

RAPAPORT

Diamond Source Certification

By Martin Rapaport March 27, 2024

The advent of G7 Russian sanctions is driving the need to identify and certify the mined source of diamonds. The only way you can know that a diamond is not Russian is if you affirmatively know where it does come from. From a sanction perspective, all diamonds are guilty until proven innocent.

Aside from the need for rough-mine source identification and certification of rough diamonds for sanction purposes, there is also the need to identify the source of diamonds for social-responsibility added value.

Jewelry brand value is especially dependent on the brand's values, represented by their assurance to customers that the products they sell emanate from a socially responsible supply chain. The need for source certification is as much a commercial necessity as a legal requirement.

Bifurcated Markets

The market for diamonds is therefore bifurcating into two segments: (1) diamonds from known, legitimate sources that meet legal sanction requirements and also meet commercial requirements for socially responsible supply chains, and (2) diamonds from unknown sources that trade at lower prices in markets without legal or social-responsibility constraints.

Everything is pointing to the need for diamond source certification. This requires a three-step layered approach: (1) certification of mine source, (2) certification of the transformation process from rough diamond into polished diamonds and then diamond jewelry, and (3) final certification of the finished diamond and diamond-jewelry products.

This article will focus on the first step — certification of the rough source for a diamond from known sources.

The fundamental concept of rough-diamond source identification and certification is that the mining companies selling the rough diamonds are responsible for identifying and certifying the rough diamonds if they want to capture the social-responsibility added value.

Of course, governments can and should audit their mining companies' production for tax and other reasons. However, rough-source certification cannot rely solely on government certification, which is tainted by political considerations. This is

evidenced by the Kimberley Process certification of Russian diamonds, as well as diamonds from illegitimate sources such as Zimbabwe.

The source certification of diamonds by the mining companies also allows buyers to distinguish the legitimacy of various mined sources. This enables the segmentation and optimization of social-responsibility added value.

Diamonds from Botswana with known social responsibility standards will trade at higher prices than diamonds from Angola with lesser-known social responsibility standards. Not all diamond social responsibility is the same, and added-value competition is a public good.

Rough Diamond Source Certification

The best way to know where rough diamonds come from is to have the rough scanned and given a unique blockchain identification number at the mine or at the first point of delivery from the mine to the buyer. Scanning uniquely identifies a diamond, much in the same way a facial photo identifies a human being. Smaller diamonds not suitable for scanning can be tamper-proof bagged and assigned a unique blockchain identification number.

The unique blockchain number and transaction history will follow the diamond as it moves from mine to manufacturer, backed by invoices and shipping documents that are recorded in the blockchain. The identification of the mine source for the rough diamond or sealed parcel of rough diamonds is thereby assured from mine to manufacturer.

Recommendation: The idea that rough-diamond certification must be centralized in Belgium, or any other location, is false. Rough-diamond certification should be done at the mine by the mining company under the supervision of credible auditors with the approval of the government.

Botswana is an example of a good government with reputable mining companies that can and should certify their rough diamonds. The G7 should stop playing politics and move on to identifying which countries and mining companies they accept as valid sources of rough diamonds for the purpose of importation.

Polished Diamond Source Certification

The greatest challenge facing polished diamond source certification is ensuring that a specific polished diamond came from a specific source-certified rough diamond.

There are two ways to do this:

(1) Tech Verification. Using technology such as the GIA's Diamond Origin Report (DOR) that scans a rough diamond, assigns a unique identification number to it, and then through sophisticated technical and gemological analysis certifies that a specific polished diamond comes from a specific rough diamond. This tech verification is not

based on auditing the flow of the diamond manufacturing process from rough to polished. The rough and resultant polished can be freely traded without tracing, and the GIA can still identify the rough source and source certify the polished diamond.

(2) Manufacturing Process Verification uses technology such as Sarin image scanning and analysis to link the rough diamond to the polished diamonds by showing step by step images of how the rough diamond was converted into polished diamonds. A series of images or links are downloaded into a blockchain and associated with a polished diamond grading report that uniquely identifies the physical characteristics of the diamond.

Financial Auditing is insufficient. Showing invoices of rough diamond purchases and claiming that the polished diamonds came from the rough without proof that specific polished diamonds came from specific rough diamonds is a form of whitewashing. Diamonds can be easily switched with false claims that Russian or other sanction diamonds emanated from legitimately sourced rough. Financial auditing is a necessary but insufficient condition for polished-diamond source verification and certification.

Recommendation:

Botswana and other legitimate governments with legitimate mines or artisanal rough sources should provide verification and certification services for rough diamonds based on scanning with unique identification of rough diamonds. The rough diamond data should be entered into a blockchain such as TRACR or other US government approved blockchains. The US government should accept Botswana and other approved government rough source certification and TRACR blockchain identification as proof positive that the rough diamonds and their resultant polished may be imported into the US.

Please review the Rapaport letter to the US Office of Foreign Assets Control (OFAC) and the Rapaport US Diamond Protocol for important information regarding US sanction regulations.