No Problems Here

Success, Complacency and Suspicion in the Indian Diamond Industry

by Vinod Kuriyan

Nine out of every ten diamonds are processed in India. The country accounts for 80 per cent of the carat weight and 55 per cent by value of all of the world's diamonds. Diamonds are India's single largest export. After the United States and Europe, India is the world's third largest consumer of polished diamonds. From April 2001 to February 2002, India imported almost 120 million carats of rough diamonds, worth $3.84 billion and exported 29 million carats of polished diamonds, worth $5.2 billion.* This massive volume of diamonds is handled by a correspondingly huge workforce—659,000 people according to a 1998 survey, and perhaps in the region of a million today.

The Pioneers

India's diamond tradition goes back thousands of years and is the oldest in the world. Indian craftsmen were the first to unlock the secrets of diamond cutting, although the cutting did not include faceting and polishing as is common today. Most Indian diamonds were flat-cuts. They were also almost all very large stones because the famed mines at Golconda, in what is today the modern Indian state of Andhra Pradesh, were hand dug. Sifting and extraction consisted of removing what rough diamonds could be spotted with the naked eye. Jean-Baptiste Tavernier, the great French traveller and writer, who chronicled Golconda and its great diamond mines in the 17th century, reported that at any given time, there were in the region of 20,000 people working in Golconda's diamond fields. The Golconda mines were exhausted in the 19th century, just about the time alluvial diamonds were found in Brazil. So great was the reputation of Golconda, however, that the Portuguese, who had colonised Brazil, shipped the diamonds found there to Goa, their colony in India. From here, they were routed to Europe as 'Indian' diamonds.

The great Golconda mines lie silent today, but there are many who believe that they have not been exhausted completely. And the kimberlite pipe from which the diamonds originated was never found. The Geological Survey of India has prospected the area and has found some kimberlite pipes in an adjoining area. De Beers and Rio Tinto are among those prospecting in the area, and in the State of Orissa, which has yielded rich deposits of coloured stones and some impressive alluvial diamonds. No commercially viable findings have been reported yet, however. The one operating Indian diamond mine is called Panna—a misnomer because the name means 'emerald' in Hindi—but it produces only a few carats every year.

By the dawn of the 20th century, the great Indian diamond era was just history. But another was about to begin: the era of the great Indian diamond-processing industry. This was jump-started by a number of pioneers who had the courage to explore the new worlds and markets of the west and the vision to realise that a revival of the Indian diamond industry would have to

* The statistics used in this report are based on official data, which are captured by Indian Customs based on what importers and exporters declare. Customs does random checks, however as in other countries, the aggregate figures may be open to some interpretation.

the Diamonds and Human Security Project

Occasional Paper #7,
Partnership Africa Canada • International Peace Information Service •
Network Movement for Justice and Development
Series Editor: Ian Smillie

excel in western-developed techniques of cutting and polishing. For this, there would have to be a large, well-trained workforce. Thus while many other sectors of the economy languished in the grip of tradition and a reluctance to change, the diamond industry was in the forefront of a revolution that 'democratized' diamonds world-wide. Most of these pioneers came from the small town of Palanpur in Gujarat State. They were of the Jain religion—founded by Mahavira, who preached non-violence and the sanctity of all life. Most of the first big sightholders too came from Palanpur.

In those days, long before Indian independence and the advent of training schools, diamond dealers used a 'learn while you earn' approach. Youngsters were apprenticed to diamond-cutting shops and given low-end rough diamonds to begin with. This scheme served as a grounding not just for diamond cutters, but for many of the biggest sightholders and dealers today.

But success kept pushing the industry to expand and the old closed-club system couldn't last forever. More and more 'outsiders' started climbing up the ladder and more and more modern units were set up outside Gujarat. The modern technology meant that the traditional cutters, set in their ways for generations, were no longer adequate. Fresh youngsters with no background at all, were in fact the best choice. Thus diamond units could be located as far afield as one wanted. Many dealers preferred to set up units far away as this had the added advantage of not allowing rivals to lure away their workforce with offers of better pay after they had taken all the trouble to train them. The dealers from Palanpur are still in the forefront today and are arguably the most influential, but they no longer pull all the strings.

The majority of India's diamond workforce is employed not by large corporations, but small units that process diamonds on a job-lot basis. At the low

The Study

No Problems Here provides an analysis of the Indian diamond industry, the largest in the world by value, by caratage and by the number of people who work in, and benefit from it. Much of the paper is a factual description of the history and structure of the industry. Author Vinod Kuriyan, however, encountered a combination of complacency and suspicion in his travels: complacency about the ostensible absence of conflict diamonds, and suspicion regarding questions about child labour; the "*real*", purpose of the Kimberley Process certification system; and outside efforts to impose international inspectors on the Indian Industry.

The paper suggests that the Indian diamond industry —like many others—has no reason to be complacent about conflict diamonds. Neither does it have any reason to fear the Kimberley Process, international certification, or the concept of independent international monitoring. These all stand to benefit a healthy diamond industry, whether in India or elsewhere.

No Problems Here is an Occasional Paper of the Diamonds and Human Security Project, a joint initiative of Partnership Africa Canada (Ottawa), The International Peace Information Service (Antwerp) and the Network Movement for Justice and Development (Freetown). The project aims to shed greater light on, and help to end, the trade in conflict diamonds. The author would like to thank the many individuals, organizations, government officials, and private sector firms that provided valuable advice and information during the course of the research. The opinions in the paper are those of the author and the Project, and do not necessarily reflect the views of organizations supporting the Project. An editorial comment is included at the end of the paper.

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end, family units process diamonds part-time, alternating with work in the fields as subsistence farmers. Despite its seemingly amorphous profile, the Indian diamond industry can be monitored because Indian law makes it mandatory for every diamond exporter to be a member of the Gem and Jewellery Export Promotion Council (GJEPC). The GJEPC is a quasi-government body headquartered in Mumbai (formerly Bombay), with a chairman and governing board drawn from the industry itself, and a government appointee as secretary (chief operating officer).

The GJEPC reports to the Ministry of Commerce and acts as a go-between for the industry and government in all matters of policy, taxation and export-import procedure. Because the diamond industry so thoroughly dominates Indian exports and also because many of the largest gem-set jewellery export companies are run by diamond dealers, the GJEPC, though responsible for the entire gem and jewellery export industry, is usually chaired by a diamond dealer. A Diamond Panel Committee, consisting of only diamond dealers, looks after the specific interests and needs of the diamond industry. There are panels for coloured stones and jewellery as well.

Without GJEPC membership, dealers cannot obtain bank credit and cannot get goods cleared through customs. Thus, despite its size and the huge throughput of stones, the Indian gem and jewellery export industry flows through one single window. The GJEPC is the best source of data on the processing of gems and jewellery for export. It is also the best channel for new ideas and processes: semi-automatic dops, diamond-impregnated scaives for processing hard Australian rough, laser-kerfing and sawing. These and many more new technologies and processes have entered the Indian diamond industry through the active promotion of the GJEPC. The Council, as it is most often called, has 7,000 registered members throughout the country.

De Beers has a major influence in India, selling rough diamonds through three established channels. There are 42 Indian sightholders who buy directly from De Beers in London, while non-sightholding Indian dealers make substantial purchases from the De Beers selling office in Antwerp, along with purchases on the 'open market'. Many buy rough from the Hindustan Diamond Company (HDC). The HDC is a joint-venture rough-selling operation between the Indian government and the Bank of Bermuda, in which De Beers has a stake. The HDC gets its diamonds from De Beers and is a sightholder in its own right.

The HDC was set up in the days when South Africa was still under apartheid and De Beers was a politically incorrect name. De Beers however, did thriving business in India through the Diamond Trading Company, its British selling operation. The diamonds were coming from Britain and the official line was that 'once it is mined, you can't tell where a diamond came from' (the line now echoed by Indian authorities, it will be seen, on the conflict diamonds issue). The fact is, diamonds were India's largest export even then and employed close to a million people. The government didn't want to rock the boat, and may well have insisted on participation in the diamond industry. The HDC was set up to sell rough to dealers who were so small they couldn't fly regularly to Antwerp. And as they did in Botswana, De Beers took the Indian government on board in a joint venture. In order not to embarrass anyone, their holding was through the Bank of Bermuda. Today, the chairman of the HDC is a government appointee, more often than not an Indian Administrative Service officer. De Beers experts, both expatriate and Indian, handle the actual rough dealing.

The centre of the Indian diamond industry is Mumbai, the world's largest diamond trading centre. Most rough enters the country here, and most polished leaves the same way. All the De Beers sightholders and most of the biggest non-sightholding dealers have their offices here, as do thousands of others. Most of the diamond trade is centred in the Opera House area of the city—most diamond offices are housed in just two buildings while others are within walking distance of them. Fully 4,000 GJEPC members are based in Mumbai. Most of the processing of diamonds takes place outside Mumbai, however, mainly in the neighbouring state of Gujarat.

The big diamond processing centres in Gujarat are the cities of Surat, Bhavnagar, the state capital Ahmedabad, the tiny town of Palanpur, where most of the biggest diamond dealers come from, and the earthquake-ravaged town of Bhuj. However, Mumbai itself has an increasing number of extremely modern semiautomatic factories and a great many laser-cutting units. A huge new diamond bourse and office complex has been in the works for some time. The head office of the GJEPC, in the Diamond Plaza building, is also located near the Opera House area. One floor down from the GJEPC office is the Indian Customs' diamond import-export clearing centre. Customs and GJEPC officials consult regularly on government policies, and work together to streamline the entire import-export procedure.

Rough In

Rough diamonds are mainly brought into India by security couriers, who take them by armoured car from the airport to the Diamond Plaza Customs Centre. Here parcels are opened, documentation is checked and importers' credentials are verified. Invoices accompanying the parcels are checked to ensure they contain a declaration stating that the goods are not from any conflict source, in accordance with UN resolutions. The caratage and value of each parcel is noted. From the Customs Centre, the diamonds go to the various dealers' offices. There, the goods go through a sorting procedure. Each dealer concentrates on categories he specializes in, and offloads the rest.

A busy network of brokers wends in and out of various diamond dealers' offices, carrying both rough and polished diamonds. Dealers usually post their requirements on a slip in their foyers in order to notify brokers. Brokers wander between buildings, unarmed and unguarded, carrying thousands of dollars worth of goods sometimes, in nothing more than a packet stuck into the waistband of their trousers. The system ensures that each dealer gets to process or sell only what he wants. It also ensures that overseas diamond buyers get one-stop service.

Though there is a growing number of dealer-owned diamond factories, most rough is farmed out for processing—usually in Gujarat. The rough is sent by couriers, known as *angadias*. The *angadia* system dates back to the Moghul empire, when Emperor Akbar developed the system throughout his domain. The system uses no modern technology and relies entirely on trust. A sealed packet of diamonds (the sealing is usually just a bit of tape) is handed to the *angadia* with a waybill known as a *jhangad*. The courier's office might be a niche in the wall in one of the diamond buildings. The man with the diamond packets travels by train in second class. Few bother with reservations (season tickets make for economy). There are no armoured cars and no armed guards. A few toughs ensure that there are enough empty seats kept for them in one part of the season-ticket holder's compartment.

In Gujarat, the local representative distributes the packets to cutting shops. The process also works in reverse. A single diamond could make several trips to Gujarat and back as it goes through the entire process. One shop might be entrusted with the kerfing and cleaving, another with bruting and yet another with the faceting. Many dealers with their own factories also farm out categories of goods that their own units don't handle. Better stones might be checked along the route to ensure that things aren't going wrong. The system works well. Dealers don't lose their stones, and apart from the *jhangad*, there isn't much other paperwork.

Polished Out

Overseas diamond buyers go mostly to Mumbai. They are usually from large jewellery manufacturing companies and most have developed relationships with a few select dealers of their choice. Trust and dependability are the key factors in buyer-dealer relationships and these develop over time. Buyers examine and select the goods they want, and haggle over prices before sealing the deal with a simple handshake. The packet containing perhaps hundreds of thousands of dollars worth of diamonds is sealed with a simple bit of tape and the final price pencilled on it. The buyer leaves it in the dealer's office and flies home, secure in the knowledge that the little bit of tape will never be touched and the contents of the packet will remain undisturbed. The Indian dealer then generates the documentation to accompany the parcel and takes it to the Diamond Plaza Customs Centre. There, the parcel and documents are checked to verify the contents, according to value and caratage.* Security couriers then take charge of the parcel, moving it to the airport and out of the country. The security couriers, unlike the *angadias*, use armed guards and armoured vehicles.

* None of the export checks have anything to do with monitoring for conflict diamonds as this is an issue relating to rough diamonds alone.

A Typical Small Cutting and Polishing Factory in Surat

One of the major reasons for the success of the Indian diamond export industry has been the traditional extended Indian family. This institution has allowed family businesses to expand into all parts of the world, even during the closed-door economic policies of the Indian government. A brother or cousin or uncle would set up a completely separate unit in another country, with the family's backing and finances, and then run it independently but in complete concert with the parent company. This way, diamond families side-stepped the almost impossible hurdles that other Indian firms had in setting up branches abroad, at the same avoiding issues like double taxation.

The world-wide Rosy Blue group, spawned by the B. Arunkumar company, is an example of this (see *Market Leader Profile*). By setting up global networks, Indian firms developed a clear advantage over other traditional family groups in the West and Israel. Indian firms like Rosy Blue are among the largest *Belgian* sightholders, while others like the Kirtilal Manilal group are huge in Tel Aviv. They may be Belgian or Israeli firms in name as well in most operational matters, but in character and essence they have remained Indian and have worked as a growth arm of the parent company.

Licence For Growth

The Indian diamond industry of today had its beginning in the 1960s, when the government introduced a system known as the Replenishment (REP) Licence. The principle is simple—an importer can import rough diamonds worth 80 per cent the value of his polished exports. At the outset, a 45 per cent customs duty was levied on rough diamond imports, but this was reduced over the years to five per cent. In 2002, diamond imports were made completely duty-free. The REP licence, coupled with the policy of exempting all exports from income tax, fuelled the growth of the Indian diamond industry. For the increasing number of De Beers sightholders in India, the government implemented a separate Diamond Imprest Licence for goods that came straight in from London.

India, with its extremely low-cost labour, opened up entirely new possibilities for the global diamond industry. Very inexpensive stones, in which the cost of processing would be a significant component of the selling price, could now be processed for the gem market. Many diamonds that were previously confined to the industrial-diamond marketplace could now be sold in the much more profitable gem market. These diamonds, known as 'makeables', also made diamonds much more affordable for new, less affluent buyers. This in turn expanded the global market for diamonds and fuelled further growth. The Indian diamond industry grew explosively. The accent was on volume rather than quality. Makeables and tiny diamonds called 'single cuts' (they are so small they are given just a few basic facets) became the sole preserve of the Indian processing industry.

Market Leader Profile—Rosy Blue

Towards the end of 1957, a 19-year-old boy started out as a trainee in a Bombay diamond company. Arun Mehta learned the skills a diamond dealer needs. He sorted polished diamonds, counted stones in batches, learned the basics of boiling rough (done in a solution to remove surface coatings and impurities), cleaning stones and making post parcels and *angadia* (traditional courier) packets. After he had learned all he could, Arun Mehta started out as a broker and small-time diamond dealer in the market. In 1960 he and his uncle formed their own company, B. Arunkumar & Co., with an initial investment of Rs 25,000 in rough diamonds.

Panic generated by the 1962-63 Indo-China war had a devastating effect on the diamond market in India. Prices plummeted 20 per cent in almost no time. Stuck with inventory they couldn't sell, the firm turned away from its traditional market in India and looked overseas. They made their first successful exports and did so well that the firm began to devote most of its energies to the export market. In the late 1960s, Harshad and then Dilip, Arun Mehta's two brothers, joined the firm. As production and sales increased, the firm realised that they required someone to ensure a steady flow of rough and promote their polished goods in Europe. Dilip Mehta, the youngest of the brothers, moved to Antwerp. Initially, he acted as a sort of liaison man, managing rough imports and polished sales through other companies. Then in 1973, he started his own firm, Rosy Blue. Dilip Mehta expanded, setting up offices in most consuming and trading centres. Rosy Blue also acquired a controlling interest in one of the largest diamond processing factories in Sri Lanka. Today, Rosy Blue is a De Beers sightholder in its own right and has 15,000 people working for it in 14 countries.

Meanwhile back in India, B. Arunkumar & Co. became a De Beers sightholder in 1969. The firm improved and increased its manufacturing capabilities. In the early 1980s, the firm began thinking about making prototype gem-set jewellery for the export market. In 1987 Intergold, the group's gem-set jewellery manufacturing unit was set up with the Conwood group. The unit was sited in the Santacruz Electronics Export Processing Zone (SEEPZ) in Mumbai, and production began. Slowly, more and more units were acquired and today, Intergold is the largest exporter from SEEPZ. Recently, the group decided to begin catering to the huge domestic market for gem-set jewellery—an opportunity for a new phase of growth. Over 15 Intergold retail stores have been opened across India, and the plan is to increase this number to 60 in three to five years.

Through its subsidiary, Josh Diamonds, the group has participated successfully in the De Beers *Nakshatra* diamond jewellery programme. Josh Diamonds supplies over 100 jewellery retail outlets around the country and is expanding. Overseas, Rosy Blue is spearheading the group's move into jewellery retailing. The plan is to open a chain of stores internationally with Rosy Blue sourcing its jewellery from the parent group in India.

Today, the B. Arunkumar group has 700 personnel in office and administrative positions and more than 50,000 staff in diamond processing and jewellery manufacturing. The entire group, including Rosy Blue, racked up sales of rough, polished and diamond jewellery in excess of US $1 billion in 2001.

Arun Mehta sees a huge potential for India to expand business not only in diamonds but in jewellery as well. He attributes this to the fact that India has developed a highly competitive and good-quality production base. 'I won't be surprised if India's current market-share of 50 per cent by volume of the world diamond trade goes up to between 60 and 75 per cent, and our share of the world jewellery market up to even 10 per cent,' he says. If this increase is successful, he says, it will generate a lot of employment and increase government revenues. 'But for this to happen, market leaders including our group, will have to develop and promote another generation of youngsters who have been trained in the latest techniques and have the ambition and fire to reach further.'

Despite its reputation for low quality, the Indian diamond industry remained profitable for several reasons. First, there was absolutely no competition in the low-end processing sector. Second, the Indian rupee steadily slid against most hard currencies. Even with poor yields, a diamond dealer was almost guaranteed a profit. Third, the closed and restrictive economic policies of the Indian government meant that even REP licences were hard to come by. Those without REP licences were willing to pay as much as a 25 per cent premium to use unutilized capacity on others' licences. The sale of this capacity alone would ensure a profit.

Then, in 1980, a spectacular crash in the high-end diamond industry left the global diamond industry reeling. Beginning then, better goods, which had hitherto been the sole preserve of Tel Aviv and Antwerp, began to find their way into the Indian processing industry. These goods were so expensive that they simply had to have a 'good make'. This led to growing quality-consciousness and improvements in processing techniques. Further, De Beers made a concerted effort to develop low-cost processing in other Asian countries, notably China. The low-end market was thus no longer guaranteed, necessitating improved efficiency and quality even in that category.

In the mid-1980s, the Indian government embarked on a major economic liberalization drive. The Indian economy was no longer the closed affair it had been for decades. In all industrial sectors, the policy of granting just a few licences for manufacture was done away with. Monopolies crumbled and competition increased dramatically. The knock-on effect of this in the diamond industry was a reinforcement of the demand for efficiency and quality. These factors together led to a concerted movement in the Indian diamond industry toward modern and high efficiency processing techniques. More and more large processing factories developed, with semi-automatic shaping and polishing equipment, and increasing use of laser-cutting techniques. This drive for quality and efficiency continues, with a concomitant decline in cottage-industry-style family units.

Most Indian rough comes in from the 'traditional' diamond-dealing centres—London and Antwerp. The imports from London constitute 16.35 per cent by carat-weight and 24.24 per cent by value of total imports, and are almost exclusively sightholder allocations that come in under the diamond imprest licence. Antwerp is the source of most REP licence imports—70.39 per cent by carat-weight and 56.7 per cent by value. Diamonds from Australia's Argyle mine, which are almost entirely processed in India, come through the Argyle sales office in Antwerp. Significant new amounts of rough come from Hong Kong (6.68 per cent by carat-weight and 9.04 per cent by value), the UAE (3.54 per cent by carat-weight and 3.99 per cent by value) and Tel Aviv (2.72 per cent by carat-weight and 5.6 per cent by value). Rough diamonds are imported from many other countries as well, but the amounts are not significant (*see Tables 2 & 3*).

Since the Indian government has now made rough diamond imports duty-free, the licensing system has become redundant. Import parcels must, however, be processed through the Diamond Plaza Customs Centre, although random inspection has replaced the inspection of every parcel.

Within the Indian diamond industry today, there is a significant movement toward greater value-addition, with more and more dealers setting up production units for gem-set jewellery. There is also a growing effort to boost domestic consumer consumption of gem-set (more specifically diamond-set) jewellery. Many big sightholders have launched huge, country-wide jewellery retail chains. De Beers has involved its top four or five sightholders in a programme to retail high-end jewellery, using the De Beers brand name to guarantee the quality of diamonds. The *Nakshatra* diamond jewellery programme, as this is called, has been extremely successful, with a former Miss World and leading Indian film actress as its brand ambassador. There are now even university courses offering gem-set jewellery design and fabrication as subjects. Adding impetus to the thrust towards diamond jewellery manufacture, the GJEPC and De Beers together run an annual diamond jewellery design contest that is showcased at the annual India International Jewellery Show—itself a forum for Indian gem-set jewellery manufacturers to connect with international buyers.

Child Labour in the Indian Diamond Industry

Child labour is a grim fact of life in India. There is no social security and no safety net. For many families, it is necessary for children to work in order for the family to survive. There are horror stories of children being forced to work in the fireworks industry, lock making and others. There have been reports of children being kept confined and treated badly. Be it the need for small fingers or for absolutely rock-bottom wages, exploitative employers have found plenty of reason to indulge in this evil. Many social organizations and NGOs have done battle on the issue, but the grim fact of child labour remains.

As background for this report, Dinesh Navadia, a diamond dealer who is also Secretary of the Surat Diamond Association, invited me to select at random any small-scale diamond processing units I would like to see. Although these visits can only be treated as random samples and do not constitute findings of statistical significance, I visited several and was given permission to take pictures.

Chandrakant Sanghavi, convener of the Gem and Jewellery Export Promotion Council (GJEPC) in Surat, told me that when allegations arose of children working in the diamond processing industry, the local Collector (the Indian Administrative Service officer in charge of a district) announced that if he was shown any such unit, he would fine the owner Rs. 25,000 (approximately US $520—a substantial sum in India) and give the money to the child's family. No one came forward to substantiate the allegations, he said.

The industry's rivalry with Antwerp surfaces. Some dealers told me that Antwerp sponsored most of the allegations of child labour. They claimed that an Antwerp diamond cutter's association paid people in India to make claims about rampant child labour in the Indian diamond industry. These people, they said, were even flown—at the Antwerp association's cost—to Europe to make such allegations.

Facts and Fiction

Indian jobbers are not paid wages but on a per piece basis. Turn in a stone to the dealer's satisfaction and you get paid. Ruin it and it is your problem. The sudden growth of the Indian diamond industry led to an urgent need for more diamond cutters. Without a trained workforce, the traditional cutting centres in Gujarat recruited blindly from everywhere. The rural areas provided a large stream of recruits, as diamonds offered a way out of the grind of everyday existence. As quality wasn't very important, and the value of the goods being processed wasn't very high, almost anyone could be given a diamond to process. The low cost of a stone was the most a dealer stood to lose. Many children were eagerly rushed into the trade by their families as a way of maximising earnings. There were then objections from government agencies and NGOs, and protests even arose overseas.

But without any idea even as to how many adults worked in the industry, there was no way of actually gauging the extent of the problem. Taking the lead, Virendra Singh, a senior government officer and Chairman of the Hindustan Diamond Company (HDC), prevailed on the GJEPC to institute an independent survey of the industry. In 1994-95, A.F. Ferguson & Co., a leading audit and consultancy firm, was commissioned to conduct the survey, using the Indian government norm which defines child labour as involving persons below the age of 14. The survey results indicated a total diamond workforce of 795,000, of which just 73,900 were in the organized sector. It found that there was 0.4 per cent child labour in the organized sector while in the unorganized sector, the figure stood at 3.47 per cent. This gave a weighted average of 3.18 per cent child labour in the Indian diamond industry as a whole.

Singh and the GJEPC then launched an anti-child-labour campaign. They organized seminars and workshops in

	1998 Survey				1995 survey
Sector	**Estimate of total number of workers**	**No. of workers in sample units visited**	**No. of child workers in sample**	**Percentage of child labour**	**Percentage of child labour**
Large & medium organized unites	294,150	34,390	54	0.16	0.4
Semi-organized units	365,400	14,868	218	1.47	3.47
Total	659,550	49,258	272	0.89*	3.18*

* weighted average of both organized and semi-organized sectors. *Source*: A.F. Ferguson & Co.

conjunction with local diamond associations in various cutting centres. Both the GJEPC and the local diamond associations paid for advertisements decrying child labour. There were mass meetings and the GJEPC warned members that they would lose their membership if they were caught using child labour.

The GJEPC commissioned A.F. Ferguson to do another survey in 1998, and the results were encouraging. Large and medium units showed a child-labour percentage of 0.16, while the semi-organized units showed 1.47, giving a total weighted average of just 0.89 per cent.

'I like to think,' says Singh, 'that our efforts alone were responsible for this reduction, but I have to note that several other factors played a key role.' One was the major shift in diamond processing from the unorganized to the organized sector. Says Singh: 'In 1995, just nine per cent of the processing was in the organized sector while in 1998 that figure was 45 per cent. When you set up a semiautomatic unit with expensive machines and possibly also process more expensive rough, you want better-trained and skilled manpower. You're not likely to employ a child to do the job.' The other factor, according to Singh, was the economic liberalization that took place in India. 'Inefficiency and poor yields could no longer be tolerated. Quality was the new watchword for the very survival of the diamond-processing units. The premium on the unused REP licences came down to two per cent. The only way to make money was to do a good job in processing. Again, a child would not be used in these conditions.'

Today, Singh estimates, even more of the processing has shifted into the organized sector and he feels the average would be even lower now. Changes in equipment also favour the elimination of child labour. 'Child labour will increasingly only exist in extremely low-tech, rural situations,' he concludes. 'But,' Singh says, 'in a country like India, it would be naïve to expect that we'll be able to bring it down to zero. Remember the compulsions that drive child labour. We are talking about people trying to survive. I think that we should aim for complete eradication, but in practical terms, I think we'll do well to keep it under 0.5 per cent.'

In October 2002, Ralph Hazleton, a Partnership Africa Canada Researcher, interviewed women who work in 18 different cutting and polishing factories in Ahmedabad. All complained about the long hours, lack of job security, benefits and health coverage, and all spoke on condition of absolute confidentiality, so fearful were they of losing their jobs. None, however, knew of any children under the age of 18 working in the factories they represented. They said that government is strict on this point and checks periodically to see if there are underage people at work.

Conflict Diamonds

Oddly, the Indian diamond industry—arguably the biggest in the world, and representing India's largest export—is in a state of almost complete denial where the possibility of conflict diamonds is concerned. The official line is based on the argument that the industry is extremely well-regulated, and because there are almost no direct imports from Africa, any responsibility for allowing conflict diamonds to enter the system falls outside of India. A second, unofficial line of argument, suggests that any attempt to place responsibility or 'blame' on India is an underhanded commercial ploy, centred mainly in a jealous Antwerp diamond industry.

Some action to prevent conflict diamonds entering the Indian trade has been taken:

- *The Gem & Jewellery Export Promotion Council* has issued all its members (who constitute all India's diamond importers and exporters), a notice that their membership will be terminated if they are caught dealing in conflict diamonds;
- *The Reserve Bank of Indi*a, the country's central bank, has issued notices to all diamond-financing banks that the credit facilities of any diamond dealer caught trading in conflict diamonds should be immediately revoked;
- *The Indian Customs* checks import invoices to ensure that they carry declarations stating that the goods in the parcel are not in violation of the UN resolution on conflict diamonds. Export parcels of both rough and polished also have their invoices checked to ensure that they too carry a similar declaration;
- In addition to these official measures, De Beers has warned its 42 Indian sightholders, who wield considerable influence in the Indian diamond industry, that they will be removed from the sight list if they are found to be dealing in conflict rough.

The Indian diamond industry has not only held onto its market share in the low-end goods with which it grew internationally, it has moved up considerably in the cost and quality of goods it processes. However, despite this move, the average price of rough imported into India is still only US $31.50 per carat, while the average price of exports is around $223 per carat (*See Table 1*). Nilesh Shah, the Convenor of the Gem & Jewellery Export Promotion Council's Diamond Panel Committee argues that, 'The goods India deals in are well under the profile for conflict diamonds. What they (those concerned about conflict diamonds) are worried about are rough diamonds in the $230-and-up bracket.' Even if this were universally true, the Indian import price profile is only an *average* and a great deal of very high-end rough is processed in India. There are many dealers who only process and sell high-end goods. There is plenty of demand in the Indian processing industry for the kind of rough that fits the ideal conflict diamond profile. If this rough can be provided with a clean certificate elsewhere, it will have many eager buyers in India.

But Deputy Commissioner M. Ravindran of the Diamond Plaza Customs Centre, states that there is nothing that can be done in India if conflict rough manages to get itself legitimate papers. 'There is no way we can identify any rough as coming from a particular source. We have to depend on the certification procedure in the exporting country. If that is in order, there isn't much else we can do.' Indian Customs works in tandem with counterparts overseas on occasion. But, says Ravindran, 'That is only when we notice that something is wrong. We then take it up with the concerned authorities in the exporting country and move things along that way. There is no permanent set-up like Interpol for the Customs services.'

The Indian position is that tracking and stopping conflict rough is not India's problem. Both trade and government are loath to do more. V.S.A, Sury, the Secretary of the GJEPC, reflects the official view: 'India fully supports the Kimberley Process. Given that our imports don't come from these conflict centres, we don't really have much of a role to play. But we would like to be involved. There has been Indian representation at most meetings of the Kimberley Process.' However, the Indian representation at the Kimberley Process meetings has been almost exclusively from the

The Kimberley Process

The 'Kimberley Process' was initiated by the Government of South Africa in May 2000, in an effort to grapple with the problem of conflict diamonds. Concerned about how diamond-fueled wars in Angola, Sierra Leone and the Democratic Republic of the Congo might affect the legitimate trade in other producing countries, more than 35 countries have been meeting on a regular basis to develop an international certification system for rough diamonds. In March 2002, agreement was reached on the principles and many of the details in a system that was expected to begin in January 2003.

Provisions for regular independent monitoring of national control mechanisms were not, however, agreed, and remain an item of serious contention for NGOs concerned about the system's credibility and effectiveness. NGOs, including Partnership Africa Canada, the Network Movement for Justice and Development and the International Peace Information Service, have participated in the process, along with representatives of the diamond industry.

trade, with government representation at only one meeting as of mid 2002.

While most diamond dealers have either their own or affiliated processing units, a huge majority of the workforce are involved in processing diamonds solely on a job-work basis and have no knowledge of the sourcing and routing of the rough they polish. The conflict diamonds issue, therefore, has mainly to be addressed in Mumbai, which is the conduit for import of rough and export of polished and a huge dealing centre. The processing sector is located mainly in the neighbouring state of Gujarat. Ramesh Patel, secretary of the Ahmedabad Diamond Association, distances himself from the issue. 'We do job-work here as do most people in all the processing centres,' he says. 'Our source of rough and our market for polished are both Mumbai. Any questions you have about this issue must be asked in Mumbai.'

Trading Charges

The process of researching this report unearthed two very distinct undertones. First, many in the Indian diamond industry feel that the entire conflict diamonds issue and the Kimberley Process are more about finding scapegoats than anything else. Many feel that India is being specifically targeted. Says Nilesh Shah: 'At the first Kimberley Process meeting, there was no one to represent India. At that meeting, representatives from other centres claimed that all the conflict rough in the world was processed in India. It was only at the second meeting, when we were present, along with an Indian government officer, that we were able to set the record straight.' This statement underscores a strong sense of resentment against the Kimberley Process. As one diamond dealer put it, 'The countries that are sponsoring this whole process are the ones who are selling arms and ammunition to these people. Now they're trying to blame everybody else for it. Diamonds are easy to smuggle; arms and ammunition are not. Why don't they stop selling arms right away?'

The second undertone—as viewed from the Indian perspective—is a bitter rivalry between processing centres, especially between Antwerp and Mumbai. Antwerp representatives to the first Kimberley process meetings are said in India to be the ones who made most of the accusations against India. The perception is that Antwerp feels threatened because India is processing better and better goods and is 'poaching' on territory that was once solely Antwerp's.

There is also a widespread notion that developed countries (Belgium is one) are trying to impose some sort of international jurisdiction over the Indian industry. It is hardly surprising therefore, that when asked about the auditing of goods to ensure that conflict diamonds do not find their way into India, Nilesh Shah is very specific. 'We don't mind an audit procedure,' he said, 'but there are limits. I don't think anyone will agree to a committee from some other country having jurisdiction over us. Besides, who's going to pay for them and organize housing and office space in Mumbai?* Not us, definitely. I can also tell you with certainty that almost everyone will oppose some sort

* Editorial Comment: In fairness to the Kimberley Process, there has never been any discussion about a 'committee' from 'some other country' having jurisdiction over the Indian industry or any other; nor has the question of finding office space and residential accommodation ever arisen. There have been discussions about international monitoring of the Kimberley Process agreement. This issue is addressed at the end of the report.

of government audit. We are suggesting that the chartered accountants who audit our finances be given the mandate to audit our trading procedures and flow of goods. After all, they are licensed by the government and their reports are what we submit for tax purposes.'

Chandrakant Sanghavi, a De Beers sightholder and the GJEPC convenor in Surat, one of India's largest diamond-processing towns, echoes this sentiment. 'Some kind of audit procedure will be good. We want international affirmation when we do business. But I agree that more official spokes in the wheel are not the answer. And certainly not people from some other country.'

There is a problem of perception about the whole audit process. The Indian trade seems to think that if they don't submit to a panel of auditors from a developed country, the Kimberley Process will demand an 'official' Indian audit—meaning some kind of government role. They react strongly to this, even though this is not even remotely a Kimberley Process requirement. The resistance to official government audits, however, is typical of many developing countries. The Indian diamond industry has, for years, battled official red tape and very real impediments to business. The idea of a government audit procedure raises the spectre of a complete gridlock. Also, there is a feeling of having being left in the lurch by the government on the whole conflict diamond issue. Having attended only one Kimberley Process meeting, the government seems to think that its role in the matter is now over, and that whatever needs to be done, must be done outside of India. The people who do attend regularly are diamond dealers from the GJEPC's Diamond Panel Committee (Nilesh Shah is the one who has attended most meetings). They foot their own fares and expenses. Most diamond dealers feel that the lack of an official delegate who could authoritatively articulate India's position has left the country looking extremely bad at Kimberley Process meetings.

An incentive to smuggle?

All of this concerns only the legitimate diamond import and export industry. What about the illegitimate one? It is a well-known fact that Indian borders are porous. Before economic liberalization, ordinary citizens could buy almost anything under the sun in Mumbai's thriving black market. Even today, with almost no restrictions on the import of consumer goods, a roaring grey market supplies the same goods at considerably lower prices (minus product guarantees).

So is there a network smuggling diamonds into (or out of) India? Rough diamond imports are now duty free; there is no need to smuggle them to evade duty. Even before this, the duty on rough diamond imports was just five per cent. The cost of smuggling would most likely have been more than the five per cent duty. Traditionally, India's almost insatiable appetite for gold had been the driving factor in smuggling (apart from a steady demand for international consumer goods). Gold came in and narcotics went out. For over a decade now, the Gold Control Act, which restricted the amount of gold even a jeweller could have in his possession, has been scrapped and imports have been liberalised. Gold no longer drives smuggling the way it did.

But what about smuggling for purposes other than just evading duty? In April 2002, the *Times of India*, the country's widest-circulate English-language daily, carried a report outlining how terrorist groups like Al Qaeda had been using diamonds as an alternative form of currency ever since the US cracked down on funding sources for them. It alluded to consultations between the Indian authorities and the FBI and said a watch was being kept on Indian diamond dealers.

Inquiries in Mumbai turned up nothing further on the report. Customs authorities say they have nothing on it and that such a matter would be handled by the Directorate of Revenue Intelligence (which handles foreign exchange violations) and the Intelligence Bureau (the Indian equivalent of the FBI). Diamond dealers in Mumbai have also not reported any inquiries by government agencies and neither has the GJEPC. Work goes on as usual and one can only speculate as to what the report might mean. However, the convenience of using diamonds as an alternative to currency, or for purposes of obscuring their origin, could definitely be an incentive for smuggling diamonds in or out of the country.

Terrorists Discover Diamonds Are Forever

An inquiry by economic intelligence agencies and the Intelligence Bureau (IB) has revealed heavy use of diamonds by underworld dons and terrorist groups based in India and abroad for money transfers. Diamonds had emerged as an important means of creating hawala money, an IB official said. The FBI, too, has alerted India that al-Qaeda is now trying to hold its funds in diamonds and using them to dodge the freeze on its bank accounts. Consequently, the intelligence agencies are keeping a close watch on the diamond trade in the country. Referring to close networking of terrorist groups and underworld dons in many countries, a top source said, "In the last few months we have seen that diamond dealers are buying far more diamonds at premium prices than usual."

"Underworld and terrorist groups find it safe to invest their money in diamonds. It is a commodity that can be easily hidden and holds its value," said an official. Besides, IB officials said that diamonds did not set off alarms at airports, could not be sniffed by dogs or detected easily by customs officials. They are handy to carry and can be easily converted into cash.

The large-scale use of diamonds in recent past does not mean the end of narco-terrorism. "Drugs are still used to buy arms and ammunition and also for investing money by terrorists and underworld dons. Drugs yield huge profits. But compared to diamonds, it is a very risky business now."

Times of India, April 28, 2002

Editorial Comment

What, Me Worry?

This report suggests a great deal of ambivalence in the Indian diamond industry regarding the issue of conflict diamonds. There is suspicion and worry about the Kimberley Process, the idea of external monitoring, and the role of the Indian government. There is also a clear worry about hostility from the rival Antwerp diamond industry. This stems in part from the fact that the vast majority of the Indian industry, especially the processing sector, has little awareness of the seriousness of the conflict diamond issue and its humanitarian price. The issue is seen mainly as one of import-export paperwork.

The argument is made repeatedly, and in different ways by industry representatives, that Indian controls are good enough to keep conflict diamonds out of the country. Both the diamond trade and the government believe that adequate action has been taken, and that any problem lies entirely outside of India.

Industry representatives clearly feel that the government provided inadequate support through the Kimberley Process negotiations, but they are also ambivalent about government interference in an industry that has benefitted tremendously from liberalization. Despite these contradictory positions, the Indian regulatory mechanisms currently in place cannot guarantee that conflict diamonds are being kept out of the Indian processing chain. False documentation and simple, old-fashioned smuggling are more than possible, making India a logical place—among many—to launder conflict diamonds.

In addition, provisions similar to those in India exist in most other countries with large diamond industries, but this has not stopped the traffic in conflict diamonds, or in goods conveniently laundered elsewhere. Only a comprehensive international certification system with clear minimum standards is likely to do this. Such a system has now been agreed by the Kimberley Process and accepted by Indian participants, so the issue, while perhaps remaining contentious, has been settled.

The Kimberley Process, however, *will* require government involvement in establishing and maintaining the agreed minimum standards. There is wide scope within this for private sector involvement, but over-arching responsibility lies with governments.

And the issue of monitoring remains. It is contentious for many countries, and it is clearly very controversial as far as the Indian diamond industry is concerned. Straw men are set up and then knocked down: the idea of foreign committees with jurisdiction over the Indian industry; the need to find office space and accommodation for these inspectors, and so on. Such things have never been proposed. The NGOs that raised the issue of conflict diamonds in the first place, and the hundreds that have joined them since, have insisted only that there should be periodic professional, independent monitoring of all national control mechanisms. 'Periodic' means a review of *each* national system, once every three years, say, unless specific problems are apparent, as in the cases of Sierra Leone, Angola or the Democratic Republic of the Congo. Such missions might take two or three weeks at most. 'Professional' means that review missions should have the competence to deal with the provisions of the Kimberley agreement: knowledge of the diamond industry, customs procedures, law enforcement, systems management. 'Independent' means that they must be free of any vested interests in order to provide the credibility that the diamond industry—in India, and everywhere else—needs if it is to shake the blight of conflict diamonds.

Conflict diamonds represented as much as 15 per cent of the trade during the mid to late 1990s. Even if they were to represent only one per cent of the industry, however, they would yield US$80 million in a year. Kalashnikov rifles can be purchased for $100 or less. Anyone buying a diamond engagement ring can do the arithmetic.

Without an effective international certification system, without an internal Indian chain of warranties, and without a credible, effective and independent monitoring mechanism, the Indian diamond industry—the largest in the world—will be as vulnerable as any other to the threat of conflict diamonds. The only difference for India is that, being the biggest, it has more to lose if conflict diamonds are not effectively and convincingly stopped.

Pressures compelling change in the Indian diamond trade have come historically from sellers like De Beers, large buyers, and from humanitarian agencies and the media, both domestic and international. In the past, India has responded well to domestic and international pressure on issues like child labour and working conditions, despite an initial defensiveness. Sustained pressure and constructive engagement can, and should see India taking more pro-active and more responsible steps to ensure an effective international certification system under the Kimberley Process.

Statistical Annex

Table 1. Average Price of Rough Diamonds Imported and Polished Diamonds Exported (US$/Ct)

Yearly Data	90–91	91–92	92–93	93–94	94–95	95–96	96–97	97–98	98–99	99–00
Export	317	287	260	261	254	243	224	219	188	201
Import	53	34	30	37	38	36	33	28	22	36

Table 2. India—Diamond import-export figures for April 2001–March 2002*

COUNTRY	EXPORTS (cut & polished) Quantity (carats)[1]	Value (US$ million)[2]	IMPORTS (rough) Quantity (carats)[1]	Value (US$ million)[2]
Australia	61,000	25.48	9,000	0.54
Austria	0	0.18		
Bahrain	0	0.15		
Belgium	3,474,000	842.35	112,231,000	2,438.86
Brazil	5,000	0.25	10,000	0.15
Canada	23,000	4.37	6,000	0.34
Cyprus	14,000	2.22		
DR Congo			1,000	0.09
Czech Republic	0	0.04		
Denmark	0	0.07		
Finland	0	0.53		
France	62,000	18.65		
Germany	175,000	29.00		
Greece	0	0.04		
Hong Kong	9,291,000	1,600.11	10,647,000	388.96
Ireland	0	0.02	5,000	0.33
Israel	737,000	263.85	4,330,000	240.9
Italy	5,000	0.48		
Japan	1,667,000	329.22	1,000	0.03
Kuwait	0	0.11		
Kenya			0	0.02
Lebanon	23,000	4.38		
Malaysia	88,000	8.69		
Mauritius	0	0.41		
Mexico	0	0.01		
Netherlands	0	0.04	6,000	1.15
New Zealand	13,000	3.25		
Norway	0	0.00	2,000	0.03
Oman	1,000	0.12		
Poland	0	0.02		
Portugal	0	0.00		
Qatar	0	0.03		
Singapore	523,000	96.32	21,000	1.28
South Africa	18,000	4.18	173,000	1.10
South Korea	84,000	9.52		
Spain	20,000	5.97		
Sri Lanka	0	1.29		
Sweden	0	0.18		
Switzerland	500,000	119.49	72,000	4.52
Taiwan	16,000	4.85		
Thailand	1,549,000	215.08	7,000	0.04
Turkey	2,000	0.29		
Trinidad & Tobago	0	0.01		
U.A.E.	3,593,000	340.44	5,650,000	171.69
U.K.	169,000	32.93	26,074,000	1,042.92
U.S.A.	10,777,000	1,967.15	205,000	8.28
West Indies	0	0.06		
Others	—	0.00	1,000	0.05
Gross Exports/Imports	32,890,000	5,931.83	159,451,000	4,301.28
Return Consignments	3,000	1.58		
Export of rough			30,227,000	142.15
Net Exports/Imports	32,887,000	5,930.25	129,224,000	4,159.13
SEEPZ[3]	0	41.66	0	46.35
Total Exports/Imports	32,887,000	5971.91	129,224,000	4205.48

*Provisional figures.
[1] Amounts below 1,000 carats are shown as 0 but total reflects these quantities.
[2] Amounts below $0.01 million are shown as 0 but total reflects these amounts.
[3] Santacruz Electronics Export Processing Zone, Mumbai (gem & jewellery enclave). No country-wise break-up.
Source: The Gem & Jewellery Export Promotion Council.

Table 3. Rough Diamonds -Major Suppliers to India (US$ Million)

Yearly Data	90–91	91–92	92–93	93–94	94–95	95–96	96–97	97–98	98–99	99–00
Belgium	1237.6	1129.95	1368	1624.37	1688.83	2068.56	2367.66	2188.35	2388.28	3167.75
U.K.	636.92	656.78	699.59	781.04	751.59	860.12	719.07	587.31	658.01	983.57
Israel	72.96	63.25	60.76	1000.3	161.7	171.92	229.09	187.09	207.89	414.04
U.S.A.	13.61	6.85	14.44	16.86	10.78	8.28	8.72	10.33	9.77	14.18
Switzerland	0.26	0.00	0.07	0.00	0.00	0.00	9.24	53.94	17.38	21.14
Sri Lanka	0.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Hong-Kong	0.41	5.63	23.5	4.59	116.91	137.23	107.82	33.12	118.62	292.03
Singapore	0.00	0.54	0.04	0.11	0.00	5.17	0.4	0.00	0.00	0.00
Thailand	1.84	0.06	0.08	0.39	0.82	0.48	0.38	0.69	0.02	1.94
Others	0.58	9.05	10.58	0.44	28.02	0.87	3.79	23.37	2.73	3.08
U.A.E.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.23	21.32	49.33
Export of Rough Diamonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-48.6	-80.84	-134.76
Total	**1964.76**	**1872.11**	**2177.06**	**3428.1**	**2758.65**	**3252.63**	**3446.17**	**3035.83**	**3343.18**	**4812.3**

Notes: Above data for 1999-2000 & 1998-99 includes country-wise break-up from SEEPZ export-processing zone, Mumbai and figures for cut & polished diamond imports to bonded areas. 'Others' for 1997-98 includes exports from SEEPZ, Mumbai, as country-wise break-up from SEEPZ is not available for 1997-98. Source: The Gem & Jewellery Export Promotion Council

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by Vinod Kuriyan
Series Editor: Ian Smillie

ISBN: 1-894888-18-9

Design: SUM Incorporated

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The Diamonds and Human Security Project is supported by the Program on Global Security and Sustainability of the John D. and Catherine T. MacArthur Foundation, the Canadian International Development Agency, the British Department for International Development, The Canadian Catholic Organization for Development and Peace, the International Development Research Centre, the Canadian Department of Foreign Affairs and International Trade, The Canadian Autoworkers Social Justice Fund, Inter Pares, CUSO, Terre sans Frontières, Centre canadien d'étude et de coopération internationale, and several other organizations.