbabwe, as well as future production. As we have repeatedly voiced throughout the duration of the Marange conflict within the Kimberley Process, Marange diamonds have been associated with severe human rights abuses and are now under sanctions in the U.S. and E.U. As such, the diamonds are not legal for sale in U.S. and E.U. jurisdictions, in addition to continuing to tread on questionable ethical territory with regard to human rights. In response to the Kimberley Process authorization the Rapaport Group issued a swift trade alert (Appendix A) alerting industry members and advising them to avoid these diamonds. This was followed by a specific press release (Appendix B) and open industry-wide conference call to further explain the Rapaport position and make sure that all members of RapNet, the Rapaport online diamond trading network, understood that they would be removed from the trading network for listing Marange diamonds.

Our response to the Kimberley Process announcement was only one incidence in a long history of calls for increased vigilance regarding human rights in the diamond industry. In August of 2011, Rapaport Group Chairman Martin Rapaport published an article, "After Kimberley, Now What," (Appendix C) reiterating the Rapaport Group position that the Kimberley Process definition of conflict diamonds is insufficient, and outlining a plan for the industry to move forward and address human rights issues beyond the Kimberley Process.

The Rapaport International Diamond Conference was held on September 12, 2012 in New York City, and devoted the entire afternoon of the one-day gathering to human rights issues. Bringing together major industry leaders, we featured presentations from the Responsible Jewellery Council, the U.S. State Department, and the GreenShows. As always, our approach was to raise

pressing human rights issues and concerns, as well as focus on solutions and productive ways forward.

Rapaport Plan for Addressing Human Rights Issues

The Rapaport plan for addressing human rights issues in the diamond industry is multifaceted. It consists of several different initiatives addressing a variety of constituencies, including industry and consumer populations. The first of these has been a complete redesign of our Rapaport Fair Trade website, which serves as the portal for our fair trade and ethical sourcing initiatives. To make the site more current and accessible to consumers as well as industry members, we added several new features, such as the “Rapaport Library,” which houses videos, research reports, and thorough analysis of current affairs in language that is understandable by industry members and non-industry alike. Another new feature is “What’s Your Take?,” an interactive blog and discussion forum which provides visitors a place to air concerns, ask questions, and engage in discussion with peers, colleagues and our well-informed staff. As always, we remain accessible to all visitors through a “Contact Us” section, and we make it a priority to respond promptly and thoroughly to any questions, particularly those from industry members relating to human rights and ethical sourcing. (See Appendix D for images from the website)

Another recent initiative is our Campaign for Ethical Jewelry. This is a global effort to raise awareness among consumers and industry members regarding human rights issues and the diamond supply chain. The Campaign for Ethical Jewelry will launch at the beginning of June 2012 and will encourage consumers, jewelers and diamond/gold suppliers to take a pledge affirming their commitment to ethical products. The pledge encourages consumers to ask their jewelers, and jewelers in turn to ask their suppliers, about the origins of the jewelry they are selling. Rapaport provides consumers and jewelers with the resources they need to ask the right questions and encourage those who come before them in the supply chain to investigate their products.

The long term plan currently in development by Rapaport is a full Rapaport Ethical Certification System. A large portion of our work the past year has been devoted to laying the groundwork for this comprehensive initiative. The goal of the Rapaport Ethical Certification will be to track diamonds from the mine site through to grading and certification. We will work with an independent third party certification to ensure the legitimacy of the system. Though this will require a significant investment of our time and resources, we firmly believe that a comprehensive Ethical Certification System is the way forward for the diamond and jewelry industry.

Labor

Principle 3: Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labor;

Principle 5: the effective abolition of child labor;

Principle 6: the elimination of discrimination in respect of employment and occupation.

Labor Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

Rapaport is committed to adhering to its previously stated position of going beyond all legal requirements to provide fair, flexible and appropriately remunerated employment to its entire permanently employed and freelance workforce across its global offices. We remain steadfast and committed to providing transparent remuneration, flexible working practices and day -to - day working conditions with appropriate benefits for all our staff and personnel, which are on the whole in excess of industry standards and minimum legal requirements.

Principle 4: The elimination of forced and compulsory labor

GRI Indicators Represented: HR7

Rapaport continues to advocate for increased transparency and vigilance to ensure proper labor conditions at mining and manufacturing sites. We firmly disallow the sale of any and all goods on RapNet, our online diamond trading network, which we believe may be associated with forced and compulsory labor or any other unethical practices, defined as human rights violations, significant environmental damage, illegal activities, or sanctions by U.S. or E.U. governments. (Appendix E)

Principle 5: Abolition of child labor

GRI indicators represented: HR6

Rapaport continues to adhere to all local laws in relation to child labor, and we do not use any forms of child labor.

The reduction and elimination of child labor continues to be addressed through the advancement of our ethical diamond certification system and our Campaign for Ethical Jewelry.

Principle 6: The elimination of discrimination in respect of employment and occupation.

GRI indicators represented: LA 10

There continues to be no discrimination in the company`s employment practices on the grounds of race, color, creed, religion, national origin, gender, age, or sexual orientation. The company is an equal opportunity employer and the sole criteria for hiring and promotion is based on employee qualifications, performance, abilities and competencies required to do the job. We also remain to committed to being an advocate for fair employment practices throughout the industry through our role as global service providers.

Environment

Principle 7: Support precautionary approach to environment

GRI indicators represented: 3.13

Rapaport has played and continues to play a significant role in encouraging a new concept in the diamond industry: recycled precious gems and metals. Through our Rapaport Auctions division, we encourage the resale of large quantities of loose diamonds to companies that operate around the globe. As the trend of resale grows, the need for newly mined diamonds is diminished. This precautionary approach is being developed further by our team as we work toward the creation of a Recycled Diamond Certificate.

Principle 8: Undertake initiatives to promote greater environmental responsibility

GRI indicators represented:

EN3, EN4, EN5, EN6, EN7, EN14, 1.1

As Rapaport works toward the creation of our Recycled Diamond Certificate, we are taking into account the transformative process that any potential recycled diamonds undergo. We are striving to ensure that this process is conducted in an environmentally responsible manner and that any recycled diamonds bearing our certification will be environmentally responsible both in their post-consumer status and throughout their transformative process.

Principle 9: Development and diffusion of environmentally friendly technology

GRI indicators represented: EN17

The key environmental goals within Rapaport's own business structure have focused around office energy, efficiency, transportation and ways to reduce our carbon footprint and this continues to be the focus of our environmental responsibility.

Rapaport continues to work on improving the way it does business in a changing environment. The initiatives which have been introduced to promote greater environmental responsibility by using renewable energy sources and to increase energy efficiency (for example, by the use of more energy efficient light bulbs, the turning off of computers, printers, water coolers and urns overnight) have resulted in substantial energy savings. We are beginning to see dividends and the positive benefits which have resulted from the adoption of these measures in the form of reduced utility bills which are now being received by the organization. Printing on both sides of a page whenever possible and only upon recycled paper is now de rigueur in our organization. These endeavors have led to substantial recycling benefits and have significantly reduced indirect energy consumption.

The Rapaport organization strives to continue to contribute to a sustainable environment in the years ahead by the adoption of the above and similar environmentally friendly and energy savings initiatives.

Anti-Corruption Principles

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

GRI indicators represented:

HR 1, HR2, HR 3, 4.8, 4.9, 4.10, 4.12, 4.13, 4.17, SO2, SO3, SO4, & SO5

The Rapaport Group of Companies firmly believes that all businesses should work against corruption in all its forms.

The Rapaport Group remains committed to maintaining high legal and ethical standards in the diamond industry and requires all suppliers of diamonds offered for sale and participants at Rapaport Auctions and traders on our trading networks to meet legal, ethical and our Rapaport minimum human rights standards. The Rapaport Group is unwavering and unflinching in its commitment to an honest, fair, secure, transparent, efficient and competitive market for the trading of diamonds, gems and jewelry and the furthering of its policy of conducting business to the highest moral and ethical standards and business practices in full compliance with all applicable laws and regulations, including but not limited to, the Kimberley Process, U.S. Patriot Act, and U.S. Federal Trade Commission Guidelines. Rapaport seeks to do business only with those who share and support its commitment to these values and has instituted a due diligence evaluation and compliance review procedure for all future potential business partners seeking to enter into a strategic business relationship with our organization.

No dishonest, illegal and unethical activities or behavior, such as bribery, fraud, corruption, money–laundering, or the trading in conflict or “blood diamonds” are tolerated by any potential business partners or recipients of our services. This is clearly borne out in Rapaport’s RapNet Code of Conduct, Terms of Service and Trading Rules to which all customers and users of our RapNet diamond trading network service must subscribe. The Code of Conduct, Terms of Service, and trading rules are subject to regular review and was revised this year to reflect new Rapaport policies regarding trade in conflict diamonds. (See Appendix E)

We are committed to the need for the diamond and jewelry industry to establish realistic sourcing standards based on sustainable legal and ethical principles which we have defined as our Rapaport minimum standard. This is encapsulated in the following statement:

“All diamonds that are legal and not directly involved in severe human rights violations should be freely, fairly and legally traded “

In order to participate in Rapaport Auctions or other Rapaport trading activities all diamonds offered for sale must be legitimately sourced.

Rapaport’s position regarding ethical standards in the diamond trade is that the diamond and jewelry industry must take full responsibility for their ethical choices and actions and must not

delegate their ethical values to trade organizations or others. Rapaport recognizes that ethical standards is about applying a system of universal moral values to one's decision making and that ethics transcends the law. Being ethical means internalizing your values and doing the right thing by following your conscience. But businesses don't have souls and don't have a conscience. Companies are profit motivated simply to do what they have to do to make money. Fortunately in ethical societies the things that companies have to do to make money force them to adopt ethical principles. Rapaport believes that society needs to create demand for ethical products and destroy demand for unethical products by getting consumers to buy into one's proposed ethical values. The application of ethical standards that transcends law is a business matter driven by consumer demand. Society gets the exact level of ethical value it is willing to pay for. Rapaport espouses the view that from a company and consumer perspective ethics must be considered as another added value service or product. Ethical products, like ethical diamonds and jewelry, must be treated as a sustainable business opportunity that requires real demand. Business ethics is not another form of ethics, ethics is another form of business.

Rapaport does not tolerate any fraudulent activity on its website and trading platforms and condemns all fraudulent diamond trading including the trading of fraudulent grading certificates. Such trading is a clear violation of the RapNet Terms of Service and user agreement. Violators will be removed from the RapNet trading network. This year, two RapNet users were suspended from the trading network after being found to be trading in sanctioned diamonds from the Marange region of Zimbabwe.

Rapaport has not hesitated to take immediate necessary steps to eradicate the trading of fraudulent grading certificates when such illegal activity was identified to have taken place on its network and an immediate caution and warning was issued to other RapNet users and subscribers alerting them of this illegal activity and for them to be watchful of such illegal practice in the future.

[Performance Indicator – SO4].

The actions and activities taken to achieve the above:

1. Rapaport's continued commitment to legal compliance and ethical business dealings and practices enshrined in our Code of Conduct, Terms of Service and Trading Rules and other core documentation detailing the terms of service and use rules applicable for trading on our RapNet service to which all customers and users of our RapNet diamond trading network ("RapNet Members ") must adhere. These rules and regulations ensure that diamond trading takes place on our trading platforms in full compliance with all applicable laws, legal and ethical business practices, and that all aspects of the Kimberley Process and anti-money laundering regulations relating to the diamond industry are followed;

2. The reissuing of an updated Code of Conduct, Terms of Service and Trading Rules to reflect the above values (See Appendix E);
3. Continued regular monitoring and auditing of group activities and business dealings to ensure proper and strict compliance and adherence to laws and to serve to promote sound and ethical business practices;
4. Conducting of ongoing employee educational programs to re-enforce and strengthen employee knowledge and methodology for carrying out of employee functions for customer identity verifications, checks and procedures for detection of money laundering activities, fictitious and fraudulent transactions;
5. Announcement and ongoing preparation of the Rapaport Ethical Certification System, aimed at legitimatizing and making available all diamonds that are not involved in human rights abuses or other unethical activity;
6. The publication of articles, press releases and speeches on ethical issues in the diamond industry;
7. Holding of conferences to promote discussion and dialogue on the application of ethics to the diamonds trade. An afternoon session was devoted to this topic at the Rapaport 2011 International Diamond Conference held in New York on September 12, 2011. Additionally, Rapaport Fair Trade Conferences were held at the Baselworld trade show and the JCK Las Vegas Trade Show in March and June of 2011.

Index of GRI Performance Indicators Relevant to the Implementation of the Global Compact Principles

GRI Indicator	Description	Reported Under	Pages
HR 1	Description of policies, guidelines, corporate structure, and procedures to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results	Principles 1, 2 & 10	1-4 & 7-10
HR 2	Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers/contractors and customers	Principles 1, 2 & 10	1-4 & 7-10
HR 3	Description of policies and procedures to evaluate and address human rights performance with the supply chain and contractors and customers, including monitoring systems and results of monitoring	Principles 1, 2 & 10	1-4 & 7-10
HR 4	Description of global policy and procedures/ programmes preventing all forms of discrimination in operations, including monitoring systems and results of monitoring	Principles 1&2	1-4
HR 6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	Principle 5	5
HR 7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	Principle 4	5
LA 10	Description of equal opportunity policies or programmes, as well as monitoring systems to ensure compliance and results of monitoring	Principle 6	5
3.13	Explanation of whether and how the precautionary approach or principle is addressed by the organization	Principle 7	6
EN 3	Direct energy consumption by primary source	Principle 8	6
EN 4	Indirect energy consumption by primary source	Principle 8	6
EN 5	Energy saved due to conservation and efficiency improvements	Principle 8	6
EN 6	Initiatives to provide energy efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	Principle 8	6
EN 7	Initiatives to reduce indirect energy consumption and reductions achieved	Principle 8	6

EN 14	Significant environmental impact of principal products and services	Principle 8	6
1.1	Statement of the organization's vision and strategy regarding its contribution to sustainable development	Principle 8	6
EN 17	Initiatives to use renewable energy sources and to increase energy efficiency	Principle 9	6
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	Principle 1& 10	1-4 & 7-10
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	Principle 10	7-10
4.10	Processes for evaluating the highest performance body's own performance, particularly with respect to economic, environmental, and social performance	Principle 1& 10	1, 7-10
4.12	Externally developed economic, environmental, and social charters, principles, or other indicatives to which the organization subscribes or endorses	Principle 1& 10	1, 7-10
4.13	Membership in associations (such as industry associations) and /or national /international advocacy organizations in which the organization: has positions in government bodies/participates in projects or committees/provides substantive funding beyond routine membership dues or views membership as strategic	Principle 1, 7&10	1-4 & 7-10
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organization has responded to those key topics and concerns, including through its reporting	Principle 1& 10	1-4, 7-10
SO 2	Description of the policy, procedures/management systems, and compliance mechanisms for organizations and employees addressing bribery and corruption	Principle 10	7-10
SO 3	Percentage of employees trained in organization's anti-corruption policies and procedures	Principle 10	7-10
SO 4	Actions taken in response to incidents of corruption	Principle 10	7-10
SO 5	Public policy positions and participation in public policy development and lobbying	Principle 1& 10	1-4 & 7-10

Appendix

- Appendix A: "TRADE ALERT: Marange Diamonds, Human Rights Abuses," Rapaport News, www.diamonds.net, November 3, 2011.
- Appendix B: "Rapaport Calls on Diamond Trade to Avoid Marange Diamonds," Rapaport Press Release, www.diamonds.net, November 22, 2011.
- Appendix C: "After Kimberley, Now What," Martin Rapaport, Rapaport Magazine, August 2011.
- Appendix D: Homepage, Rapaport Library, What's Your Take, www.rapaportfairtrade.com, accessed May 30, 2012.
- Appendix E: RapNet Trading Rules, www.rapnet.com, accessed May 30, 2012

Rough Markets

TRADE ALERT: Marange Diamonds, Human Rights Abuses

These Rough Diamonds Are Sanctioned by U.S., E.U. Regulations

Nov 3, 2011 12:29 PM By Rapaport

RAPAPORT... TRADE ALERT: The Kimberley Process with the approval of the World Diamond Council has just authorized the release of millions of carats of Marange diamonds. These diamonds are [sanctioned by U.S. OFAC](#) and E.U. regulations and cannot be legally purchased by U.S. or E.U. entities. Diamonds from these sources have been involved in human rights abuses. RapNet members are warned not to offer these diamonds for sale on RapNet. Ethical buyers should verify their diamond sources.

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Fair Trade

Rapaport Group Calls on Diamond Trade to Avoid Marange Diamonds

RapNet extends ban on Marange diamonds, will expel and name members violating policy.

Nov 22, 2011 8:08 AM By Rapaport

RAPAPORT... PRESS RELEASE, November 22, 2011, New York: The Rapaport Group strongly opposes the recent decision of the Kimberley Process (KP) to allow for the immediate exports from the mining operations Mbada Diamonds and Marange Resources in the Marange region of Zimbabwe.

We hereby publicly warn members of the diamond trade that the KP does not certify against human rights abuses and KP certification does not ensure that diamonds are not involved in human rights abuses. Furthermore:

1. There are persistent reports of human rights violations related to Marange diamonds.
2. In spite of KP certification these diamonds are under U.S., EU and U.K. government sanctions and are illegal for trade by U.S., EU and U.K. citizens and entities owned by them.
3. The funds generated from the sale of these diamonds are not properly accounted for. It is likely that they will be used to fund human rights violations in Zimbabwe.

The Rapaport Group calls on all ethical members of the diamond trade to cease and desist from the trading of Marange diamonds. In the event that firms insist on buying and producing them we demand that these Marange diamonds be separated from non-Marange diamonds so that they are not sold to U.S., EU or U.K. entities. We firmly believe that the mixing of Marange diamonds with non-Marange diamonds and their subsequent sale to U.S., EU or U.K. entities without disclosure is unethical and illegal. We demand that firms selling Marange diamonds do so with full disclosure, similar to the disclosure requirements for treated diamonds.

RapNet - Rapaport Diamond Trading Network continues to ban the trading of any diamonds sourced from Marange, Zimbabwe even if such diamonds have KP certification. Members found to have knowingly offered Marange diamonds for sale on RapNet will be expelled and their names will be publicly communicated. RapNet will be publishing new trading rules and ethical guidelines in the near future.

The Rapaport Group warns the diamond trade that continued sourcing and legitimization of diamonds involved in human rights abuses threatens the integrity and reputation of all diamonds. Diamond trade organizations particularly those promoting responsible trade and those serving in the U.S., EU and U.K. trade should immediately issue clear guidelines banning all their members from trading Marange diamonds. We believe it is unethical for trade organizations to refrain from clearly banning the trade in illegal Marange diamonds under the guise of supporting the KP.

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About the Rapaport Group: The Rapaport Group is an international network of companies providing added value services that support the development of free, fair and competitive global diamond markets. Established in 1978, the Rapaport Diamond Report is the primary source of diamond prices and market information. Group activities include publishing, research and marketing services, internet information and diamond trading networks, global rough and polished diamond tenders, diamond certification, quality-control, compliance, shipping, and financial services. Major activities of the group include the development of markets for

Fair Trade Diamonds and Jew elry as well as the creation of diamonds futures markets. Additional information is available at www.diamonds.net.



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AFTER KIMBERLEY... NOW WHAT?

BY MARTIN RAPAPORT

By now it should be clear that a Kimberley Process (KP) certificate does not ensure a diamond is free of human rights violations or other serious ethical problems. In fact, a KP certificate does not even ensure that a diamond is legal for trade in the United States or European Union.

The recent release of over \$200 million dollars of KP-certified Marange diamonds opens a Pandora's Box of complex ethical, legal and financial issues that the diamond industry is struggling to address.

Questions abound. How does one deal with the fact that KP certificates are being issued for diamonds that violate U.S. sanction regulations and cannot be legally sold to U.S. companies? How do you know that the diamonds you are buying were not involved in severe human rights violations? What if diamonds are "only" involved in funding repressive regimes that murder and torture political opponents? What about "unknown" diamonds from Angola, the Congo and Cote d'Ivoire? Are they okay? If you don't buy "bad" diamonds – won't someone else buy them for low prices and then compete with you? If others are buying — why should you miss out?

One fundamental question is: Who is responsible for ensuring that the diamond industry is not promoting human rights violations through the purchase of diamonds?

Over the past few years, industry trade organizations have taken the position that it is the role of governments through the KP to ensure the legitimacy of the diamond trade. Millions of dollars have been spent promoting and proclaiming that KP certification and the "System of Warranties" guarantee that "diamonds have been obtained from legitimate sources." However, as evidenced by the recent KP certification of U.S.-banned Marange diamonds, that is a false and dishonest position.

The diamond trade can no longer get away with telling consumers and each other that having a KP certificate ensures diamonds are legitimate. Even a child can see that the KP emperor has no clothes.

GOVERNMENT LIMITATIONS

While governments are very powerful on a national level, their power is severely limited on an international level. This is particularly true when governments interfere with internal human rights issues of another nation. No government wants another government to tell it how to deal with its own people and their human rights. Absent a United Nations Security Council (UNSC) resolution or an act of war, no government has the legal right to force another government to do or not do anything.

It is important to understand that the KP is run by governments for governments and its purpose is to protect the self-interest of those governments, not the interests of the diamond trade. The governments running the KP have a broad range of competing interests, obligations and priorities. A solid majority of member governments, including China, Russia, South Africa and the other African producer nations never wanted and do not now want human rights to be part of the KP. Consider things from the African perspective. If you represented an African diamond-producing country, would you agree to a system whereby white people in America and Europe decide if you can sell your diamonds based on their human rights values? Would America agree to let Africans control their right to export products? If the KP voted, there is no question that a majority would support the immediate export of all Zimbabwean diamonds irrespective of any human rights violations. To most governments, the issue is not human rights; it is sovereignty — the right of governments to independently control their exports.

It's not the fault of governments or the KP that they are unable to solve the problem of human rights in the diamond industry. The KP was designed to respond to United Nations Security Council (UNSC) resolutions that embargo diamonds to stop wars — as was the case in Sierra Leone in the late 1990s. It was not designed and never had a consensus for the elimination of human rights violations.

So let's make it clear. The problem isn't the KP and the solution isn't the KP. The real problem is the fact that the diamond and jewelry industry refuses to take responsibility for the human rights violations that are taking place in the artisanal mining sectors. The dishonest attempt by trade organizations to lay human rights problems at the feet of the KP, which is incapable of dealing with them, is shameful, wrong and evil.

Perhaps it wouldn't be so bad if the political wrangling was just about money or jobs. But it isn't. Artisanal diggers and innocent civilians were murdered, raped and enslaved. We must be able to differentiate between business as usual and terrible unacceptable things happening in our supply chain. The diamond industry bought, sold and profited from the Marange blood diamonds of October 2008 as if nothing was wrong, as if people had not died. You have to wonder — where are these blood diamonds today? Are they in your safe? Is your customer wearing them? Consider the fact that no trade organization stopped the trade in these blood diamonds in 2009 because the diamonds were legitimized with KP certificates.

RESPONSIBILITY

So let's answer our first fundamental question: Who is responsible for ensuring that the diamond industry is not promoting human rights violations through the purchase of diamonds?

You are. Every single rough dealer, cutter, polished dealer, jewelry manufacturer, wholesaler, retailer and consumer is individually and personally responsible for what they buy. You can't rely on governments or trade organizations. You have to make a fair and honest effort to ensure your supplier is not selling you bad diamonds. And it's not just Marange diamonds. It's about Congo, Angola and other problematic artisanal diamond sources. And what about gold? What about colored gemstones?

Now it might seem irresponsible and unrealistic for us to place the responsibility for an ethical jewelry industry on hundreds of thousands of individual members of the jewelry trade scattered across the globe. After all, individuals do not have law enforcement powers. They do not control customs. How can we as individuals stop evil? How can we stop smuggling and bribing and governments in Africa that use their soldiers against their own people?

Let's get realistic and accept the fact that we can't stop evil. But let us also accept the fact that we can no longer go on supporting evil. Let's accept and support the fact that we have the ability and obligation to control who we give our money to. Let's recognize that sometimes our decision about what we buy and where we buy is a life-and-death decision for someone else.

U.S. POSITION

Consider the position taken by the U.S. government. President Bush banned U.S. entities from trading with the Zimbabwe Mining Development Corporation (ZMDC) on July 25, 2008. Since then, U.S. entities have not been allowed to buy ZMDC's diamonds, including diamonds from the Mbada and Canadile mines, even if they have KP certificates.

Now, why would the President do this? Didn't he know that Indian companies buy these diamonds and mix them with other diamonds making it difficult for

Excerpt: Letter from U.S. Office of Foreign Asset Control to Martin Rapaport

“You also seek guidance on whether a U.S. person may purchase diamonds from other foreign companies which have purchased diamonds from Mbada or Canadile. Please be advised that a U.S. person may not procure goods, services or technology, including diamonds, from a blocked person directly or indirectly (including

through a third-party intermediary). Please also be advised that the prohibitions on transactions involving blocked property apply to transactions by a U.S. person in a location outside the United States with respect to property in which the U.S. person knows, or has reason to know, a person whose property and interests in property

are blocked has or has had an interest since the effective date of the blocking. See ZSR, §541.406. Therefore, a U.S. person generally cannot purchase diamonds from a foreign company if the U.S. person knows, or has reason to know, that a blocked person has or has had an interest in the diamonds since the effective date of the blocking.”

A list of OFAC blocked entities is available at <http://www.treasury.gov/ofac/downloads/t11sdn.pdf>

U.S. retailers to know if they are buying Marange diamonds? Why was the President putting the responsibility and threat of jail sentences on company directors and individuals buying these diamonds?

The message here is that governments hold the private sector responsible for how they spend their money. It's the law. Whether your company buys goods that fund terrorism, supports governments that kill diggers or pays bribes, you are responsible. You can't get off the hook by claiming that other people do it. Your money is your responsibility, period.

It's interesting to note that the letter from the U.S. Office of Foreign Assets Control (OFAC) to Martin Rapaport (see page 31) clearly prohibits "indirect purchases of diamonds" if a person knows or "has reason to know" the diamonds are from ZMDC's Mbada or Canadile mines. Given the fact that well over \$300 million of these diamonds have been exported recently from the UAE and South African with KP certificates, buyers undoubtedly have "reason to know" that the diamonds they buy may originate from sanctioned ZMDC sources. It looks like the U.S. and probably EU diamond trade can't simply make believe that the diamonds they buy are okay because they have been mixed. The "if you can't beat the law, confuse the law" approach isn't going to work.

ETHICAL CERTIFICATION

So what do we do about this? It's obviously time to separate the good diamonds from the bad and unknown diamonds. We can no longer assume that a diamond purchased from an unknown source is good. We have to ask questions and get assurances from suppliers that are well beyond the "KP System of Warranties" statement on the invoice (see box this page).

Invoices

Rapaport suggests that the following text be required on all supplier diamond invoices in addition to the standard Kimberley Process notification.

Note bracketed items to be included as appropriate. We do not know or suggest that such notification is sufficient due diligence on the part of U.S. entities buying diamonds. Consult your attorney to ensure you are meeting your compliance requirements.

"The supplier hereby warrants that reasonable due diligence has taken place to ensure that the [natural, untreated] diamonds hereby invoiced [provided on memorandum] have not been sourced from entities blocked by the U.S. Office of Foreign Asset Control or other government agencies."

The fundamental solution to the ethical and legal problem of buying diamonds that are involved in or fund human rights violations is the establishment and support of Ethical Certification Systems. Such systems would address a broad range of social issues and offer a grading system (see page 33) that enables suppliers and their customers to price and trade a range of ethical products.

A Rapaport Ethical Certification (EC) system would accomplish the following:

- Identify the production process and producers from raw materials to certified product
- Rate and audit the ethical status of all the product production processes
- Confirm and audit all transformation processes and transition points to ensure product identity
- Physically identify the final certified product to enable reverse and progressive traceability
- Conduct independent third party audits of the auditing procedures and random spot checks of the production and auditing processes (without prior notification)
- Transparently communicate the certification processes and the limitations of the Ethical Certificate

It is important to recognize and support the efforts of the Responsible Jewellery Council (RJC). The RJC has established standards for the ethical certification of companies in the jewelry sector based on Organization for Economic Cooperation and Development (OECD) guidelines and a consultative process. The RJC is also in the process of establishing voluntary Chain of Custody (CoC) standards that will enable ethical certification of products. While the RJC is not perfect and has critical ethical limitations related to their reliance on KP certification and conflict diamond definitions as a basis for ethical conduct, their approach, intention and direction is improving and they are an important positive force for the development of ethical certification in the jewelry industry. Members of the trade are strongly encouraged to join and involve themselves with the RJC. At this stage it is the best way to learn about your ethical responsibilities and establish your ethical identity.

While the De Beers Forevermark and BHP Billiton's CanadaMark™ branding initiatives are primarily designed to increase the downstream value of their diamonds, they do provide a recognizable level of ethical certification based on the fact that the diamonds originate from known ethical sources and the production process is audited to conform to documented best practice principles.

The advent and intensification of additional diamond and jewelry branding initiatives will undoubtedly increase demand for ethical certification. While branding increases profits through the marketing of an added-value promise to the consumer, it also leaves a company susceptible to extreme damage in the event of ethical misbehavior.

In the late 1990's Nike experienced a branding crisis due to the discovery and disclosure by news organizations of exploitative employment practices. The negative impact on Nike was not limited to the reputation or social aspects of its brand. Profits fell by 49 percent and share prices plummeted by 57 percent. Fortunately, Nike recognized the problem and implemented strict supply chain controls. The message is clear — if you are going to brand your products, you had better get your ethical priorities in order. Efficient and transparent ethical certification is an optimal way to address this need.

THE ETHICAL PROCESS

While the ethical certification solution addresses the needs of downstream manufacturers and retailers, it does not solve the terrible human rights challenges confronting the artisanal mining community. While jewelers might find safety under the protection of ethical certification for good diamonds, the diggers of Marange will likely continue to be abused and violated as Zimbabwe turns to elections and diamond revenue is used to fund violence. Make no mistake about it, no one is going to throw Marange or other problematic diamonds down the toilet because responsible jewelers refuse to buy them. China and Russia are already bidding heavily for these diamonds and they will pay a high price given the state of the market. So other than protecting our own economic self-interests and operating in compliance with U.S. and EU legal requirements what good will our ethical certification systems do for others? Will they make any difference to the diggers? Will they save any lives?

Implementation of ethical certification will create a process of unintended sustainable consequences that are not obvious. The diamond and jewelry industry is undoubtedly on the slippery slope of legitimization. In spite of the “animal instincts” of our highly price-competitive dealer markets, our downstream trade is evolving. As mining companies absorb an ever increasing percentage of available manufacturing profits, cutters and dealers are forced downstream and are evolving into sophisticated added-value, brand-conscious, luxury merchants. We are not only repositioning our products; we are repositioning ourselves.

Change will only take place if it is driven by money and profits. While it is important for this writer to shout out about the terrible injustice in the artisanal sector, I have very little illusion that corporate titans will transform

RAPAPORT ETHICAL PRODUCT SCALE

Fair Trade



Recycled



Ethical



Unknown



Problematic



Sanctioned



**Human Rights
Violence**

themselves and their companies into sensitive altruistic entities. Positive change will only take place if it is supported and justified by sustainable economic incentive.

Given the hard unfortunate fact that we cannot eliminate evil, our next best option is to incentivize good with the intention that good will drive out evil. Ethical certification can accomplish this because it enables good behavior to be turned into profit. Without ethical certification, what is the economic benefit in being good? From a purely business perspective, why increase expenses to be good, if no one knows it and you can't get more money for it? On the other hand, if you can certify your goodness and get more money for it, then it pays for you to be good. That payment is the economic justification that will drive the shift to ethical behavior.

TRIPLE X ETHICAL CERTS

Consider what happened with excellent cut diamonds. The American Gem Society (AGS) came out with triple zero's and then Gemological Institute of America (GIA) came out with triple X's. Before the excellent cut certification game began, cutters didn't cut to such excellent standards. Only after excellent certification was established and communicated through certification did the quality of cutting levels significantly increase. That is because triple X certs brought a higher price, not because cutters altruistically enjoyed looking at their sparkly well cut diamonds. The certificate justified the higher price. Creating excellent cut diamonds not only became a legitimate way to add value, it became an integral part of the marketing and branding proposition of many companies. Tens of millions of dollars have been spent promoting it.

There is no reason we cannot accomplish the same thing with ethical certification. By separating good diamonds from "bad" or "unknown" diamonds through certification we are creating added-value product differentiation. If cutters naturally learned to compete with excellent cuts there is no reason they should not learn to compete with triple X certified fair trade diamonds that give artisanal diggers an excellent deal. When governments or companies that control diamond resources come to realize that they can get a better price for their diamonds if they observe human rights standards, they will be incentivized to do so.

The main idea is to recognize that the way to eliminate bad is to pay more for good. We must also appreciate the fact that innovators in the diamond and jewelry industry are constantly looking for ways to add value to their products. And here is a great opportunity to market and commercialize ethical behavior through certification. You can add value and increase your sales and profits by securing and certifying your ethical supply chain. You can add even more value by recycling gold and diamonds. And still more by trading fair trade gold and diamonds that empower impoverished artisanal diggers.

Best of all, it's not charity and it need not be altruistic. It's economically sustainable because with proper marketing consumers are willing to pay more for ethical jewelry. Free competitive market forces will ensure that suppliers and jewelers develop a correct cost-benefit ratio for ethical jewelry, and society will get the exact level of social and ethical responsibility that it is willing to pay for. In the end, business is about making money, and so is doing the right thing. ♦

RAPAPORT FAIR TRADE PRINCIPLES

- **Pay Fair Wages**
- **Community Benefit**
- **Do No Harm**
- **Independent Auditing**

RAPAPORT | FAIR TRADE

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How can we make this diamond sparkle?

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Join the Campaign for Ethical Jewelry!

Diamond retailers, suppliers, and consumers around the world are calling for a more ethical supply chain. It's time for the rest of the



What is Fair Trade?

At Rapaport, fair trade means a product which has met the following four conditions: Fair Wages, Community Benefit, Do No Harm, and Monitoring. The process of meeting these conditions isn't so simple...

Ethical Jewelry Directory



Searching for the perfect diamond is stressful enough without having to worry about where

Follow @rapfairtrade

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Library

Rapaport Fair Trade Library



The Rapaport Fair Trade Library is your link to information on the diamond industry and ethics. Ranging from background information on current events, to leading industry research reports, to exciting videos of our time in Sierra Leone or at the TED Talks in Tel Aviv, the Library provides you with a wealth of resources to help you get informed! Browse the links on the left to access the Library. If you have any suggestions to improve our selection of materials, please **be in touch**.

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What's Your Take? [What is this?](#)

Why Do Ethics Only Matter at the Mine?

By Denesha Brar | May 23th, 2012 | 0 comments

At the recent World Diamond Council (WDC) plenary in Vicenza, Italy, members reaffirmed their commitment to eliminating trade in conflict diamonds and agreed that the Kimberley Process Certification Scheme (KPCS) should expand its definition of conflict diamonds. Kimberley Process Chairwoman, U.S. Ambassador Gillian Milovanovic spoke of the need to expand the definition of conflict diamonds to cover 'rough diamonds used to finance or otherwise directly related to armed conflict or other situations of violence.

[Read more >](#)

Smuggled Stones - Another Industry Challenge to Overcome

By Denesha Brar | May 08th, 2012 | 0 comments

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 - KP
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 - SupplyChains

- Archives**
- May 2012(2)
 - April 2012(2)

4.9. RapNet Members are required to fully complying with all TOS conditions.

5. Listing and Trading of diamonds:

5.1. Rapaport Minimum Standards & Conflict Diamonds

Only diamonds meeting the Rapaport Minimum Standards and Conflict- Free Diamonds rules and regulations may be listed or traded through the Service and/or Rapaport. No diamond may be listed or traded unless:

5.1.1. The diamonds are legal and not directly involved in severe human rights violations. For purposes of this clause, the phrase "directly involved in severe human rights violations" is defined as describing diamonds whose physical production involved murder, rape, physical violence or forced servitude.

5.1.2 The diamond was purchased from suppliers who have warranted to the User that the diamond is "conflict free"; or

5.1.3 The User can guarantee from personal knowledge that the diamond is conflict free.

5.1.4. All Users must supply invoices in respect of sales to other Users. All diamonds sold or traded via Rapaport must contain one of the following declarations on the invoices:

The diamonds herein invoiced have been purchased from legitimate sources not involved in funding conflict and in compliance with United Nations resolutions. The seller hereby guarantees that these diamonds are conflict free, based on personal knowledge and/or written guarantees provided by the supplier of these diamonds.

OR

The diamonds herein invoiced were acquired by the seller prior to January 1, 2003 and were purchased from sources believed to be reliable. The seller hereby guarantees that they have no personal knowledge or reason to believe that these diamonds are conflict diamonds which have been traded in violation of any United Nations Resolution.

5.2 Marange, Zimbabwe diamonds

Users may not knowingly trade diamonds on the RapNet Network Service originating from Marange, Zimbabwe, and shall immediately remove any listings of Marange diamonds from their RapNet inventory.

5.3 Treated diamonds

Treated and enhanced diamonds (laser drilled, clarity enhanced, irradiated, HPHT or any other treatment or enhancement) may be listed and traded on the Service or Rapaport, however full disclosure in the required form must be made as to the process and the effect of the treatment. All Users must disclose the treatment when listing the diamond and on the invoice to the purchaser. Should any User be found to have listed or traded such a diamond without such full prior disclosure, their access to the Service will be permanently terminated without notice.

5.4. Users may not list (upload) diamonds with incomplete, inaccurate, false or misleading information.

5.5. Users must provide accurate information on the availability of their diamonds listed.

5.6 Users must update the pricing and availability of their diamond at a maximum of every 8 days.

5.7. Users must provide the correct grading report or certificate number for all laboratory graded diamonds, failing which Rapaport will list the diamond as an uncertified diamond.

Users who violate any of the above provisions will be subject to having their membership revoked and/or be excluded from our network. Rapaport further reserves the right, in its sole discretion, to publish the names of any RapNet member who violates any of the above provisions or any of these Terms of Service (TOS).