

Title The Kimberley Process**Introduction**

In 1998 the world was made aware that certain rebel movements in Africa were trading in natural resources, including illegally obtained uncut diamonds (also known as rough diamonds) to fund their wars against legitimate and internationally recognised Governments. Diamonds used to fund such conflicts came to be known as conflict or blood diamonds.

The diamond industry together with governments and civil society worked together to establish a process that was designed to eliminate conflict diamonds from the legitimate diamond supply chain.

Although the quantities of conflict diamonds were small, it remains an issue of concern for the industry

Accordingly the Kimberley Process Certification Scheme (KPCS) was established. This is a worldwide agreement supported by national legislation and voluntary procedures. It is estimated that 99.8% of the world's production and trade in rough diamonds now operate within the requirements of the KPCS.

Origins of the Kimberley Process

In 1998 the United Nations passed resolutions implementing sanctions that placed an embargo on diamonds from Angola and Sierra Leone, and the global diamond industry took a number of initiatives to stop conflict diamonds entering the legitimate supply chain. However, there was no effective mechanism to implement the embargo. Therefore the diamond industry, together with various stakeholders, began to design such a mechanism.

As an interim measure, on 19 July 2000, the World Diamond Council ("WDC") of which Signet was a founding member, introduced a voluntary system whereby vendors provided a warrantee that the diamonds they supplied were from the legitimate supply chain and were not funding armed conflict by rebel groups. A more effective and longer term solution was sought by representatives of the industry and stakeholders, who in May 2000 had met in Kimberley, South Africa.

Innovative international agreement

In November 2002, negotiation between the diamond industry, government bodies, civil society and the UN concluded in the creation of the Kimberley Process Certification Scheme ("KPCS"). The KPCS is a system that certifies the legitimate origin of uncut diamonds. The system is unique as it is a worldwide agreement supported by national legislation and voluntary procedures which required special clearance by the World Trade Organisation.

As of October 2005, participation in the KPCS includes over 40 countries plus the EU (as a single participant) and a further 11 countries were engaged in discussions about possible participation.

The KPCS

Participants in the KPCS must have internal controls to prevent conflict diamonds from entering the supply chain of legitimate diamonds and carry out an annual audit of compliance. Furthermore, participants are permitted to trade only with counterparties who themselves have met the minimum requirements of the certification scheme. All international shipments of rough diamonds are required to be carried in tamper-proof, sealed containers and be accompanied by a Kimberley Process certificate. The certificates form part of an audit trail.

Any international shipment of rough diamonds that passes through customs and does not carry the appropriate documentation is impounded.

KPCS is supported by the WDC voluntary system of warrantees for the trade in cut diamonds and diamond jewellery which provides assurance that the diamonds are from legitimate sources.

Signet's involvement

Signet supported the development of the KPCS through Jewelers of America (a trade body) and by being a non-voting charter member of the WDC.

In 2000, in line with the recommendations of the WDC and Jewelers of America, Signet communicated to all its trade suppliers of diamonds and diamond jewellery that they were required to use their best endeavours to only supply the Group with diamonds from legitimate sources.

Following the adoption of the Kimberley Process, Signet sent a further letter to all its trade suppliers of diamond and diamond jewellery. The text required them to supply the Group with merchandise that complies with the Kimberley Process and to make the following warrantee, which forms part of Signet's Supplier Code of Conduct and vendor agreements:

"For any product fabricated from rough diamonds mined from January 1, 2003 onward, the seller warrants that the diamonds have been purchased from legitimate sources not involved in funding conflict and are in compliance with United Nations Resolutions. The seller hereby guarantees that the diamonds are conflict free, based on personal knowledge and/or written guarantees provided by the supplier of these diamonds.

For any product fabricated from rough diamonds mined prior to January 1, 2003, the seller warrants that conflict diamonds will not be knowingly

sold and that, to the best of their ability, will undertake reasonable measures to help prevent the sale of conflict diamonds in this country."

Signet's implementation and assurance systems

Signet has amended its systems, procedures and documentation to take account of the KPCS and to make it part of its trading relationships with suppliers. The Group has also trained its buying and distribution centre staff with regard to the requirements.

Part of the process for a new vendor to become a supplier includes obtaining a statement of compliance with the Kimberley Process.

Sales associates are briefed on the operation of the Kimberley Process and procedures are in place to explain its workings to customers.

This is tested at store level via mystery shopper programmes.

These procedures are audited annually. Training, systems and procedures are then amended as necessary.

In addition, Signet has begun to develop a capability to source rough diamonds and as part of this process the Group's internal audit function is reviewing the procedures for compliance with the KPCS requirements.

Diamonds and diamond jewellery received from a trade supplier at the distribution centre are checked for compliance with the Kimberley Process.

Effectiveness of KPCS

The adoption of the KPCS has significantly reduced the trade in conflict diamonds. In the Chair's report to the plenary meeting of the KPCS held in Gatineau, Canada 27-29 October 2004 it was noted that "virtually all diamond producing and trading countries" participate in the KPCS, continuing: "The Kimberley Process now covers more than \$8.5 billion in annual production and more than \$20 billion in annual trade. The overwhelming majority of the world's production and trade in rough diamonds operate within the requirements of the KPCS, resulting in an unprecedented degree of transparency and government control. The breadth of participation in the scheme makes it difficult for anyone to operate outside the KPCS."

A measure of the success of the KPCS is the contribution the scheme has made in assisting countries affected by conflict-diamonds to regain control over their diamond resources. As part of the same report it was stated "Peace agreements in Sierra Leone, Angola and the Democratic Republic of Congo, in combination with the implementation of the Kimberley Process, have enabled these countries to substantially increase the proportion of their diamonds being exported through official government channels. The result is a massive decrease in the volume of illicit transfers and a substantial increase in much-needed government revenue.

This is an important indicator that post-conflict governments are progressively achieving control over these precious natural resources.”

It is recognised by the participants of the KPCS that it is a continuing process and further steps to improve implementation have to be taken.

Framework

Following the formal adoption of the KPCS in November 2002, the following steps were taken to assist in the scheme’s implementation:

- formal rules of procedure for KPCS operation, enabling formal confirmation of participant status of the initial group of participant countries;
- a system of peer review of adherence to requisite provisions of national legislation and import/export controls;
- collection of statistics from all participant countries in accordance with standard formats and procedures;
- annual peer review of comprehensive reporting of information and statistical data that must be submitted by all participant countries;
- the dispatch of review visits to any participant country on a voluntary basis;
- the dispatch of special review missions where there are credible indications of significant non-compliance with the KPCS; and
- an agreement to review the entire KPCS not later than July 2006. To that end the 2005 Plenary adopted terms of reference for the review of the KPCS and mandated the ad-hoc working group to present a report and recommendations for consideration by the 2006 Plenary.

KPCS to be reviewed not later than July 2006

Country peer review

The first voluntary peer review visit took place in March 2004 with annual reports having been received from all participants. By November 2005 19 countries, covering over two thirds of global rough diamond production, more than 80% of global exports and more than 90% of global imports had had review visits and by the end of 2005 it is expected that a further six countries will have received review visits. A further 11 participants have invited review visits. At the 2005 Plenary of the KPCS participants made presentations on the steps they were taking to implement the recommendations of the review visits. Progress is also being made towards ensuring a consistent follow-up to all review visits.

Initiatives in 2005

Also the 2005 Plenary noted the evidence of ongoing “illicit production” of diamonds in the Northern, rebel-controlled regions of Côte d’Ivoire.

Special action taken over Côte d’Ivoire

A resolution, that outlined a series of measures to prevent the introduction of these conflict diamonds into legitimate trade, was adopted and agreement was reached to produce, in cooperation with the United Nations, a detailed assessment of the volumes of diamonds involved.

The Plenary also called for technical assistance to be given to help participants in West Africa to strengthen their internal controls over diamond production and trade. Furthermore all participants were requested to take action against any person or companies found to be involved in illicit production or trade in Côte d’Ivoire.

Steps have also been taken to increase co-operation with bodies outside the KPCS to improve the efficiency of the system and with the Diamond Development Initiative, which aims to improve the working conditions of, and remuneration to, artisanal diamond miners.

Statistical database

A comprehensive statistical database is now available and baselines for the identification of anomalies have been established. While the quality of data has substantially improved, further progress needs to be made and steps to do so are being implemented. A working group on statistics is studying the issue of public release of statistical information and will report its findings and present options to the 2006 Plenary. Methods to enhance the collection of meaningful, comparative data are also being developed, including steps to improve harmonization of valuation methodologies.

The future

The need to improve the country review process is recognised by the industry, as is the importance of the procedures for issuing of Kimberley Process Certificates by governments.

Estimates are that KPCS producers account for more than 99.8% of global diamond production. However there continues to be potential to improve the implementation of the system and the formal three-year review process will result in the presentation of recommendations during autumn 2006.

External links:

Kimberley Process www.kimberleyprocess.com

WDC www.worlddiamondcouncil.com

Jewelers of America www.jewelers.org

Council for Responsible Jewellery Practices www.responsiblejewellery.com

Global Witness www.globalwitness.org

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