Diamonds in the Central African Republic

Trading, Valuing and Laundering

By Christian Dietrich

The first impression of the Central African Republic (CAR) on arrival in the capital, Bangui, is of a country forgotten by the rest of the world. There are few embassies, and those countries that do have political representation, with the exception of France, employ a minimum of expatriate staff. Most diplomatic representation is based in neighbouring Cameroon; even the French embassy in Bangui referred the author to its commercial affairs officer in Douala on diamond issues. While France is the primary donor of bilateral aid to the CAR, the country exists at a subsistence level in many respects, especially in the aftermath of multiple coup attempts centred in Bangui.

At first glance, the Central African Republic presents a seemingly straightforward case study in diamonds. Despite numerous coup attempts since 1996, the country has not been considered a *producer* of conflict diamonds like the Democratic Republic of the Congo (DRC) and Angola. The CAR's total diamond production, estimated at about US$100 million per annum, is derived from a handful of towns along two veins of alluvial diamond deposits in eastern and western portions of the country. The sheer volume of diamonds produced in the DRC and Angola has overshadowed the importance of the CAR's much smaller diamond economy.

The Study

This paper builds on findings contained in a previous publication of the Diamonds and Human Security Project: *Hard Currency: The Criminalized Diamond Economy of the Democratic Republic of the Congo and its Neighbours.* Much of the information featured in this report was collected during a visit by the author to Bangui in 2002. The paper begins with a conceptual survey of the CAR's diamond economy, including a description of diamond export taxes. It then examines the role of diamond export companies in relation to the external valuator. It considers the issue of fraudulent diamond exports, and government efforts to curb smuggling and to increase revenue from the diamond sector. Finally, the paper deals with the overlap between the diamond markets of the CAR and the DRC, and considers Bangui's possible role in the laundering of conflict and illicit diamonds.

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As the world's tenth largest producer of diamonds, the vast proportion of which are gem quality, the CAR's diamond sector provides a vital source of government income. Compared to the anarchy of the DRC's diamond economy, the CAR is relatively well-regulated and transparent. The government commands an impressive array of statistics concerning diamond production and trading through the *Bureau d'Évaluation et de Contrôle de Diamant et d'Or* (BECDOR). Moreover, there are only seven major diamond exporting companies, or bureaux d'achat, operating in the country, making an analysis of interests in the diamond economy relatively uncomplicated. Beneath this first level of scrutiny, however, a more detailed examination of the CAR reveals a less optimistic picture.

Diamonds represent one of the CAR's primary exports and thus play a prominent role in both the formal and informal economy. The CAR's diamond economy is based almost exclusively on informal alluvial production. The formal diamond sector, comprised of mechanized mining, constitutes less than 10 per cent of the country's official diamond exports—most of these licensed companies or operators work under *'autorisations exceptionnelles'* that allow companies to obtain temporary mining and export licenses, and reduced tax obligations. Most companies, in any case, prefer to finance local diamond diggers rather than invest in industrial production. Comparatively, the DRC's formal mining sector accounts for 25 per cent of official exports, and Angola's formal sector accounts for nearly 50 per cent. The government of the DRC is a majority owner in the Minière de Bakwanga (MIBA), the country's largest single diamond producer, although the company has made no profits for many years due to endemic corruption. The CAR government, on the contrary, does not hold shares in mining companies. This is in compliance with privatization criteria recommended by international lending organisations.

Hard Currency, however, exposed the diamond interests of ranking politicians, including the President. CAR authorities argue that such interests are purely private, and have no impact on politics. An example was an apparently close relation between President Patassé and Antonio Teixeira, through Teixeira's companies, Central Africa Mining Company (CAMCO) and Central Africa Diamond Company (CADCO). According to CAR Ministry of Mines officials, Teixeira refused to pay tax on his operations between 1998 and 2000, citing an alleged partnership with Patassé[1]. Teixeira subsequently left the CAR when the Ministry of Mines insisted on payment. Part of CAMCO's highly lucrative diamond concession is now held by a company that includes the involvement of a US Embassy official and a former CAR Minister of Defence.

Compared with Kinshasa, Bangui's parallel or informal economy seems starved of cash, and the vigorous diamond market in Kinshasa contrasts sharply with Bangui where the diamond export companies, or *bureaux d'achat*, are relatively devoid of diamond dealers, or *collecteurs*—the individuals who act as middlemen between exporters and miners. But the diamond anarchy of the DRC appears to be mostly absent in the CAR, at least in Bangui. The CAR government has recently implemented detailed mechanisms to monitor the internal diamond market from mine to export, through BECDOR, unlike either Angola or the DRC. Such a system can work in the CAR because its internal diamond trade is small enough to monitor.

1 Interviews with officials in Ministry of Mines and a US Embassy official, Bangui 15 and 20 July 2002

BECDOR was established in 1982 to oversee the internal diamond market and to valuate official exports. BECDOR assesses the value of diamond parcels presented by the *bureaux d'achat* and companies exporting under *Authorisations Exceptionelles* in order to assess tax. BECDOR also maintains a database concerning all diamond production in the country. It estimates that there are approximately 50,000 licensed diamond diggers, or *creuseurs*, in the CAR. These diggers then sell to middlemen, or *collecteurs*, which number about 400 and operate independently, or in association with a *bureau d'achat*. Diggers may also sell directly to the *bureaux d'achat*, several of which finance alluvial mining operations. A digger will fill out a '*bordereau de production*' to formalize his production, and when a parcel of diamonds is sold to a middleman or *bureau d'achat*, a duplicate receipt is furnished, with copies retained by the seller and the buyer. This *bordereau d'achat* indicates the name of the seller, license number, carat weight, value, and origin. If, for example, a *collecteur* buys from five different diggers, his sale to a *bureau d'achat* will be accompanied by five *bordereaux d'achat*. The sale of the diamonds by the *collecteur* to the *bureau d'achat* will then generate a single *bordereau d'achat*. This means that every diamond presented to BECDOR for valuation can be traced back to the seller. If the seller was a *collecteur*, then the origin of the diamonds can in theory be determined by the various *bordereaux* amassed by the *collecteur*. Loopholes in this system will be discussed below.

The total government tax paid by the *bureaux d'achat* is 11 per cent, higher than in neighbouring countries. This is divided as follows:

Customs	BECDOR	Independent Diamond Valuators	Busines Tax	Public Treasury
3.25%	0.75%	2%	2%	3%

The *bureaux d'achat* believe that the tax is too high and threatens their profitability. The government believes otherwise. The Minister of Mines notes that despite gradual reductions in the export tax, from 20 per cent in 1982, the volume of diamonds passing through official circuits has not increased, suggesting that lowering taxes has not reduced smuggling in this case[2]. Moreover, the government contends that the two per cent business tax (also called the 'IMF tax' since it is meant to help the government repay its foreign debt) is justified because there are no taxes on the import of foreign currency. The three per cent paid to the Public Treasury is paid only by the *bureaux d'achat*. This tax does not seem to be a burden for exporters, however, since prices paid to diamond sellers (middlemen or diggers) are simply reduced to compensate.

There is contention concerning the two per cent paid by the *bureaux d'achat* directly to Independent Diamond Valuators (IDV). This represents IDV's fee for providing a counter-valuation service to BECDOR, as well as for training BECDOR staff, which began in March 2002. If the CAR officially exports US$60 million worth of diamonds annually, the IDV contract would gross US$1.2 million, or US$100,000 per month. This is a major concern for the *bureaux d'achat* who believe that IDV will over-estimate the value of exports in order to increase profits. Conversely, under the previous system, exporters could 'persuade' BECDOR employees to under-estimate the value of diamonds, depriving the state of vital revenue.

[2] Interview with André Nalke Dorongo, CAR Minister of Mines, Bangui 14 July 2002

Counter Valuation and Counter Arguments

The presence of a qualified external valuator during the BECDOR valuations is a net positive for the CAR. Such a contract, held by a respectable and transparent international company, should make under-valuation of diamond parcels nearly impossible. BECDOR previously used out-dated price lists that did not reflect fluctuations in the diamond market, and seems to have systematically under-valued diamond exports for several reasons, including direct pressure from *bureaux d'achat*.

IDV has introduced its own price list for BECDOR valuations, during which an IDV diamond expert is present. This aims to reflect current Antwerp prices for rough diamonds. This value then determines government tax and IDV's own fee. Naturally, certain *bureaux d'achat* are adverse to the new price list as well as the increased level of scrutiny in BECDOR. IDV's valuation expert does not allow employees of the *bureaux d'achat* to be physically present during BECDOR's valuation. This prevents haggling over prices and other types of influence, which seem to have been common previously. Thus, the influence of *bureaux d'achat* in the valuation process appears to have been greatly diminished by the presence of the external valuator.

The stakes in this debate are significant. For example, if a *bureau d'achat* exports US$10 million in diamonds annually, but is accustomed to having BECDOR under-value this by 20 per cent, then the exporter saves US$220,000 in tax ($10,000,000 × .2 × .11). If the CAR's annual official exports of US$60 million were under-valued by 20 per cent, then the government would lose over US$1 million in tax revenue. Conversely, if IDV were to over-value diamond exports by 20 per cent, then the company's gross income from the CAR contract would increase by US$240,000 and the government would gain an additional US$1 million from higher taxes.

Criticism has also been raised concerning the ability of a valuation company to maintain its independence while actively linked to the purchase or sale of diamonds. IDV shares an office with a company named Diamant S Langer and there seems to be considerable overlap between the principals and employees of both companies. Diamant S Langer markets diamonds produced by the DRC mining parastatal MIBA in Antwerp, and also imported diamonds from the Republic of Congo (Congo-Brazzaville) in 2001, a country with no diamond production of its own, the same year that IDV obtained a valuation contract with the government of DRC. This contract was broken by the DRC government, leading to litigation.

Conflict Diamonds

The CAR's physical proximity to rebel territory in the DRC suggests that Bangui could serve as a conduit for conflict diamonds. Bangui, Bujumbura, Kampala and Kigali are the most obvious routes for the exit of diamonds mined in rebel zones in eastern and northern DRC. The armies of Rwanda and Uganda deployed into the DRC in 1998, ostensibly for security reasons, but they have actively commercialized diamonds mined in areas under their control. The CAR has not intervened militarily in the DRC's war, but Congolese rebel leader Jean-Pierre Bemba dispatched troops to Bangui during a coup attempt there in 2001. Bemba intervened on behalf of the CAR government because he could not tolerate a hostile regime in Bangui, which is separated from his territory only by the width of the Ubangui River. Naturally, Bemba relies heavily on the supply of commodities and materiel either through Kampala or Bangui, the latter being a much cheaper alternative for goods such as petrol.

Bemba has been able to finance his war against the Congolese government by controlling the sale of between one and three million dollars worth of diamonds a month. Bemba signed a peace deal with the Kabila government in April 2002 but then refused to assume his position as interim Prime Minister in Kinshasa. The diamond wealth controlled by Bemba's *Mouvement de libération du Congo* (MLC) has contributed to his ability to keep fighting. The exact routes for commercializing these diamonds remain a mystery for the most part. Rumours persist that Bemba sends his diamonds through South Africa directly, but there is more evidence that they pass initially through the DRC's neighbours before entering the international market. Prominent Lebanese diamond dealers in Kampala operate in DRC territory controlled by the rebel allies of the Ugandan People's Defence Forces, which trained and supported the MLC. These Kampala-based operations, financed by foreigners in association with Ugandan government strongmen, obtain diamonds from rebel zones immediately north of Kisangani such as Bafwasende and Banalia, as well as from Gbadolite in the heart of Bemba's zone of influence. Victor Bout, a Russian arms merchant, also supplied Bemba via Rwanda, Uganda and the CAR. Bout worked closely with Sanjivan Ruprah, who was active in the diamond and arms trade in many African countries until his arrest in Belgium, and later in Italy in 2002. Moreover, there are allegations of direct links between diamond companies in the CAR and Congolese rebel groups. Two CAR *bureaux d'achat* have been linked to Bemba by reliable sources investigating the diamond trade[3]. One of these *bureaux d'achat* is also known by the Angola Selling Corporation for buying illicit diamonds in Angola. Previous links between a CAR *bureau d'achat* and diamonds mined in Kisangani (controlled by the RCD-Goma rebels) are detailed in *Hard Currency*.

Approximately US$50-60 million worth of diamonds mined in rebel territory in eastern and northern DRC 'disappear' into the global rough diamond pipeline every year. Diamonds declared in Belgium by companies buying from Congolese rebels are sometimes declared as coming from the DRC. This is evidenced by the massive discrepancy between the DRC's official exports and Belgian imports. Companies also attempt to hide the true origin of their diamonds by declaring Congo-Brazzaville as the provenance when importing into Belgium. Belgian imports from Rwanda and Uganda between 1999 and 2001 totaled only US$9.2 million, significantly understating the importance of these two countries in the transit of illicit DRC diamonds.

Tanzania is another transit country for illicit goods. It accounted for US$19 million in Belgian imports between 1999 and 2001, even though the largest Tanzanian producer, the Williamson diamond mine, sells its production to De Beers rather than the Antwerp market.

It is possible that the CAR is being used for laundering diamonds derived from Congolese rebels, or that Bangui is used as a primary transit zone. Belgian imports declared as originating in the CAR have surpassed the CAR's official exports by a factor of three over the past few years, with the exception of 2001 when they were only double official exports.

Belgian imports declared as originating in the CAR have surpassed the CAR's official exports by a factor of three over the past few years

There are three possible scenarios that may explain the use of the CAR for the laundering or transit of conflict diamonds, and the significant variation between CAR's exports and Belgian imports:

- first, it is possible that the *bureaux d'achat* in the CAR declare all of their diamond exports and do not buy any illicit diamonds in the CAR or neighbouring countries. This would suggest that Belgian imports from the CAR were comprised of the CAR's official exports, as well as diamonds imported into Belgium by other companies not active in the CAR but fraudulently declaring the CAR as the provenance of the diamonds;

- second, CAR *bureaux d'achat* could be declaring some diamonds for official export while also smuggling other illicit diamonds, all of which would be declared in Belgium with a CAR provenance. Some of these illicit diamonds could be obtained from the DRC;

[3] Author's interviews with confidential sources, Belgium and United Kingdom

- a third scenario could be a mixture of the first two, in which several *bureaux d'achat* operate legitimately, while others operate in both the official and illicit markets simultaneously, coupled with companies that are not present in the CAR but use the country's name to import diamonds into Belgium. To confirm such a distinction, a review of Belgian import documents for each company declaring CAR provenance would be required, but this sort of information remains a tightly guarded secret throughout the entire diamond industry.

In each case there is fraud, tax evasion and possibly United Nations sanctions busting.

Laundering or Transit of Conflict Diamonds

Neither BECDOR nor the external valuator are tasked with preventing the laundering of conflict diamonds through the CAR. Diamond parcels suspected of originating in the DRC or elsewhere are not impounded for investigation by the government, although such observations may appear in IDV valuation reports[4]. It is actually very difficult to differentiate between CAR diamonds and those mined in the MLC-controlled northern DRC, while diamonds from Kisangani could, in theory, be identified by specific qualities. The Minister of Mines rejects the possibility that DRC diamonds are laundered through official circuits in the CAR, basing his assumption on the difference between the average quality of CAR and DRC diamonds[5]. He observes that the CAR's diamond production is about 80 per cent gem quality and 20 per cent industrial, while in the DRC it is the reverse. The laundering of even a small amount of DRC diamonds into the CAR's official statistics would alter the known proportion of gem and industrial diamonds, and alert the government.

It is actually very difficult to differentiate between CAR diamonds and those mined in the MLC-controlled northern DRC

While there is a difference between the quality of CAR and DRC diamonds, it only applies to the total production of both countries. The high proportion of industrial quality diamonds from Mbuji Mayi in territory controlled by the DRC government, for example, would not logically pass through Bangui. Rather, diamonds from rebel zones in the east, and especially the north of the DRC, are suspected of passing through Bangui, and these diamonds are similar to the CAR's diamonds in both external characteristics and quality. General statistics concerning the quality of diamonds, as a result, cannot serve as a meaningful line of defence against the laundering of conflict diamonds, or those fraudulently imported from nearby mining zones in the DRC.

Conclusions

There is no documented evidence that *bureaux d'achat* currently purchase conflict diamonds from the DRC, although anecdotal evidence suggests that this is a very real possibility. Such diamonds likely would not be laundered through the CAR's official exports to evade government tax. It is more probable that they would be smuggled into and then out of Bangui, and only then declared in Belgium. This problem may not seem to be the responsibility of the CAR government, but the use of Bangui as a transit point for conflict diamonds has severe repercussions for the country's diamond trade.

4 Interviews with BECDOR employees and the IDV valuator, Bangui 14-20 July 2002

5 Interview with André Nalke Dorongo, CAR Minister of Mines, Bangui 14 July 2002

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 50 countries have been meeting on a regular basis to develop an international certification system for rough diamonds. In November 2002, agreement was reached on the principles and many of the details in a system that began in early 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.

If the government of the Central African Republic ignores good evidence that certain companies are dealing with rebel groups in the DRC, then it will be seen to be complicit in this trade. Diamond dealers, whether licensed or not, using Bangui to deal with Congolese rebel groups will taint the CAR's legitimate diamond economy.

The most basic indication that such a trade exists can be obtained from flight controllers at the national airport. The arrest warrant for arms trafficker Victor Bout was issued only following high-level embarrassment over the operations of Centrafrican Airlines, a company with fraudulently registered aircraft, not even registered in the CAR. The warrant was not issued out of a genuine attempt to prevent the use of Bangui as a staging post for the arming of the MLC, and other rebel groups in the region. Bout's then business partner, who continues to reside in Bangui, was not named in the government's case against Bout, according to a United Nations arms investigator. Moreover, the author's personal observation of a transport aircraft departing Bangui, operated by an entrepreneur under investigation by UN arms experts, suggests that the CAR continues to be a significant platform in the arming of Congolese rebels.

Recommendations

1. If the Government of the CAR and its independent valuator want to avoid charges of conflict of interest, the valuator should receive a fixed fee for its work. Then any increased values assigned to diamond exports will not attract criticism and will reflect only the professionalism of the service.

2. If the government of the CAR wants to demonstrate convincingly that it is detecting and preventing the movement of conflict diamonds through its official diamond trade, it should review and investigate BECDOR statistics. This would include randomly interviewing miners and middlemen to check that *bordereaux de production* and *bordereaux d'achat* are not being used to launder diamonds mined illegally in the CAR or in a neighbouring country.

3. It is essential that the CAR be a full member of the Kimberley Process and that it work to halt the use of its name and its territory in the trafficking of contraband diamonds. This must be accompanied by a credible, independent review to ensure compliance. Without such a review, the country's diamonds will remain suspect and it would then be appropriate for the United Nations Security Council to place an international embargo on all diamonds emanating from the Central African Republic.

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