



K&D DIAMONDS, INC.

MANUFACTURERS & IMPORTERS OF DIAMONDS

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Kimberley Process & System of Warranties Background, Regulations & Processes

Definition and applicability

The Kimberley Process is a joint government, international diamond industry and civil society initiative to stem the flow of conflict diamonds. Conflict diamonds is a term for rough diamonds that are used by rebel movements to finance wars against legitimate governments. (Source: <http://www.kimberleyprocess.com/>)

Background

The issue of conflict diamonds began gaining public prominence in the late 1990s. Human rights nongovernmental organizations (NGOs) drew attention to the illegal trade in rough diamonds. This trade was funding rebel movements in Angola and Sierra Leone and indirectly contributing to human rights atrocities. The diamond industry was brought into the media and consumer spotlight.

In response, the diamond and jewelry industry, through its designated representative organization the World Diamond Council (WDC), began working with the United Nations, key governments and NGOs to seek a solution. These meetings became known as the Kimberley Process. The outcome was the Kimberley Process Certification Scheme (KPCS) which aims to prevent conflict diamonds from entering the supply chain. The system is implemented by governments and tracks the export and import of shipments of legitimate rough diamonds between participating countries. To support it, the WDC also created a voluntary program of industry self-regulation called the System of Warranties (SoW) which extends to the trade in cut and polished stones.

The diamond industry has made a strong commitment to the Kimberley Process and the effectiveness of the KPCS and the WDC SoW is being closely monitored by NGOs. This includes both the performance of governments and that of the diamond industry. Exposure of ineffective systems or complicity in the sale of conflict diamonds poses a significant risk to the reputation of individual companies and for the industry as a whole. For companies, failure to abide by KPCS or the WDC SoW exposes the Member to expulsion from industry organizations and loss in trade.

At an industry level, if self-regulation is seen to be ineffective, the pressure for stronger regulatory action will grow.

Regulations

The Kimberley Process Certification Scheme (KPCS)

The Kimberley Process Certification Scheme came into effect in 2003. The KPCS requires participating nations to keep conflict diamonds out of legitimate channels of commerce. All imports and exports of rough diamonds must be via a government office. This office verifies the source, packs diamond consignments to be transported in tamper-resistant containers and issues the accompanying government-validated Kimberley Process Certificate.

Each forgery-resistant certificate must be uniquely numbered and include data describing the shipment's contents and the country of origin. Government signatories to the Kimberley Process are required to implement internal controls on the movement of diamonds and can only export/import diamonds to/from other countries that are part of the KPCS.

The World Diamond Council System of Warranties (SoW)

To provide industry support for the KPCS and additional assurance to end-consumers, the World Diamond Council (WDC) created a voluntary program of self-regulation, the System of Warranties (SoW). It requires that all consignments of diamonds, whether rough, polished, or set in jewelry, be accompanied by a written warranty on all invoices through the supply chain. This applies each time the diamonds change hands and extends down to retail jewelers (but not to end-consumers). The official WDC warranty statement reads:

"The diamonds herein invoiced have been {sourced}* purchased from legitimate sources not involved in funding conflict, in compliance with United Nations Resolutions and corresponding national laws {where the invoice is generated}**. The seller hereby guarantees that these diamonds are conflict free and confirms adherence to the WDC SoW Guidelines."

* {sourced} - may be used by companies that do not purchase from open market, but source and aggregate diamonds from production facilities that are owned/partly owned by them

** {where the invoice is generated} - may be used by companies if they specifically want to reference the country of invoice issuance

Records must be kept of the warranty invoices received and issued, which must be auditable and reconciled on an annual basis. If asked for by a duly authorized government agency, these records must be able to prove compliance with the Kimberley Process for rough diamonds.

Industry Principles of Self-Regulation

In addition to KP and SoW adherence, all diamond and jewelry industry organizations and their Members have adopted the following principles of self-regulation, obliging them to:

- 1) Trade only with companies that include warranty declarations on their invoices;
- 2) Not buy diamonds from suspect sources or unknown suppliers, or which originate in countries that have not implemented the Kimberley Process Certification Scheme;
- 3) Not buy diamonds from any sources that, after a legally binding due process system, have been found to have violated government regulations restricting the trade in conflict diamonds;
- 4) Not buy diamonds in or from any region that is subject to an advisory by a governmental authority indicating that conflict diamonds are coming from or available for sale in such region, unless diamonds have been exported from such region in compliance with the Kimberley Process Certification Scheme;
- 5) Not knowingly buy, sell or assist others to buy or sell conflict diamonds;
- 6) Ensure that all company personnel that buy or sell diamonds are well informed regarding trade resolutions and government regulations restricting the trade in conflict diamonds.

K&D Diamonds' management approach to the Kimberley Process

David Dresdner has been identified as the representative of K&D Diamonds to manage and implement the KPCS and SoW program.

Thus, all rough and polished diamond purchases must meet regulations as outlined above as part of the Industry Principles of Self-Regulation.

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