# Triple Jeopardy

Triplicate Forms and Triple Borders: Controlling Diamond Exports from Guyana

# Introduction

South America's second oldest diamond producer, Guyana has year after year been quietly producing tens and often hundreds of thousands of small, clear, high-quality diamonds for most of the 20<sup>th</sup> century. Guyana signed on to the Kimberley Process on December 13, 2002, putting in place a system designed to ensure that the diamonds exported from Guyana are all legally produced and declared in Guyana.

The country has a number of natural advantages that have helped this effort. Guyana is relatively small by South American standards, with transportation routes and administrative capacity all centred on the capital, Georgetown. Mining has historically been, and remains one of the country's key industries, with the result that the Guyana government takes mining regulation seriously.

The government agency in charge of mining, the Guyana Geology and Mines Commission (GGMC) is an autonomous public corporation, able to raise its own funds, hire its own staff and design and implement its own regulatory regimes. An institutional descendent of the old Geological Survey of British Guiana, the GGMC has inherited and preserved many of the better aspects of the British civil service tradition. The current GGMC Commissioner, Brindley H. Robeson Benn, appears to be an able and effective administrator, determined to bring Guyana's diamond fields under his control. In this effort he has the backing of Guyana's Prime Minister, Samuel Hinds.

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# **About this Report**

Partnership Africa Canada (PAC) has been a leader in the campaign against conflict diamonds since 1999. It has been an active member of all Kimberley Process meetings and Working Groups. It has produced several background studies on diamond-related issues, 14 occasional papers and a quarterly newsletter, *Other Facets*. All are available on the PAC website (www.pacweb.org).

This study was researched and written by a team of PAC researchers in March and April, 2006. Research was conducted in Georgetown, in various

parts of Guyana's diamond mining areas, in the Venezuelan border town of Santa Elena de Uairén, and in the Brazilian city of Boa Vista. The report follows two PAC reports in 2005 and 2006 describing the laxity of Brazilian internal diamond controls, and it was undertaken because of concerns that the Guyanese diamond trade might in some way be affected. It is.

PAC would like to thank the many individuals in Guyana, Brazil and Venezuela who assisted in the preparation of this report. At the GGMC in Georgetown, PAC would particularly like to thank Commissioner Robeson Benn, Mrs. Wilson-Jefford and Ursilla (Pat) Leitch of the administrative division, and Chief Mines Officer Linton Butters, all of whom gave very generously of their time.



Occasional Paper **#** 14 Partnership Africa Canada Editor: Shawn Gerald Blore Managing Editor: Josée Létourneau Series Editor: Ian Smillie The system devised by the GGMC is a combination of carrots and controls. To encourage miners and exporters to voluntarily declare their diamonds, the government has set royalties low and made diamond valuations simple<sup>1</sup> Exporters can sell their diamonds to whomever they choose, receive payment in US dollars, and freely transfer their profits abroad. Processing of export licenses and later Kimberley Certificates has been made quick and efficient.

On the control side, the GGMC has revised and rejuvenated a long-standing system for monitoring production, mine site by mine site, and for tracking that production as it moves from the hinterland to the capital. The main tool in this effort is that age-old bureaucratic workhorse: the form, filled out in triplicate, signed, countersigned, filed, indexed, cross-indexed, checked and double-checked. Though by no means high tech, the tradition of forms and cross-checks has served Guyana well.

The key question is whether the triplicate forms are a match for the Triple Border. For much of its southern third, Guyana shares a long, porous, undefended border with the Brazilian state of Roraima. Roraima, in turn, shares an equally porous border with Venezuela. Distances in this little corner of the continent are short. The Venezuelan bor-

# **The Kimberley Process**

Conflict diamonds are diamonds used by rebel armies to finance war. Diamond-fuelled wars in Sierra Leone, Angola, the Democratic Republic of the Congo, Liberia and elsewhere, have taken the lives of hundreds of thousands of people over the past fifteen years. The Kimberley Process began in 2000 in an effort to halt the trade in conflict diamonds. A series on intergovernmental meetings in which NGOs and industry played a key role led to the creation of the Kimberley Process Certification Scheme (KPCS) for rough diamonds, starting in January 2003. The KPCS is now legally binding in more than 40 diamond producing and processing countries, plus all those represented by the European Union. No rough diamonds can be traded among or between these countries unless they are accompanied by a government-issued Kimberley Process Certificate stating that the diamonds are clean. The certificate must be backed by a system of internal controls in each country, designed to give each certificate meaning.

der town of Santa Elena de Uairén is but two hours by well-paved road from the Roraima state capital of Boa Vista. Boa Vista is but 100 km from the Guyanese border town of Lethem. One can travel with ease from Venezuela to Guyana in less than half a day, with plenty of time for lunch in Boa Vista.

Brazilian and Venezuelan Kimberley Process implementing authorities must review all diamond activities in the Boa Vista and Santa Elena de Uairén areas and explain how they will halt the illegal import and export of diamonds from their national territory. If such assurances cannot be provided in a credible fashion, Brazil and Venezuela should be expelled from the Kimberley Process Certification Scheme.

Such close proximity makes for an interesting blend of cultures. The problem from a diamond perspective is that the southern Venezuelan region around Santa Elena de Uairén is as rich in diamonds as Guyana. What's more, Santa Elena is relatively isolated from the rest of Venezuela. It's a 12 hour bus ride to the state capital of Bolívar, itself a 2hour flight from the capital in Caracas. For those seeking to export diamonds, the natural route is not north, but across the border into Brazil.

It's a route that is actively being utilized. As PAC discovered on a visit to Santa Elena, this small border city is chock-ablock with diamond buyers, many of them Brazilian. At least three large Boa Vista diamond traders maintain offices or buyers in Santa Elena. Most of these buyers are connected in one way or another to exporters in Guyana. One of them, Bastos Diamantes, is one of Guyana's biggest exporters, though in a curious behind-the-scenes way that is explained later in the report.

These traders buy significant quantities of stones in Santa Elena, and bring them back to Boa Vista for sorting. They do not export them through Brazil. According to the Boa Vista office of Brazil's National Department of Mineral Production, no Kimberley Certificate has even been issued in Boa Vista. Nor do they send them south to Brazil's diamond exporting cities of Belo Horizonte or Juina. Instead, as one of the largest exporters told PAC directly, they send them north to Georgetown.

Guyana's low royalties and straightforward Kimberley certificate processing have brought more than just Guyana's diamonds out of the woodwork. The country's attractive royalty regime, the region's natural trade routes, Boa Vista's position as a regional diamond trading capital, and perhaps also problems in Venezuela's Kimberley diamond control system, have all combined to push large numbers of Venezuelan diamonds into the Guyanese system.

Closing this tri-border traffic is the biggest challenge for the Kimberley System in Guyana.

The report that follows is intended as a detailed introduction to the diamond mining and exporting industries in Guyana. For some, it may well be too detailed. Those with specific interests may want to skip directly to certain sections.

For an overview of Guyana's diamonds and 20<sup>th</sup> century diamond production, please see 'History of Diamonds in Guyana' and 'Diamonds in Guyana Today'. The two sections 'The Main Actors in the Guyana Diamond Industry' and 'The Legal Environment' provide short profiles of the main players in the Guyana diamond industry and the legal environment in which they operate.

For a detailed look at the bureaucratic procedures used to track Guyana's diamonds from source to export and to issue Kimberley Certificates, please see 'Forms in Triplicate: Guyanese Production Controls', and 'The Certification Process'.

Those specifically interested in the gaps and problems identified in Guyana's Kimberley System should proceed to 'Kimberley Impact', and 'Gaps in Guyana's System of Kimberley Certification'.

Finally, for a look at PAC's proposed solutions to these problems, please see 'Conclusions and Recommendations'.

PAC believes that small changes in Guyana could make a major difference. PAC also recommends that Brazilian and Venezuelan Kimberley Process implementing authorities review all diamond activities in the Boa Vista and Santa Elena de Uairén areas respectively. They should provide details on how they will halt the illegal import and export of diamonds from their national territory. If such assurances cannot be provided in a credible fashion, Brazil and



Venezuela should be expelled from the Kimberley Process Certification Scheme.

# History of Diamonds in Guyana

Diamonds were first discovered in Guyana in the late 1880s, by miners working placer gold deposits in the Puruni district. From this point onwards placer gold miners continued to keep an eye out for diamonds, but it wasn't until the late 1890s that miners in the Mazaruni district first began seeking diamonds on their own. Production records for 1899, though incomplete, show Guyana producing some 750 carats.

By 1902, when regular record keeping began, Guyana's production had shot up to nearly 8,500 carats. Production levels hovered near the modest mark of 10,000 carats for the next two decades, until in 1920 miners discovered a region of rich and easily recovered alluvial deposits on the banks of the Mazaruni and Puruni rivers.



Production zoomed from 17,000 carats in 1919 to 40,000 carats in 1920, to 105,000 carats in 1921. The country hit its Jazz Age peak in 1923, with a production level of 220,265 carats. Diamond production declined somewhat after that, but remained in the low six figures until 1929 when the Great Depression took the sparkle out of the diamond market.

Demand crashed, but even so miners in the 1930s and 1940s kept busy, producing between 30,000 and 40,000 carats per year. With recovering demand after World War II, Guyanese production levels rose once again, from 35,000 carats in 1950 to 97,000 in 1960, to 98,000 in 1968.

After 1968 the official production figures show a precipitous drop, from 66,000 carats in 1969 to 30,000 in 1975, to 16,000 in 1979. The official production figures remained depressed in the 10,000 carat range for all of the 1980s, and didn't begin recovering again until the early 1990s.

How real this 20 year production slump actually was is anyone's guess. Guyana achieved its independence from Great Britain in 1966, and like many other former colonies in this period, the newly independent Co-operative Republic of Guyana set off on ultimately disastrous experiments with state-lead socialism and single-party rule. The consequent decline in the economy certainly resulted in some drop in production, though likely not as pronounced as that shown in the production figures. Miners and exporters in this period had little incentive to declare their diamonds, and there were quite a few incentives to hide them. Tens of thousands of carats almost certainly left the country clandestinely for Brussels and New York in these decades, but just how many will likely forever remain a mystery.

Representative democracy returned to Guyana in the early 1990s, at the same time as new life was breathed into the Guyanese diamond fields with the arrival of significant numbers of Brazilian *garimpeiros*. These Brazilian small scale miners were attracted, it should be noted, not by the free air of democracy. They were attracted by Guyana's relatively laissez-faire mining code, by the country's new openness to foreign workers and foreign investment, and its relatively large, easily identified, easily accessible diamond fields, which the Brazilians could successfully exploit using the new-to-Guyana technology of a portable, motor-driven diamond jig, known in Guyana by its Brazilian name, the *lavrador*.



Guyanese diamonds

Production rose from 9,000 carats in 1989 to 52,000 carats by 1995, and to 81,000 in 2000, before soaring off into the stratospheric (for Guyana) heights of 248,000 carats in 2002, 412,000 in 2003 and 444,940 in 2004, a new all-time Guyanese record. In 2005, official production numbers fell again, but only slightly, to 356,950 carats.

The vast increase in exports brought by the Brazilians has muted a significant backlash of domestic criticism over Brazilian dominance of Guyana's diamond fields. That said, while the stones recorded in these figures are undoubtedly real and most certainly left the country as claimed, these extraordinarily high production numbers are as suspect as those from the post-colonial slump.

While the Brazilians have undoubtedly increased production significantly, the soaring figures of 2001-2005 are best explained not by new technology or investment, but by changes in government policy regarding exports, by the need after 2003 for Kimberley Certification, and by mining activity in Guyana's neighbour to the west, Venezuela.

# Diamonds in Guyana Today

Diamonds in Guyana are all alluvial, but their origin remains a bit of a mystery. Certainly, diamond bearing Kimberlites are nowhere to be found in Guyana today.

Geologists have speculated that the original kimberlites from which Guyana's present stock of diamonds is derived were located somewhere on the tepuis – the tall, sheer flat-topped mountains – that loom above the forest and savannahs where Brazil, Venezuela and Guyana come together. Stranger suggestions have been made about these bizarre pre-Cambrian highlands.

In his novel *The Lost World*, Sir Arthur Conan Doyle speculated that these ancient isolated mountain tops might well be the ultimate earthly refuge for species unseen since the Cretaceous era, including even dinosaurs. Modern scientists have discovered that while Triceratops doesn't live there any more, the isolation of the tepuis' tops has given rise to a variety of species seen nowhere else on earth. Given all that, there's no reason the tepuis couldn't have played host to a hoard of diamond bearing kimberlites. Wherever the original kimberlites are, solid geologic evidence suggests the secondary diamonds deposits were located in and around these flat-topped tepuis, which in geologic terms are known as the Roraima Formation. The current tertiary diamond deposits were washed down off the Roraima highlands in ages past, and deposited in rivers and alluvial gravels downstream of the tepuis. All of the rivers that flow from the Roraima Formation – the Potaro, Mazaruni, Puruni, and Cuyuni, and their many tributaries – have diamonds.

The stones are found in the beds of the rivers themselves, in river flats up to a mile in width on either side of the river bed, in terrace deposits of quartz sand and white quartz gravel up to 100 feet above river level, and even in high alluvial deposits such as flat-topped hills 150 feet above river level, up to four miles from the water line.

Not surprisingly, given the distance they've travelled and the beating taken along the way, Guyana's diamonds tend to be both round and small. In any given wash from a *lavrador*, stones of less than 50 points will predominate. According to some estimates, less than 5% of the diamonds mined in Guyana come in above half a carat. Stones of one to three carats are commonly encountered, but diamonds above five carats are considered rare. Diamonds of 15 carats and up are once in a lifetime occurrences, to be celebrated with champagne and entered in the record books.

Fortunately for the country's miners and exporters, what Guyana's diamonds lose in size they make up in quality – they tend to have few inclusions and excellent colour, the majority of stones coloured pure white to white, with light yellows and the occasional brown stone in the minority. Estimates suggest some two thirds of Guyanese diamonds are gem quality, while a quarter are industrial and the remainder bort. Curiously, it is the larger stones of one to three carats that are more likely to have a slightly tinted white colour.

Reds and blues are non-existent, but a curious phenomenon known as bottle green is quite common in Guyanese stones. A small but steady percentage of diamonds come covered in a eerie layer of green. The covering can be thin enough that it only spots the diamond's surface, or thick enough that the diamond appears a solid opaque green or black. Beneath the cap, the diamond is as likely as any other stone to be both clear and flawless, so most diamond buyers treat bottle green stones the same as they would any other diamond of a similar size. Because of their quality, Guyanese diamonds command relatively high prices. Among buyers in Georgetown, the smallest stones, six points and under, command only about US\$40/ct. Clear flawless stones in the 6-15 point range, however, jump to around US\$100/ct. Stones from 20-30 points are bought at about US\$125. From 35-65 points the price is US\$185/ct. Stones of 1-2 carats go for US\$550/ct while stones of 3-4 carats command some US\$900/carat. On average, diamond buyers reckon on paying about US\$100 to US\$110 per carat<sup>2</sup> for Guyanese diamonds.

# The Main Actors in Guyana's Diamond Industry

# **Large Exploration Companies**

Few large companies are actively prospecting for diamonds in Guyana. The only international company with an active exploration and development program is Vanessa Ventures, a Canadian junior mining company traded on the Toronto Stock Exchange and headquartered in Calgary, Alberta.

Vanessa's plans in Guyana centred on a site on the Potaro River, where the company installed a dense media separation plant – capable, the company says, of extracting some 100,000 cts per year. Reports from the field, however, suggest that results have so far been a disappointment. The reality on the ground seems to be that Guyana's diamond deposits – shallow, widely spread, and in relatively low concentrations – simply don't favour immobile, highly capitalized mining operations.

High investment diamond mining seems to work only if the plant is also highly mobile. For this reason the more expensive cutter head dredges are normally mounted on barges that can be easily towed to promising sites along Guyana's ore bearing rivers. On land, the winning formula seems to be small scale, labour-intensive operations, with equipment that is both relatively inexpensive, and easily transportable. As the techniques and technology for this alluvial mining were first developed in Brazil, it is perhaps not surprising that Guyana's diamond fields are dominated by Brazilians. (For a description of prospecting permits and mining claims, see Annex 1.)

# Dredges, Dredge owners and Garimpeiros

There are two main types of diamond mining set-ups in Guyana, the water dredge and the land dredge. Both use a system of high-pressure hoses to cut through the soil, and a pump to suck the resultant diamond-bearing slurry up into a concentrator or *lavrador*.



Lavrador (dredge) in operation

Water dredges, also known as cutter head dredges, are by far the larger, more expensive set-up. In addition to the high pressure cutting hoses and suction pumps, water dredges require a system of air pumps to supply oxygen to divers who work on the river bed, cutting the soil and sucking the slurry up into the system. Water dredges are normally also designed to process both gold and diamonds, so in addition to a *lavrador* the dredge will also have a sluice box or dense media separator. Normally, the entire system floats on a barge, which also contains cooking, sleeping and living quarters for the crew.

Water dredges can process far more material, and produce far greater yields in a shorter period of time. They also have the advantage of being able to process both gold and diamonds. On the other hand, they require a much greater initial investment, and are more expensive to operate. For that reason they are only viable when stationed over reasonably high grade ore. In recent years the GGMC has moved to restrict water dredging on Guyana's smaller creeks and streams, because of the heavy silt load that water dredges deposit in the water course.

Land dredges, on the other hand, require a relatively small investment. A typical land dredge set-up includes one or

more high-pressure hoses, a *lavrador* for concentrating the diamonds, and a pump for sucking the diamond bearing mixture of dirt and gravel and water from the pit up to the *lavrador*. Bought new in Brazil (where all the mining equipment used in Guyana is manufactured), a landdredge with all its associated motors and tubing costs on the order of US\$15,000. Unfortunately, such are the high costs of transport in the Guyanese interior that by the time equipment has been moved to a mine site the price will have effectively doubled.

Dredge size is measured in inches, a measure of the diameter of the intake tube leading to the *lavrador*. The larger the dredge, the more material it can process, but the more labour it requires to run. Typically, a four-inch dredge will have a four-man crew, a five-inch dredge a five-man crew, a six-inch dredge a six or even seven man crew. Many dredge owners employ an extra man as a back-up because, as one owner of a six-inch dredge told PAC, "one of them is always down with malaria."

The miners receive 30% of whatever is produced, which they divide among themselves equally. The dredge owner is responsible for all other costs, including fuel, food, the cook's salary, and the fee of 10% of production that is normally levied by the claim block holder.

In recent years the GGMC has moved to restrict water dredging on Guyana's smaller creeks and streams, because of the heavy silt load that water dredges deposit in the water course.

Many dredges are only marginally profitable, largely due to the high cost of fuel in the interior. One dredge owner PAC encountered in Barlow had come into town to sell his most recent stock of diamonds. He had 24.42 carats – the result of four days steady labour – which he sold in Barlow for US\$2,050 (US\$84/ct). The claim holder was entitled to 10%, and the crew would take 30% of the remainder, leaving the owner with about US\$1,300. Extracting the diamonds had used up 125 gallons of diesel, which at US\$5/gallon worked out to US\$625. Factor in the cook's salary and food for a crew of six (about US\$45 per day), plus the cost of coming in to town to sell his diamonds, and the owner's proceeds dropped to about US\$350, or

less than US\$100 per day. From this he still had to pay for equipment maintenance, and for the cost of moving his dredge to that location in the first place.

Using an excavator to cut and move earth can increase profits. With an excavator, a crew can wash for diamonds every day as opposed to every three or four days. Unlike in Brazil, however, where many earth movers will accept a percentage of the diamond production, excavators in Guyana will only work for cash. For this reason Brazilian dredge crews most often do without.

# **Pork Knockers**

In Guyana, "pork knocker" is the term applied to an independent artisanal miner, a man who works on his own with nothing more than a shovel and sluice box or diamond sieve. Guyana has a long tradition of pork knocking, and numerous stories and anecdotes concerning the pork knocker and his adventures.

The trade is still practised, often intermittently by those with seasonal work elsewhere, but it's unclear just how many pork knockers there still are in the country. There is no pork knocker association or registry. Few pork knockers bother obtaining a mining privilege, none bother with a production book. Pork knocking is something done outside the realm of government regulation.

In the opinion of GGMC Commissioner Benn, pork knockers are a vanishing breed; their numbers already small and shrinking fast. PAC is not so sure. On a six-day tour of the Guyanese interior, PAC encountered six pork knockers – one on the road from Bartica to Oranapie, two at New Road landing, one on a diamond dig near Kurupung, and two in the office of a diamond buyer at Barlow Landing. All were seeking diamonds.

The one on the road from Bartica had both a mining privilege and, he said, a registered small claim, albeit in an altogether different part of the country. His claim was in gold territory, he said. He had come to Oranapie to seek out diamonds. The two at New Road Landing had already found some stones. With a month's worth of work, between the two of them, they had amassed some 4.5 carats, including one unblemished two carat stone with a slight champagne tint. They reckoned hopefully they'd be able to sell their haul for somewhere around G\$200,000 (Guyanese dollars, or US\$1,000).



Garimpeiros

The pork knocker near Kurupung was working the relatively fresh tailings deposited by a recently active dredge, hoping to sift out the very fine diamonds that often don't get trapped in the *lavrador* mesh. Guyanese miners and claim wardens often refer derisively to those who engage in such activity as "punters". They are accused, usually without foundation, as being behind most of the assaults and armed robberies practised in the diamond fields.

The pair of pork knockers in Barlow had amassed between them four stones weighing 2.16 carats, which they were offering for sale at the best available price. The diamond buyer asked if they had papers for the stones, and they said they had none, at which the trader complained of the problems this would cause. But he did not break off negotiations. In the event, the pork knockers were unwilling to sell at the price the trader was offering.

# **Claim Holders**

Most of the diamond mining that goes on in Guyana takes place on public land, but nearly all that land is held as a mineral claim. The right to hold a claim is restricted to residents and citizens of Guyana, and to Guyanese-registered corporations. Perhaps not surprisingly, given their established position in the industry, many of the claim blocks in the diamond bearing areas have been bought by Georgetown diamond traders, and by established Guyanese mining firms.

In the Kurupung area alone, diamond traders with active claim blocks include Raphael Ades, Jonas Carneiro, The Guyana Diamond Trading Company and James Krakowsky. Some of these traders own dozens to hundreds of claims.

Claim holders have an absolute right to determine who can dig for diamonds on their claims. Some claim holders work their claim themselves, some allow others to work their claim in return for a percentage of their takings, many do both.

Owning claim blocks can offer a lucrative return for relatively little investment, and so it is not surprising that diamond traders – with their knowledge of diamond areas and their familiarity with the GGMC – have moved into this field. However, the practice raises a problem – or a potential problem – with the issue of diamond security.

As currently implemented by the GGMC, it is the claim holder or his designate who provides the counter-signature on the production sheet verifying a dredge operator's diamond production. Where dredge owner, claim holder and exporter are all different people, the chances of collusion grow more remote. But when dredge owner, claim holder and exporter are one and the same, then at least in theory, the falsification of production results becomes much easier to arrange.

The reason for PAC's concern on this point, and details on how such falsification might occur, is given in more detail below in *Phantom Dredges*.

# **Diamond Buyers and Exporters**

To buy, sell and export diamonds in Guyana one is required to have a diamond trading license, issued by the GGMC. At the time of writing, the GGMC had suspended issuing new licenses while the Commissioner considered implementing additional regulations for diamond traders. The first and perhaps most useful reform under consideration was a requirement that traders be able to show, via bank or other money transfer records, a clear and legal source for the funds with which they purchase diamonds. The other new regulation would be a requirement that each diamond trader present a business plan, to be evaluated by the commission.

While these reforms were being considered, the renewal of existing licenses continued as before. Diamond trading licenses are issued to Guyanese citizens, legal residents of Guyana, and companies incorporated in Guyana. A license costs G\$15,000 (US\$75) per year, and must be renewed yearly. Diamond traders need to have a registered place of business. Before issuing a license for the first time, a GGMC inspector visits the premises to ensure it is secure from theft, and has a sign displayed prominently outside. To renew a license, traders merely come to the GGMC and pay the requisite fees (i.e. US\$75 for the license and US\$50 for a surety or business permission). There are no further inspections.

In terms of operating regulations, diamond traders are required to record all of their diamond purchases on a Statement of Daily Diamond Transactions, a form provided by the GGMC. For each purchase, the forms record the date, the name of the seller, the number of the production sheet, the number of stones and carats, and the number of the claim block on which the diamonds were produced. Once a month these forms are submitted to the GGMC, where they are stored in the diamond trader's file. Theoretically, these forms could be used to track diamonds flowing in from the hinterland. As a practical matter, they receive very little scrutiny. For dealers who are also exporters, copies these daily diamond transaction forms are submitted as part of a Kimberley Process application. However, they serve more as a convenient reference, rather than as one of they key documents used to verify diamond provenance.

As of 2005 there were 220 valid diamond trading licenses in existence in Guyana. Signs advertising diamond buying houses can be seen on almost every street in Georgetown. The impression is of a competitive, perhaps even over-saturated market. Some diamond traders complain about too many buyers chasing too little product. However, the number of buyers genuinely active in the market is actually much smaller.

Since the Kimberley Process was implemented in Guyana in 2003, fewer than 40 traders have made licensed exports of diamonds with a Kimberley Certificate. The vast majority of the exports have been made by less than ten dealers.

Table 2 lists – in alphabetical order – the top ten diamond dealers by volume of exports for 2005. As shown in the totals, these top ten traders accounted for fully 98% of exports by carat volume, and 97% by value.

In terms of nationality, the big exporters are a mix of Brazilians, Americans, Europeans and Guyanese. Battle Green Mineral & General Trading Inc. is owned and operated by David and Michael Pesci, brothers with Swiss

#### Table 2: Top Ten Guyanese Diamond Exporters in 2005 (listed in alphabetical order)

Company Name		Company Principa	al	
Alphi Diamonds		Andre Fumiere		
Battle Green Mineral & General Trading Inc.		David Pesci		
Blue Diamonds Inc.				
Excel Minerals Inc.	Yucatan Reis			
Explorer Trade & Commerce Ltd.		Yuri Zaprudnov		
Guyana Diamond Trading Company		Raphael Ades		
Kay's Diamond Enterprise Ltd.		James Krakowsky		
Kimberley Mineral & Diamond Trading				
South American Mining International (Guyana) Inc.		Claudio Sasso		
Star Diamonds Inc.	Diamonds Inc.			
	Carats	Value (US\$)	US\$/carat	
Total Top Ten	331,551.98	\$ 42,443,015.08	\$ 128.01	
Total ALL 2005	337,806.01	\$ 43,552,069.37	\$ 128.93	
% Top 10 of Total	98%	97%	99%	



Diamond buyer's office in Kurupung

nationality and family ties in Venezuela. Excel Minerals is run by Yucatan Reis, a Brazilian from Boa Vista. South American Mining International (Guyana) Inc. is owned by another Brazilian, Claudio Sasso. Sasso spends much of his time in Miami and leaves the running of the firm to a Georgetown manager. Kay's Diamond Enterprise Ltd. is owned and operated by James Krakowsky, an American with a long family history in Guyana. Krakowsky's grandfather came to Guyana in the 1920s during Guyana's first big diamond boom. The family has been active in the Guyanese diamond trade off and on ever since. The Guyana Diamond Trading Company is owned by Raphael Ades, a Guyanese with numerous mining interests, including several claim blocks and companies active in gold mining.

All of the top ten exporters are located in Georgetown, at some distance from the diamond fields. While some miners do save up their diamonds to sell directly to the top exporters in the capital, the vast majority of miners sell to mid-level traders with hinterland shops in supply centres such as Kurupung and Barlow Landing. Barlow, in particular, has become the diamond buying hotbed of the middle Mazaruni River, with anywhere between ten and 17 mid-level diamond buyers active in the settlement at any one time. Some few mid-level buyers are independent businessmen, who finance diamond purchases from their own pocket, reselling the diamonds to whichever Georgetown buyer will offer the best price. The most successful mid-level buyers to follow this model are a pair of Brazilians known universally by their nicknames: Paulista and Fini. Their diamond trading firm is Brasmine.

Most mid-level buyers, however, are simply agents of a Georgetown exporter. The money they use to purchase diamonds is advanced to them by the Georgetown dealer, who also provides a table of rates at which he will purchase various grades of diamonds. The hinterland trader pays his own salary and the upkeep of his trading shack on whatever margin he can make between hinterland purchase price and Georgetown sale price.

Either way, making a living off the margin is likely harder in Guyana than in many other places. Guyanese diamonds are small in size and consistently clear in colour. This makes grading simpler than in other places, but it also makes Guyanese diamonds much more of a commodity, the value of which is clear to both buyer and seller.

Larger stones (from 1-4 cts), the value of which is more open to interpretation, do turn up regularly and it is on these stones that the mid-level buyers hope to make their money. Often, mid-level buyers will buy a miner's smaller stones at, or close to his own upper limit, simply to keep a strong relationship with that miner and so be first in line when larger stones come along. For their smaller wares, hinterland miners demand prices very close to those set by the Georgetown buyers.

# Guyana Gold and Diamond Miners Association

The Guyana Gold and Diamond Miner's Association was established in 1982 to represent the interests of Guyana's mine owners. The association has some 270 members, the majority of whom own medium or large scale mining operations. The association is heavily tilted towards gold producers. The diamond sector in Guyana is dominated by Brazilians, the majority of them owner-operators of a single dredge – not the sort of members the GGDMA has made a habit of seeking out, even if they could speak the language.

Traditionally, the government has appointed at least one person from the GGDMA to sit on the board of directors of the Geology and Mines Commission. Currently, the GGDMA's board member is the association's Executive Director Edward Shields.

Politically, the GGDMA seems to regard mining regulation as akin to mortal sin, something to be fought in any form at all times to the utmost limit of one's strength. This has, not surprisingly, led to some conflict with Commissioner Benn (and what PAC can only surmise must be highly entertaining board meetings).

"Commissioner Benn thinks he is tsar of the interior," says GGDMA Edward Shields. What's more, he continues, "Mr. Benn has used Kimberley as a weapon to control other things well beyond where he's supposed to go."

Among the Commissioner's initiatives successfully opposed by Shields was the 'license to convey' a shortlived system under which miners coming in from the interior were required to have their gold or diamonds inspected and their production sheet signed by a mines officer or policeman before they could proceed to Georgetown.

Politically, the GGDMA seems to regard mining regulation as akin to mortal sin, something to be fought in any form at all times to the utmost limit of one's strength.

The GGDMA also managed to eliminate Mr. Benn's attempts to restrict access to mining areas. For a brief period, the GGMC manned a series of checkpoints at strategic locations and would deny entry to mining areas to anyone not in possession of a valid mining privilege. The GGDMA managed to have this provision eliminated on the grounds that restrictions on freedom of movement were unconstitutional under Guyanese law.

"We wanted to keep the guns and prostitutes out of the hinterlands," notes Commissioner Benn. "Now the interior is full of guns and prostitutes, and miners all complain about safety."

The GGDMA, it should be noted, has not made a special crusade against the GGMC's attempts to implement the

Kimberley Process. It opposes all mining regulation. "There are already too many laws," says Edward Shields. "It's impossible not to break the mining laws."

Few things are too picayune to warrant the GGDMA's opposition. When interviewed by PAC, GGDMA Executive Director Shields was planning a court challenge to Commissioner Benn's revisions to the production sheet, on the grounds that a production sheet should record only production, and not extraneous information regarding water quality and mercury use. That, says Shields, is environmental information.

# The Environmental Protection Agency and Mining

Though Guyana has a brand new Environmental Protection Agency, environmental regulation of small and medium scale mining is still carried out by the GGMC. The GGMC's own environmental regulations are also fairly new, dating back only to March, 2005. The GGMC environmental division has some five officers, who carry out field inspections, both to educate miners on proper mitigation and remediation techniques, and to ensure that miners are operating within the regulations.

For the moment, the environmental division seems to be leaning much more heavily on education than enforcement. With diamond mining, about the only infraction that will generate a stop-work order is if a miner is discharging his dredge straight into a river or stream. (The GGMC has also prohibited water dredges on smaller creeks for the same reason). Other offences are pointed out, with an admonishment to do better in the future.

# The Legal Environment

# The GGMC

Mining forms a huge part of Guyana's economy. Gold alone, in 2004, accounted for some 25% of Guyana's exports, bauxite for another 8%. Not surprisingly, Guyana takes mining and mining regulation seriously.

Sub-surface rights throughout Guyana are the property of the national government. The agency that administers these rights is the Guyana Geology and Mines Commission (GGMC). The GGMC has its roots in the Guyana Geological Survey, established by the colonial regime in 1867, and merged, in 1971 with the Mines Department to form the Geological Survey and Mines Department. In 1979, this department was re-founded as an autonomous public commission (public corporation), reporting to the Prime Minister in his role as Minister of Mining.

The Guyana Geology and Mines Commission is governed by an eight-member board of directors, all of whom are appointed by the Prime Minister. On a day-to-day basis the GGMC is run by a Commissioner, who is also a political appointee. The current Commissioner, Brindley H. Robeson Benn, is a geologist who has served his entire career with the GGMC. That said, Mr. Benn is also an astute political operator, with close ties to the ruling PPP political party.

As an independent commission, the GGMC generates its own revenue through mineral royalties, claim rentals, fees, fines and other levies authorized in Guyana's Mining Act. The commission uses these monies to pay staff salaries and make longer term investments. Profits are remitted to the government. In 2004, the GGMC generated just over US\$6 million in revenue, spent some US\$ 3 million on salaries and capital expenditures, transferred half a million to the national government and added another US\$2.5 to the Commission's cash reserves, which now top US\$6.6 million.<sup>3</sup>

The GGMC has four technical divisions – geological services, mines, environment and petroleum – supported by administrative and finance divisions. All of these various departments are housed in a rambling two-story complex of traditional wood buildings on Brickdam Road in Georgetown.

# Not surprisingly, Guyana takes mining and mining regulation seriously.

In terms of administration, the GGMC relies on a long tradition of British-style bureaucracy. Little in the Commission is computerized.<sup>4</sup> Instead, the GGMC administers Guyana's mines through a system of ledgers and forms in triplicate, all of this paper organized, filed and cross-referenced by a corps of processing clerks with complete command of the filing cabinets. It's a tradition that seems to serve the GGMC well.



Lavrador spillway

#### **Corruption in the GGMC**

Low level petty corruption is endemic to Guyanese society. Foreigners applying for work permits from the Ministry of Home Affairs are routinely asked for a 'contribution' to speed the work along. Traffic police routinely offer motorists the option of paying a ticket or paying the officer a smaller, faster bribe. The GGMC is not immune from this phenomenon.

GGMC commissioner Robeson Benn admits the problem does exist, but says things are currently improving. The low point, according to Commissioner Benn, came during Guyana's long period of single party rule. All appointments to the GGMC were made solely on the basis of political affiliation, and many of the people so appointed were interested mostly in feathering their own nests. In Georgetown, claim blocks were dealt out in a less than transparent way, while in the field mines officers developed an unsavoury reputation for extracting payments from miners in their areas, in return for overlooking real or purported contraventions of the mining code. Since taking over the GGMC, Commissioner Benn has been slowly cleaning house. Where civil service rules and political reality have not allowed him to fire tainted individuals, he has shunted them sideways into positions where their reach and damage can be minimized. All new Mines Officers, Commissioner Benn insists, will have to have three year college degrees, and with that, hopefully a sense of self worth and esprit de corps that will mitigate against corruption.

# **Enforcement: Mines Officers and GGMC Checkpoints**

For administrative purposes, the GGMC divides Guyana into six mining districts: 1. Berbice; 2. Potaro; 3. Mazaruni; 4. Cuyuni; 5. North West; 6. Rupunini. In most mining districts, the GGMC has a substation, staffed by a Mines Officer and one or more Mines Rangers, whose job is to inspect, control, and report on mining activity in their area. (Mines Officers and Mines Rangers perform similar duties, but a Mines Officer is the more senior position).

Specifically, Mines Officers are supposed to visit all the mining camps in their area regularly, and check to see that the dredge license is valid, that the claim license is valid, that the miners all have mining privileges. The officer inspects the production records, and verifies that the mine site is within the mining code with respect to its toilet facilities, waste disposal and environmental regulations.

If a mines officer believes the mine site is not conforming to the regulations of the mining act, he can issue a fine, or even a stop-work order. Some 35 fines were issued by Mines Officers in 2005. The penalties outlined in the act are not really large enough to provide a significant deterrent (for example, the penalty for operating an unlicensed dredge is G\$35,000, about US\$175). However, Mines Officers also have the power to seize equipment, and to issue stop-work orders, both of which are taken seriously indeed.

Mines officers prepare regular reports on their inspection activities. These inspection reports contain some 30 different pieces of information on each dredge, including: the serial number of the dredge, the dredge owner, the license number, the dredge size, the number of crew, the claim number and claim holder name, the dredge location, the production of that dredge in stones and carats (for a given period, likely since the last inspection), the person to whom the diamonds were sold, the size of mining pit and the nature of the mining discharge.

These reports are returned to Chief Mines Officer at GGMC headquarters on a weekly basis. Unfortunately, they are not currently placed in the dredge files, nor referenced when it comes time to process an export license. (See *Recommendations*, below)

Currently, according to the GGMC Chief Mines Officer Linton Butters, the GGMC corps of Mines Officers is deployed as follows:

Location	District	Personnel	Equipment	Responsibility
Puruni	4. Cuyuni	1 Mines Officer	4x4	20 active dredges
Mahdia	2. Potaro	2 Mines Officers	4x4	35 dredges over a far flung area
			ATV	
Kurupung Landing	3. Mazaruni	1 Mines Officer	Motor,	70 active dredges
		1 Mines Ranger	No boat	
Eclipse Falls	5. Northwest	2 Mines Officer	Boat and motor	30 active dredges
		2 Mines Rangers		
Oranapie	3. Mazaruni	1 Mines Officer	ATV	100 active dredges
Upper Mazaruni	3. Mazaruni	1 Mines Officer	Boat and motor	25 active dredges
		4 Mines Rangers		
Cuyuni Checkpoint	4. Cuyuni	1 Mines Officer	Boat and motor	30 active dredges

In each of these districts, the number of dredges is an estimate, based on Officer Butters' knowledge of the weekly inspection reports. It will be noted that the total number of active dredges showing up in inspection reports – some 300 – is but a fraction of the approximately 3600 dredges licensed for operation in the country. Either a great many dredges are licensed but not operating, or a great many dredges are operating un-inspected. Or both.

### Checkpoints

Guyana has a number of internal controls on movement in and out of mining areas. The police at Bartica record the name, date of birth and occupation of anyone travelling by road into the mining areas. At Kurupung, police record the same information for anyone leaving the area by air.

The GGMC has also put in place a number of checkpoints at strategic spots on the transportation routes into mining areas. The most effective of these may well be the checkpoint at Ogle airport, the small airport outside of Georgetown where flights from hinterland airfields all land. Passengers who land at Ogle have their documents and baggage inspected, first by officers from Guyana Customs, and then by an inspector from the GGMC. Those carrying diamonds or gold are supposed to declare them and show appropriate documentation. Diamonds or gold being transported without documents are liable to seizure.

In addition to Ogle airport, the GGMC also has two checkpoints on the Mazaruni River, one just upstream of Bartica, and one on the Middle Mazaruni at Itabali. The Mazaruni River checkpoints are there to control boat traffic entering and leaving the Mazaruni, particularly the twice weekly jet boats from Georgetown. Diamond traders interviewed by PAC report that GGMC inspectors at these checkpoints do stop and inspect jet boat passengers and luggage.

The checkpoint system first implemented several years ago shortly after Mr. Benn was named commissioner, and removed shortly thereafter as a result of complaints by the powerful Guyana Gold and Diamond Miners Association. The GGDMA claimed successfully the checkpoints were an illegal bar on freedom of movement.

The checkpoints were only recently re-instated, after a series of armed robberies in the diamond mining hinterlands led rank and file miners to request the GGMC do something to increase security in mining areas. Given the weak legal mandate, however, it's unclear how rigorous GGMC personnel will be in their checks.

# Forms in Triplicate: Guyanese Production Controls

Little within the GGMC is computerized. Instead, the agency relies on a tradition of British bureaucracy built on ledger books and forms in triplicate. By and large, it's a tradition and a system that serves the GGMC well. There are certain gaps in the system, some minor, some more serious. These are mostly dealt with below in the section, *Gaps in Guyana's System of Kimberley Certification*.

The key document in the system is the Production Sheet, which records, in triplicate, the daily activity and mineral production of every working dredge in the country.

#### The Dredge Files

All dredges operating in Guyana must be licensed. A licence can be obtained at GGMC headquarters or at a regional office. The dredge owner must be a citizen or legal resident of Guyana. Once a dredge is registered, an entry is made in the GGMC's master ledger, and the admin clerks open a dredge file. One copy of all production sheets produced by that dredge are stored in this numbered file.<sup>5</sup>

As of April, 2006, there were 3,683 dredges registered for operation in Guyana. Some of these dredges are designed for gold, some for diamonds. Some are land dredges, some are water dredges. The master dredge ledger at GGMC headquarters lists the owner, number, size and type (i.e. water or land) of each dredge. However, as the information is not computerized it is difficult to provide any breakdown on the overall numbers.

Taking just the month of April, 2005, PAC noted that 28 water dredges had been registered, and 34 land dredges. In both cases, about two thirds of the dredges were registered to Guyanese nationals, about one third to Brazilians. This is clearly at odds with the situation in the field where Brazilians are the overwhelming majority, but Brazilian dredge owners have developed a range of techniques for circumventing the requirements on legal residency.

Sometimes a Brazilian without a work permit will register a dredge in the name of a wife or girlfriend. Oftentimes dredges are bought and sold, sometimes changing hands several times, while the titular owner in the GGMC registry remains un-changed.<sup>6</sup> That aside, the system of storing production sheets in individual dredge files is an extremely valuable practice that, with just a few minor



Mining Pit

adjustments, should make it possible to eliminate the remaining holes in Guyana's Kimberley System.

### The Long Journey of the Production Sheet

The production sheet is the key document in Guyana's Kimberley Process system. Each dredge active in Guyana has its daily activities, including its discovery of diamonds, recorded on a production sheet. In theory then, a production sheet records the emergence of each new diamond from Guyana's soil, and accompanies that diamond on its journey into Georgetown, remaining with the stone until it is ready to be exported beyond Guyana's shores.

A production sheet records the emergence of each new diamond from Guyana's soil, and accompanies that diamond on its journey into Georgetown, remaining with the stone until it is ready to be exported beyond Guyana's shores. Production sheets come bound, in triplicate, in a production book issued<sup>7</sup> by the GGMC to dredge owners and operators. Every active dredge has to have a current production book. The lack of an up-to-date production book is one of the few things which will cause a GGMC mines inspector to issue a stop-work order.

Each sheet (or rather each set of triplicates) is numbered sequentially with a unique number. At the top of the sheet there are several fields which identify where the dredge is working, and who is operating it. These fields include the mining district number, the dredge number, the owner, operator, claim holder and claim number. Below these header fields there is a grid where the operator records the daily activities of the dredge and its crew. Each sheet For each day in the week, the operator records, *inter alia*:

Activity: usually recorded in simple terms. 'Move' for days when the dredge is being moved. 'Work' for days when the crew is digging out a pit. 'Wash' for days when the crew fires up the *lavrador* and processes a load of orebearing gravel. A crew working without an excavator will normally record two or three days of work, followed by a one-day wash;

### Fuel consumption: diesel and gas used that day;

<u>Diamonds</u>: the amount of diamonds found, in stones, carats and points. (i.e. 53 stones, 11 carats, 20 points)

The newer forms also contain columns where the operator is supposed to record the quality of the tailings discharge, the pit dimensions, the volume of earth moved, the grade of gold and diamonds recovered. However, as yet neither the Brazilian nor the Guyanese dredge operators understand what they are expected to enter in these columns, so they universally leave them blank.<sup>8</sup>

At the bottom of the form there is a space for the dredge owner or operator to add his signature, and another space for a countersignature. The signature blanks look innocuous enough, but they lay at the centre of a major shakeup in Guyana's Kimberley system.

Prior to a crackdown early in 2005, production sheets more often than not arrived at the GGMC unsigned. Indeed, prior to the crackdown, diamonds often arrived for export with no production sheet at all. The key document in that period was not the production sheet, but the Daily Diamond Transaction Form, on which diamond traders recorded their daily diamond purchases. If the exporter could track the diamonds back past the diamond transaction form to a production sheet, well and good. If not, the GGMC would process the export application and issue a Kimberley Certificate anyway.

In 2005, however, GGMC Commissioner Robeson Benn put his foot down. "Essentially, I threw a temper tantrum and said I wouldn't take any more sheets unless they were signed." Nor would the GGMC take any more diamonds unless they had production sheets. From that point forward, a signed production sheet became the *sine qua non* for an exporter hoping to obtain Kimberley Certification for his diamonds.

That said, the signatures are not that hard to obtain. The dredge owner or operator signs, certifying that the figures he's filled out on the form are true. The other, counter signature – which supposedly verifies the truth of the numbers reported on the production sheet – can in fact be provided by a wide variety of people, many of whom do not even ask to see the diamonds before affixing their signature. Originally, it was Commissioner Benn's intent that the counter-signature be provided by a mines officer. That, however, appears to have fallen by the wayside.

In places where the dredge owner is working a claim block owned by another person, the claim holder or his designated warden can provide the countersignature. Wardens are commonly employed on claim blocks where the claim holder is paid a percentage of the dredge production. The warden is present on days when there is a wash to make sure that the dredge owner accurately reports all his production. (Wardens are normally paid in percentages themselves, so they have a strong incentive not to collude in hiding production). This is the optimal situation from the point of view of accuracy and believability.

In many places, however, claim holders charge dredges a monthly rent, and so no wardens are present. In this situation, the production sheet can be countersigned by a GGMC mines officer, if he happens to come by on inspection. Mines Officers do make regular inspection tours, but there are not enough of them on the ground to hope to visit every working dredge on a regular basis. When mines officers do visit, they tend to be in a hurry. They only rarely demand to see the diamonds noted on the production sheet, and they certainly never weigh the diamonds to check the accuracy of the numbers.

If a mines officer does not come by on inspection, the production sheets can be signed by the mines officer at the nearest GGMC field office. If the office is closed, the production sheet can be signed by a GGMC officer at a land or river checkpoint, or by the GGMC officer stationed at Ogle airport in Georgetown.<sup>9</sup> If worse comes to worst, the sheets can even be signed by a police officer at a gateway town such as Bartica. What matters, indeed, is not so much who provides the signature, but that the form be signed.

When it comes time to sell, a dredge owner will sometimes take his diamonds into Georgetown. More often, the dredge owner will sell his diamonds in a hinterland centre such as Barlow Landing.

Either way, when a dredge owner sells his diamonds, he removes two of the three copies of the production sheet. One copy remains in the production book with the dredge. One copy remains with the diamonds at all times. Diamonds transported without a production sheet are liable to seizure.<sup>10</sup> When a mid-level buyer sells or transfers these diamonds to a Georgetown exporter, the production sheet goes with them. When an exporter eventually submits his application for an export license and Kimberly Certificate to the GGMC, both production sheet and diamonds are handed in at GGMC headquarters as part of the application package.

The final copy of the production sheet also winds up at the GGMC eventually, but it makes a short detour first to the Guyana Revenue Authority, where it is used to calculate the royalties due on the diamonds. Once the royalty is paid, the Revenue Authority forwards this copy of the production sheet to the GGMC, where it is stored in a dredge file, along with all the other production sheets generated by that dredge. When an exporter eventually makes an application for export, the production sheets he submits will be checked against the ones contained in the dredge file.

# Kimberley Compliance

# **Kimberley Certificates: The Certification Process**

It is a unique feature of the Kimberley Certification process in Guyana that a dealer wishing to export diamonds must surrender both diamonds and paperwork into the custody of the GGMC in Georgetown. The diamonds are kept by the GGMC while it processes the export application, and they are returned to the exporter when the export permit and Kimberley Certificate are ready.

A number of exporters complain about having to lodge their diamonds with the GGMC, mostly on the basis of security. In response to these concerns, the Commissioner has committed the GGMC to processing all Kimberley Applications within a 48-hour time frame. He has refused, however, to rescind the requirement that exporters surrender their diamonds.

According to Commissioner Benn, having to turn over their diamonds makes exporters much more careful with their paperwork. Diamonds submitted with faulty paperwork can be seized. Although this has only happened once (see *The Battle Green Story*, below), the mere threat of seizure, the Commissioner believes, makes exporters much less likely to take risks with diamonds of dubious origin.

In terms of process, an exporter wishing to obtain a Kimberley Certificate first pays a G\$5000 (US\$25) processing fee, drops off his application package with the GGMC processing department, and then proceeds upstairs to a secure room to lodge his diamonds. Before the stones are lodged, they are weighed. The GGMC practice of keeping track of both carat and stone counts necessitates that the diamonds be divided into smaller parcels according to size. There are no hard and fast rules as to what size stones belong in what parcel. Normally, these divisions are made according to the size of the diamond sieve favoured by the exporter.

Normally it is the exporter himself who does the weighing. His work is supervised by three clerks from GGMC, each of whom keeps a separate tally of the carat and stone counts.<sup>11</sup> When all are agreed that the carat and stone counts match the figures given in the exporter's Kimberley application, the stones are sealed for storage.

Physically, the diamonds are placed inside a small metal lockbox, which is then locked with a key kept by the exporter. The lockbox is placed inside a cardboard box, which is then sealed with duct tape. The duct-taped box is wrapped in plain brown wrapping paper, and tied with twine. The knot in the twine is sealed with sealing wax. The parcel is given an identifying number, and transported to a safe on the GGMC premises.

# Having to turn over their diamonds makes exporters much more careful with their paperwork. Diamonds submitted with faulty paperwork can be seized.

The exporter is given a lodging slip listing his name, the date, the carat weight and stone count of his lodged diamonds. The slip is signed by all three of the GGMC personnel who witnessed the lodging. The processing department then sets to work on the Kimberley application. In terms of documentation, the exporter submits the following documents: an affidavit swearing that the rough diamonds being exported "were legitimately obtained in Guyana, and were not obtained from any source or activity which is engaged in the trade of 'conflict diamonds';" a customs declaration; an Application for Export License; production sheets corresponding to the schedule on the Export Application License; royalty receipts; and Daily or Monthly Transaction Sheets covering the purchase of the diamonds being exported.

In processing the export and Kimberley application, the clerks devote most of their energy to verifying the information on the Production Sheets. Working on each sheet, they verify that the sheet has the appropriate pair of signatures. They look up in the Claim Number listed on the sheet in the GGMC's big blue book of active mineral claims and verify that the claim is valid. They then look up the dredge number listed on the production form and verify that the dredge license is fully paid and up to date. If it is, they then retrieve the dredge file from storage and compare the production sheets in the dredge file with the production sheets submitted with the export application.

If all of this is in order, the chief of the processing department recommends that an export license and Kimberley Certificate be issued, and forwards it, along with the entire application package, to the Commissioner. The Commissioner personally reviews every Kimberley application. If he is satisfied with the application, he approves the export license and signs the Kimberley Certificate. The exporter is then asked to return to the GGMC. He countersigns the Kimberley Certificate, which is legally valid for a period of one month. The live Kimberley Certificate is then placed inside a Ziploc bag, which is glued shut and affixed in some tamper proof manner<sup>12</sup> to the exporter's package of diamonds, sealed during the lodging process.

The sealed package – diamonds and KP certificate – is then returned into the custody of the exporter. From Guyana, most diamonds are hand-carried on BWIA flights to New York's John F. Kennedy Airport. At JFK, those diamonds not destined for New York are normally given over to a customs broker who forwards the stones to their final destination, most often in Belgium, Switzerland or Israel.

# The Battle Green Story

In January, 2005, the diamond exporting company Battle Green Mineral & General Trading Inc. submitted an application for an export license and Kimberley Certificate for a parcel of 10,942.72 carats worth of diamonds. Owned and operated by Michel and David Pesci, Swiss nationals of Venezuelan upbringing, the company had been one of Guyana's largest exporters over the preceding years. This time, however, there was a problem.

In February, 2005, Battle Green was informed that their export and diamonds would be held pending an investigation into the source of the diamonds. Exactly what led the GGMC to look more deeply into Battle Green remains a source of controversy. According to Battle Green's owner David Pesci, the investigation was prompted by a letter sent to the commission by a rival diamond trader, pointing out Pesci's frequent trips to Venezuela (where his father resides) and denouncing him for importing Venezuelan stones.

GGMC commissioner Robeson Benn claims the letter had nothing to do with it. "We receive letters from diamond traders denouncing each other all the time," says Benn. Instead, what alerted the commission was an analysis of the stone and carat count of Battle Green's export. The parcel was tilted towards larger stones, and certain point sizes were not present in the ratios that should have been expected.

Whatever it was that alerted the Commission, once challenged Battle Green was faced with the task of sourcing of these diamonds, and the company simply couldn't. According to Battle Green owner David Pesci, with the record keeping in place at the time, none of the diamond exporters could have done so. Detailed sourcing records had never been required.

This, some Georgetown diamond traders believe, was the real reason for the Battle Green seizure. Commissioner Benn had recently decided to tighten up the system for diamond exports. The Battle Green seizure, some exporters believe, was his signal to Georgetown's diamond traders that he was serious.

Battle Green complained to the Prime Minister, and when that didn't work the company took recourse in the courts. Eventually, Battle Green acquiesced in a settlement more or less dictated by the Commission. Some 2500 carats whose provenance could be verified were exported. For the remaining 8500 carats, Battle Green had to admit formally that it could not provide a source. As a fine, 1/3 of diamonds were forfeited to the Commission. Battle Green also had to pay a fine of G\$2 million (US\$10,000), and reimburse the GGMC for legal costs to the tune of G\$75,000 (US\$375). A possible one-year trading ban was waived, but the company was to consider itself on probation.

Battle Green remains in business, and remains one of Guyana's larger exporters. It, and every other diamond exporter, are now much more careful in providing production sheets covering the origin of the diamonds to be exported.



# **Kimberley Impact**

#### **Export Numbers**

A glance at Guyana's declared diamond production for the past decade shows a stunning near ten-fold jump in production occurring over a period of just a few years around the turn of the millennium. From just 33,500 carats in 1998, Guyanese production more than doubled to 82,000 cts in 2000, tripled to 248,000 cts in 2002 and doubled again to an all-time high of nearly 445,000 cts in 2004.

Many attribute this stunning rise to the arrival of Brazilian *garimpeiros*, who brought with them new investment and new techniques that allowed them to profitably exploit diamond field previously considered tapped out. Unfortunately, this explanation just doesn't hold water.

Many attribute the stunning rise in Guyanese diamond exports to the arrival of Brazilian garimpeiros, who brought with them new investment and new techniques... Unfortunately, this explanation just doesn't hold water.

> The Brazilians began arriving in large numbers in the early 1990s. Their investments and techniques certainly rejuvenated Guyana's diamond industry, a fact shown on the

graph by the ten-fold jump in declared production, from 4,400 cts in 1988 to over 44,000 in 1992. By 1995 the Brazilians were well-established in Guyana, and production ticked along at a steady 50,000 cts for each of the next five years. Then around the millennium, declared production began to skyrocket.

Why then the boom, which coincided with no grand new influx of Brazilians, nor the discovery of any rich new untapped area? The answer lies not in increased productive capacity, but in changes to government policy.

Sometime early in 2000, an old-time diamond trader approached the then commissioner of the GGMC with a concern. As a long-time Guyana resident, the trader told the commissioner, he wanted to do things properly. He wanted to declare his diamonds and pay his royalties and keep his exports above board. The problem was that so many of the stones coming from the interior lacked the requisite paperwork.

The trader also had a proposal. What if, just until the Brazilians learned to fill out their production books properly, the Commission would allow Guyana's diamond traders to export their stones with whatever paperwork they had – with purchase sheets instead of production sheets if need be. Surely that would be better than having all these diamonds exit the country clandestinely, with no benefit at all accruing to the state.

The commissioner concurred, and a gentlemen's agreement was established, whereby the GGMC would allow legal export of diamonds as long as traders paid their royalties and could show some kind of paperwork tracking the diamonds back to the Guyanese interior. In place of the production sheet, the diamond buyer's monthly transaction sheet became the effective basis of a legal export. Diamonds flooded into the system, particularly after the Kimberley Process Certification Scheme came into force in 2003, and diamonds suddenly needed Kimberley Certification.

The diamond dealer who first broached the topic of a gentleman's agreement was undoubtedly acting in good faith, and the majority of diamonds that subsequently entered the system undoubtedly came from Guyana. But a good many diamonds also came from Venezuela, via diamond dealers in Brazil.

PAC estimates the volume of Venezuelan stones going into the Guyanese system at somewhere between 50,000 to 100,000 carats yearly

Just how many Venezuelan diamonds were entering the system is difficult to estimate. When PAC interviewed the largest Brazilian trader in Boa Vista, he claimed to be sending 1,000 carats a week from Venezuela into Georgetown (see *Brazil and the Venezuela Connection*, below). In the normal course of events PAC might have written off this claim as empty boasting, but the man had a five kilogram sack of diamonds on his desk, which gave some weight to his assertions. Nor is this trader the only one active in the Venezuela–to-Brazil-to-Guyana route. At a best guess, PAC estimates the volume of Venezuelan stones at somewhere between 50,000 to 100,000 carats yearly.

Early in 2005 the new Commissioner of the GGMC, Robeson Benn, put an end to the gentleman's agreement and began tightening up on Guyana's diamond exports. Declared production figures show a drop from 2004 to 2005 of nearly 90,000 carats. It would be nice if this drop represented the end of Venezuelan diamonds in Guyana. Unfortunately, this is not likely the case.

For one thing, the Boa Vista diamond trader putting 1,000 carats a week into the system was interviewed by PAC in early 2006. Almost certainly there was a reduction in Venezuelan stones entering Guyana in 2005, simply because there was a drop in Venezuelan production as a result of an enforcement campaign by the government of

the state of Bolívar against un-licensed Brazilian *garimpeiros*. That campaign shut down mining completely in many parts of southern Venezuela for much of 2005. Reports, however, say mining has resumed.

Likely, the 2005 drop represents some combination of this decline, plus a temporary glitch as exporters figured out how to finesse the Venezuelan stones into the new Guyanese system. If the Boa Vista trader is to be believed, that problem has now been solved, and – presuming Venezuelan production resumes in force – Guyana's numbers should track upwards again.

# Gaps in Guyana's System of Kimberley Certification

#### **Pork Knocker Production**

Pork knockers clearly still exist, and are clearly still producing small volumes of diamonds. The four pork knockers with diamonds encountered by PAC had between them some six carats, which represented about a month of work, or an average of 1.5 cts per pork knocker per month. Assuming that a pork knocker works ten months a year, and that there are 1000 pork knockers (wildly optimistic assumptions both), then the sum total of pork knocker production would amount to some 15,000 carats per year. The reality is almost certainly far less, but still a number well above zero.

Pork knockers never work with papers, and yet these diamonds do manage to enter the system in some fashion or other. PAC was not able to elicit from the Barlow diamond buyer described earlier in this report what he would have done to cover the pork knocker's paperless stones, but clearly there are ways.

### Brazil and the Venezuela Connection

On August 4, 2001, Brazilian Federal Police raided the Boa Vista compound of one of Guyana's largest diamond exporters. Police seized an estimated US\$2 million in rough diamonds, including a 42.26 carat diamond recently discovered near Kurupung. The diamonds had allegedly been exported illegally from Guyana.

In Georgetown there was flurry of press reports concerning the alleged illegal export of what – were it truly of Guyanese origin – would be the third largest diamond ever produced in Guyana. In the midst of the uproar, the then commissioner of the GGMC provided some inaccurate information to the Prime Minister, who related it to the media and wound up looking foolish. Not long afterwards the commissioner got the sack, and Mr Robeson Benn was nominated as his replacement.

Any hole in the Kimberley Process Certification Scheme as large as this is open to abuse by those wishing to launder conflict diamonds. And this man hasn't limited himself to Guyanese diamonds. He's also heavily involved with Venezuelan diamonds.

> Commissioner Benn showed the Brazilian trader no mercy. His diamond trading license and residency permit were stripped, and he was asked not to return to Guyana. His export business, apparently, was at an end. And yet, in researching this report in early 2006, PAC came across countless rumours concerning the trader. He was said to



Statue of a garimpeiro, Boa Vista, Brazil

be buying heavily in the interior, travelling clandestinely to Georgetown, operating his business through front men.

Finally, posing as a potential diamond buyer, a PAC researcher obtained the man's Boa Vista telephone number, and called to arrange a meeting. The trader's compound sits behind a tall pink wall in an upscale neighbourhood in Boa Vista. The diamond sorting office is in a smaller building off the pool. When the PAC researcher arrived, the trader was conversing with one of Guyana's most prolific mid-level diamond traders, who had arrived the night before on the flight from Georgetown. When he left, the PAC researcher asked about the possibility of buying diamonds. The trader reached over to chair beside his desk and hefted up a striped plastic grocery bag.

"I've got about five kilos here," he said.

He proceeded to take out a variety of bundles and parcels, some wrapped in packing tape, others double sealed in Ziplocs, all of them full of diamonds. He spread the various parcels out over his desk, seemingly just for show. None of it could be sold, he explained, because he had already promised it to buyers overseas. He just had to sort it, package it and get it up to Georgetown. The diamonds, he explained, had originally come from Guyana.

After his banishment from Georgetown, the trader explained, he had adapted his business model by having diamonds delivered to him in Brazil. How the mid-level traders got the diamonds across the border was none of his business. He had no idea how it was done. He paid the traders, sorted the diamonds and shipped them back to Georgetown, where he had three different firms looking after his exports.

He claimed to be buying and processing some 5,000 carats a week. He was able to attract this volume of stones because he offered the best prices, and he could offer the best prices because he kept his margins to a razor thin 2%, and made up for the low commission on volume.

It was clearly a viable and successful business model, the minor inconvenience of a pair of illegal border crossings aside. How exactly was he shipping his diamonds back into Guyana? That he would not explain.

He could simply be sending the stones with a courier on the thrice-weekly flight from Boa Vista to Georgetown. Diamonds don't show up on X-rays, there is no GGMC checkpoint at the international airport, and customs inspections at Cheddi Jagan airport are a fairly informal affair. Given Guyana's culture of petty corruption, it's likely that anyone caught with diamonds could probably buy their way out of the situation with a small bribe.

The courier could also take the bus and cross over the border at Lethem (see map). The border is more or less unmanned. On the Brazilian side of the border there is a gated border post on the road leading to the river crossing, but the *Policia Federal* agents who staff the post do not regularly board and inspect vehicles heading for the crossing. Passengers intending to depart Brazil are supposed to voluntarily present themselves for inspection. Those that do not, do not get checked.

On the Guyanese side of the river, the Guyanese Immigration post is located within the town of Lethem, about a kilometre away from the river landing itself. As in Brazil, only those who actively seek out the immigration post will have their passports stamped. Those who wish to avoid customs and immigration can do so with ease. The land border has the added advantage that the moment diamonds cross into Guyanese territory they are once again completely legal, provided the courier has the production sheets. From Lethem, there are flights four times a week to Georgetown.

Whatever method is used, it unlikely that Guyanese authorities will be able to curtail this trader's activities through increased border enforcement. As far as the Guyanese stones go, one could even argue that there is little reason to try. True, the diamonds are illegally crossing the border – twice – but on the other hand when they do finally leave Guyana they do so legally, with paid-up royalties and production sheets showing their origins. Arguably, it's a case of no harm, no foul.

The problem, of course, is that any hole in the Kimberley Process Certification Scheme as large as this is open to abuse by those wishing to launder conflict diamonds. And this man hasn't limited himself to Guyanese diamonds. He's also heavily involved with Venezuelan diamonds.

After re-packing his assorted packets and bundles back into the 25,000 carat grocery bag, he pulled out a white paper parcel from a drawer inside his desk and proudly showed off a lovely, clear, lozenge shaped 36 carat stone.

"6,000 US a carat" he explained. "From Venezuela."

The diamonds of southern Venezuela are very similar to those of Guyana. Indeed, they originate in the same Roraima formation. The major difference is the greater incidence of larger stones that turn up in Venezuela, thanks to the country's closer proximity to the Roraima group's secondary deposits.

This particular stone was a quarter million dollar example of that particular bit of geology. According to the trader, diamond mining in southern Venezuela had once again recovered. The Bolívar state government, backed by a zealous army commander, had shut down the Brazilian garimpeiros operating in Southern Venezuela for several months, but things were now moving once again. Of the 5,000 carats a week the trader was sending out through Georgetown, perhaps a thousand came from Venezuela.

These exports, too, are apparently handled by the three Georgetown traders who look after his exports. Given the volumes of stones being exported, they would rank among Georgetown's top ten exporters. The inclusion of larger, higher value Venezuelan stones would likely also give their exports a higher average dollar per carat value than other exporters.

Later, PAC made the two-hour trip from Boa Vista to the Venezuelan border town of Santa Elena de Uairén. The highly vigilant checks for yellow fever vaccination aside, that border too is effectively uncontrolled. PAC traveled in and out of Venezuela without ever being stopped, searched or even questioned by anyone from Brazilian or Venezuelan customs. Moving diamonds would not pose much of a challenge.

The centre of Santa Elena is chock—a-block with small diamond buying shops. According to a Brazilian diamond trader interviewed there by PAC, there are three Brazilian traders from Boa Vista buying heavily in Santa Elena. The most aggressive of the three has a shop with a sign displayed prominently on Santa Elena's Calle Urdaneta advertising the name of the Boa Vista trader interviewed by PAC.\*

### **Phantom Dredges?**

As a result of its investigative work in Brazil and Venezuela, PAC believes that significant numbers of Venezuelan diamonds are entering Guyana, and being exported with Guyanese Kimberley Certificates. However, having observed the internal procedures at GGMC headquarters, PAC is equally convinced that diamonds do not leave Guyana without a signed production sheet attesting to their origin. The question then becomes, in what way are fake production sheets being arranged for Venezuelan diamonds?

\* The names of the individuals and companies concerned have been given by PAC to the authorities of Guyana, Brazil, Venezuela and the Kimberley Process Certification Scheme.

One possible scenario would be through the creation of a 'phantom dredge'. A phantom dredge would be a legally registered machine, located – on paper, though not in reality – on a legal mining claim. In reality, the dredge would not be operating at all, and its production sheets would be filled in with wholly invented information.

# PAC is confident that significant numbers of Venezuelan diamonds are entering Guyana, and being exported with Guyanese Kimberley Certificates.

Note that there is nothing in the current GGMC system that would catch such a fraud. In order to be valid, the production sheets must be signed by the dredge operator, and the claim owner or his designate. The dredge operator can be anyone. The GGMC does no checks to see whether this person is a legally registered miner, or even a real person. (To be fair, attempting such a verification would be next to impossible). The signature of the claim owner's designate is that of another wholly unverified person, one that changes frequently as claim wardens come and go.

Initially, the GGMC Commissioner wanted to make it a requirement that production sheets be signed by the district mines officer or his designate. Lack of manpower, however, as well as complaints from the Guyana Gold and Diamond Miners Association, have caused this requirement to go by the wayside. A Kimberley export application is composed of dozens of production sheets from different dredges, some signed by mines officers, many others signed only by the operator and claim holder. The processing clerks, hardworking and conscientious as they are, are unlikely to notice if one dredge is never signed by a mines officer.

Catching and correcting this phenomenon – presuming it exists – should be fairly straightforward. The GGMC should make it a condition of operation that a dredge be visited and inspected at least once every 60 days. Proof of this inspection – in the form of a production sheet signed by a mines inspector, or an dredge inspection report from mines officer – should be required before any diamonds produced by that dredge can be exported. Bureaucratically, the only requirement would be for the processing clerks to check the production sheets stored in dredge file, to verify that the dredge is receiving periodic inspections. Those dredges that are never inspected should immediately raise suspicions.

Once the phantom dredge loophole is closed, those importing Venezuelan stones will have to resort to salting this added production inside actual working dredges. Detecting such a dredge would be difficult, but by the same token, the volume of additional diamonds that could be added would be relatively small, for a relatively high effort in terms of deception.

# Conclusions and Recommendations

As currently constituted, Guyana's Kimberley system is not yet tight enough to keep out contraband stones from Venezuela. Large amounts of diamonds are crossing the borders of Guyana, Brazil and Venezuela without any government oversight and without Kimberley Certificates. This makes a mockery of the KPCS, and makes it readily accessible for infiltration from conflict diamonds. Where Guyana is concerned, the system does not need a fullscale overhaul. With a few minor adjustments, a bit more cross referencing, and a bit more added enforcement effort, Guyana's GGMC should be able to choke off the flow of Venezuelan stones and become one the few nations on earth with a believable system of controls for alluvial diamonds.

# Recommendations

#### To The Kimberley Process

The KP should insist that Brazilian and Venezuelan Kimberley Process implementing authorities review all diamond activities in Boa Vista and Santa Elena de Uairén respectively, and that they provide details on how they will halt the illegal import and export of diamonds from their national territory. If such assurances cannot be provided in a credible fashion, Brazil and Venezuela should be expelled from the Kimberley Process Certification Scheme.

## To the Government of Guyana

1. Place a Copy of the Inspection Reports in the Dredge File,

At present, the administrative section collects an impressive amount of information about the daily work of each active dredge, by collating the weekly production sheets in its dredge files. The mines division collects periodic information on the activity of dredges in the field through its field inspection reports. Currently, there is no coordination between these two divisions.

The simplest way to rectify this situation would be for mines officers to provide a copy of their dredge inspection reports (or perhaps just a one-page summary) for each dredge to the clerical division, which could then be placed in the appropriate dredge file. With this small change in bureaucratic procedure, it would be possible to isolate dredges that seem to be actively producing diamonds, but which have no record of being seen and inspected in the field.

It is PAC's belief that significant volumes of Venezuelan diamonds are being exported through Guyana. Since the GGMC began insisting on signed production sheets in early 2005, the only way to get Venezuelan diamonds into the system is to have them somehow entered onto a production sheet. The simplest way to do this would be to set up a 'phantom dredge.'(see *Phantom Dredges*, above).

As such a dredge is not actually operating in the field, it will never show up on an inspection report. None of its production sheets will ever come in signed by a mines officer. However, as the GGMC does not currently check either of these things, neither one is an impediment to a an exporter sending Venezuelan diamonds out of the country, with a phoney paper trail from a phantom dredge showing that the diamonds were produced within Guyana.

Putting a copy of the inspection reports in the dredge files would change that. A dredge with numerous production sheets that never shows up on an inspection report should immediately raise suspicions.

### 2. Make Periodic Dredge Inspections a Condition of Export

The GGMC should make it a condition of export that every dredge contributing to an export be able to show

proof that it has been seen and inspected by a mines officer at some reasonable regular interval (say, 60 days). Proof could take the form of a mines officer's inspection report, or simpler still, a production sheet signed by a mines officer.

This reform would have the added advantage of making dredge owners seek out and encourage visits by the mines officer, rather than avoiding them and hoping they will never happen. Dredge owners, of course, will complain that they are often located in isolated difficult-to-reach locations, that it's not their fault if the mines officers are too busy or far away to reach them, and that they should-n't be punished if the GGMC isn't employing enough people to do the job.

Dredges all come equipped with two-way radios, however, and if a dredge has not been visited there is no reason they cannot call in to the local GGMC field office and ask for a mines inspector to come, and even offer to provide transportation as required. The GGMC appears to have reasonable staffing levels to do the job, and a willingness to hire new personnel as required.

#### 3. Hire more Mines Officers

The GGMC should evaluate whether its current corps of mines officers is sufficient in number to regularly inspect the 3,680 dredges currently licensed to operate in Guyana. (Not all of those dredges are operating, of course, but even the lack of data about what has become of those dredges is troubling). After performing such an evaluation, PAC believes the GGMC will come to the conclusion that more mines officers are necessary. They should be hired and put in the field as soon as possible.

#### 4. Create a Computerized Database of Dredges

The GGMC should immediately begin creating a computerized dredge database. The GGMC currently collects a wealth of data on dredges working in Guyana through production sheets and periodic inspections. Creating a database of dredges will allow the GGMC to collate and analyse this information in much greater detail than is possible with the current paper filing system.

With a computerized database, the GGMC will be able to track the production of each dredge, and correlate these production numbers with other relevant data. To start with, the GGMC could compare production figures with inspection records, and perhaps turn up dredges that are actively producing and yet never seem to get inspected (i.e. phantom dredges). A more sophisticated analysis might compare the production per unit of effort (measured in fuel consumption, or man-hours, or earth moved) between dredges working on a specific claim block, or between dredges on neighbouring claim blocks with different owners. A dredge that consistently produces higher yields than other neighbouring dredges might merit closer scrutiny.

The database will only be as good as the data collected on the production sheets. Some of this data is currently not being properly reported, but creating a database should help improve this situation – with a user at GGMC headquarters (the database manager) actively inputting and using the data, feedback will result in better data being collected.

### 5. Put GGMC inspectors at the International Airport and in Lethem

In this report, PAC has shown that significant numbers of Venezuelan diamonds are entering Guyana. In addition, thanks to the activity of one large trader, Guyanese diamonds are exiting Guyana for Brazil, and then returning once again to Guyana. The GGMC should position inspectors on transportation routes into Georgetown in order to apprehend, or at least discourage and impede this traffic.

There are two main routes from Brazil to Guyana: the flight three times a week from Boa Vista to Georgetown, and the land crossing between Bonfim and Lethem. To control diamond imports via the air route, the GGMC should station an inspector at Cheddi Jagan International Airport, with a special responsibility to inspect passengers and luggage arriving from Boa Vista.

The land border at Lethem is a more difficult case. At present the border is for all intents and purposes uncontrolled. Customs and immigration checks may improve somewhat with the completion of a new international bridge from Brazil to Guyana, but given the physical geography of this border (the Takatu River that forms the border here is narrow, shallow and easily crossed, with kilometres of access roads on both sides of the border) truly effective border control will likely remain impossible.

To control diamonds using this route, GGMC should focus on the only two transportation modes from Lethem to Georgetown: the flight four times a week from Lethem to Georgetown, and overnight bus. Plane passengers currently are subject to inspection at the GGMC checkpoint at Ogle airport. However, because the flights come from a part of the country with little or no mining, GGMC inspectors tend to be less rigorous in their checks of these flights. This should be tightened up. In Lethem, the mines officer should begin regular inspections of passengers and baggage departing for Georgetown on the overnight bus.

Legally there is nothing the GGMC can do about people found in possession of diamonds on these routes, provided they have appropriate production sheets. However, the mere fact of inspections may discourage couriers from using these routes. And if the GGMC can show that diamonds are consistently arriving from places that should not have diamonds, they may be able to interest the Guyana police in taking action against a diamond route that is clearly in contravention of Guyana's laws.

# To the Government of Brazil

Boa Vista is a city replete with diamond traders and diamond trading offices. This should strike Brazilian authorities as somewhat odd, given that there is little or no active diamond mining in the state of Roraima. As PAC discovered in this investigation, these traders are obtaining stones in Venezuela, sorting and grading them in Boa Vista, and forwarding them to Guyana for export, with phoney paperwork showing provenance in Guyana.

The existence of this illicit trade route puts Venezuela, Guyana and Brazil and in violation of their commitments under the Kimberley Process. As the principal actors in this trade are Brazilian, it falls to Brazilian authorities – in the National Department of Mineral Production, in the Federal Police, and in the Public Prosecutors Office – to take note of this illicit trade route, and take steps to close it down.

#### To the Government of Venezuela

Diamond exports from Venezuela's southern state of Bolívar are currently beyond the control of the government of Venezuela. This represents a loss of revenue to the Venezuelan government, and a threat to the integrity of the Kimberley Process worldwide. The Venezuelan government should take immediate steps to bring the diamond mining and exporting industry in Bolívar state under control.

Given the natural trading patterns of the region, it may be difficult to force diamonds from Bolívar State to take the long route up to the capital for export. If so, Venezuelan authorities should consider establishing an office for issuing Kimberley Certificates in Santa Elena de Uairén. Diamonds produced in Bolívar could then be exported via Boa Vista and Georgetown, but legally, with certificates of origin showing the stones' provenance in Venezuela. For Venezuelan-issued Kimberley Certificates to have credibility, Venezuelan authorities will also have to establish a rigorous and credible system for tracking Venezuelan diamonds from source to export.

# Annex 1

# Prospecting Permits and Mining Claims IN GUYANA

Claims in Guyana come in small, medium and large.

# Small Scale

A small scale claim measures a maximum of 800 feet by 1500 feet (approx  $25m \times 50m$ ). If it is a river claim, it measures a maximum of one mile (approx 1.6 km) of river, using the bank as the measurement.

A miner wishing to establish a small scale claim has to have a Prospecting Permit (small scale), issued by the GGMC. Prospecting permits cost G\$1000 (US\$5), are valid for one year, and allow the bearer to prospect on any state land open to mineral exploitation.

Small scale permits and claims are restricted to Guyanese citizens or residents 18 years and older. Foreigners can enter into joint-venture agreements with Guyanese to jointly exploit a claim, but this is strictly by private contract, and relatively rare for small scale claims.

There are thousands of small scale claims in Guyana, and the GGMC is only just beginning work on entering them into a GIS database with accurate GPS co-ordinates. In the field, claim holders normally mark their claims with paint and signs, but overlapping claims do still occur. In the event of a dispute between claim holders, the GGMC sends out a mines ranger to inspect the disputed area and adjudicate.

#### **Medium Scale**

A medium scale claim measures between 150 and 1200 acres (approx 60-485 ha). There is a per acre charge for maintaining a medium scale claim, which increases the

longer the claim is held. The cost of a medium scale claim starts at US\$.25 per acre for the first year, and increases by U\$0.10 for every year thereafter.

Medium scale claims are restricted to Guyanese citizens or residents 18 years and older. Foreigners can enter into joint-venture agreements with Guyanese to jointly exploit a claim, but this is strictly by private contract. Claim blocks are also frequently bought and sold, but this again is by private contract.

In 2005 there were over 3700 medium scale claims in Guyana. The GGMC now has them all entered in a GIS database with accurate GPS co-ordinates, and can overlay these claims on maps of various mining areas. These maps – in both paper and digital format – are available for purchase in the GGMC cartography department in Georgetown.

Because the system for establishing claims predates computers and GPS by some decades, claims in Guyana tend to be simply rectangular in shape. In areas with active diamond mining such as the Middle Mazaruni, nearly every likely, and even half-likely inch of public land falls within a claim.

#### **Prospecting Licenses (Large Scale)**

Individuals or companies prospecting in anticipation of establishing a large scale mine have to apply for a Prospecting License, which covers territory of between 500 and 12,800 acres (approx 202-5179 ha). The cost of a Prospecting License is currently US\$0.50 per acre for the 1st year, US\$0.60 for the second, US\$1 for the third, US\$1.5 for year four, US\$2 for year five and US\$3 per acre for every year thereafter.

Prospecting licenses are available to foreign as well as Guyanese individuals and companies. There were 41 Prospecting License in operation in 2005. Most are on the order of 10,000 acres (4050ha) in size.

## NOTES

- 1 All diamonds are valued at US\$75/carat, regardless of size or quality. Royalties are 3% of that US\$75/carat. Given that Guyana diamonds average about US\$100 carat, exporters see this system as fair and simple
- 2 The average price is another demonstration of how Guyana's diamonds skew towards the small sizes.
- 3 For legal purposes, the approximately US\$ 4 million in revenue from the Guyana's largest mine, the gold mine at Omai, flows through the GGMC, but the Commission has no access to these funds. The monies flow into the GGMC, and back out to the national government.
- 4 Though that is beginning to change. The claims and cartography departments are moving to GIS databases, for example. There is talk of creating a production database on working dredges.
- 5 The production sheet stored in the dredge file is normally the one submitted to the Guyana Revenue Authority when the mineral royalty is paid, and returned to the GGMC by the Revenue Authority.
- 6 In one case in the diamond fields near Kurupung, PAC came across a pair of garimpeiros from Maranhão who had recently pooled their resources to buy a dredge from the widow of the owner, who had died in the field from a combination of malaria and excess alcohol consumption. The dead man, in turn, had bought the dredge from his brother, who had decided to return to Brazil. The name on the recently renewed dredge license, stapled into the production book, was that of the Guyanese wife of the brother of the dead man. This woman's whereabouts was anyone's guess. The GGMC apparently doesn't ask for ID when renewing a dredge license.
- 7 At a cost of G\$1500/US\$7.5
- In collecting the additional data, the GGMC hopes in the 8 longer term to be able to perform economic analyses on individual dredges, to determine for example whether a given dredge's inputs in terms of fuel, manpower and earth movement are commensurate with the dredge's reported yields. Additional data collection is certainly a good thing, provided the GGMC can win the cooperation of miners in the field. The motive behind this data collection is a suspicion that miners may not be reporting all of their production. Historically in Guyana this has been a problem with gold production, so it's only natural for GGMC officials to harbour these suspicions. However, in PAC's opinion the problem with diamonds is not that production is being hidden, but rather that diamonds from elsewhere - notably Venezuela are being smuggled in and passed off as Guyanese, via inflated figures on some dredge production sheets. Economic analysis might also prove a useful tool for exposing this kind of fraud. An analysis that showed a dredge consistently

returning more diamonds, with less fuel use and earth movement than others operating in nearby areas would certainly be cause for suspicion.

- 9 This is in fact where many a production sheet gets signed, as they and the diamonds they record are brought in by diamond traders flying in from Kurupung and other hinterland diamond areas.
- 10 For a time, the GGMC had a separate, additional permit called a license to convey. Anyone wishing to transport diamonds from the hinterland to Georgetown had first to present the diamonds for inspection to a Mines Officer or policeman who would issue a license to convey. Stones transported without a license to convey were liable to seizure. Miners, led by the GGDMA, complained that in informing the police of what they were carrying they were setting themselves up to be robbed. They also complained that police and mines officers were demanding small 'presents' from each batch. The GGDMA's complaints reached a sympathetic ear at the Prime Minister's office, and the separate license to convey was scrapped. It has now been replaced by the production sheet.
- 11 The GGMC personnel do not actually count every individual stone. They will sometimes do a verification count on a smaller sub sample of a particular parcel, but generally, the clerks rely on a visual inspection and their familiarity with diamond sizes to verify that the diamonds are of the size claimed, and that the stone counts are thus accurate.
- 12 PAC did not have the opportunity to witness a 'sealing ceremony', and so cannot comment on how tamper proof the packaging is for the sealed diamonds and ziplocked Kimberley Certificate. There has been one case where a sealed package issued by the GGMC with a Kimberley Certificate was allegedly tampered with en route to its final destination. On May 12, 2003, the manager of Triple C Diamonds, Suresh Lall, picked up a sealed parcel of 8801.47 carats from the GGMC. The parcel was covered by Kimberley Certificate 081103. Lall took the parcel home, then later that day caught the BWIA flight to New York, where at JFK airport he turned the parcel over to customs broker Malca Amit for transhipment to Switzerland. When the parcel arrived in Switzerland, the customer discovered some 1,100 carat of the best stones had been removed. Because the parcel had been weighed at JFK, it was possible to determine that the approx 220g worth of stones had been removed before the package was turned over to the customs broker. Suresh Lall wrote a sworn statement saying he knew nothing of the diamond disappearance. He was fired from Triple C, and did not return from New York. No charges were ever laid against him, and Triple C made no complaint against the GGMC. How the diamonds were removed from the parcel remains a mystery.



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