

The Political Economy of Diamonds

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A few years before 9/11, the world's curiously selective conscience was shocked by images from the little West African country of Sierra Leone. There, an insurgent group fond of hacking off hands and feet with machetes funded its war by exploiting slave labor in diamond fields, smuggling gemstones via complicit dealers (Lebanese, naturally) to Liberia, then onto world markets. To horror stories from Sierra Leone (and Liberia) were soon added those from Angola, where the government was locked in a protracted battle with the UNITA guerrilla movement (created and long sustained by the CIA), and from the Congo (AKA Zaire), on which neighboring countries descended in a multisided scramble for spoils after the death of its US-sponsored president-for-life. What to do about African "conflict diamonds" became one of the hottest topics discussed by the New York cognoscenti as they puffed contraband Cuban cigars and sampled poached Russian caviar while seated at tables made from illegally cut Brazilian big-leaf mahogany in dining rooms embellished with looted Egyptian, Greek, and, more recently, Iraqi antiquities. Thus, conflict diamonds (later reincarnated as "blood diamonds," when the original images started to lose their shock value) were already high on the international agenda before the conveniently timed discovery that behind the trade could be found the evil hand of al-Qaeda.

The "conflict diamonds" story actually began in Sierra Leone after World War II, when native soldiers who had been with British Special Forces returned home to find a country still under colonial rule and its leading industry still in the grip of a British monopoly. Most diamond mines produce a majority of industrial-grade stones, but in Sierra Leone an unusually high proportion were (are) gem quality and in widely dispersed alluvial fields rather than concentrated in deep mines where security is easier, as in South Africa or Botswana. Initially the main problem was in company-run areas where miners would steal stones to sell to local merchants who would then pass them on to smugglers. But by the early 1950s more native diggers ventured into fresh territory. While the British regularly sent the police and Army to try to clear illegal diggings, the miners applied skills they had learned in irregular warfare to evade capture. For every informer kept by the company in the illegal mining camps, the miners seemed to have one in the local police.

Illegal production required a covert marketing channel. That was the role of Lebanese traders. The initial wave of Lebanese immigration into West Africa around the turn of the twentieth century had been mainly Christians fleeing economic crisis or Ottoman oppression. Their first destination was usually Marseilles, from where they hoped to move to the United States. Some unable to get to a New World whose streets were reputedly paved with gold ended up in West Africa, where, a little later, they found alluvial fields genuinely seeded with diamonds. Initially prominent in retail commerce and real estate, with some smuggling as a sideline, during a post-World War II diamond boom, Lebanese traders advanced digging equipment and supplies, then arranged to move the diamonds to Liberia, which had low taxes and a US dollar-based financial system. The traffic threatened the tight

control over the world rough-diamond market held by the British/South African corporation De Beers Consolidated. Apart from feeding newspapers with claims that smuggling was sufficient to threaten the British balance of payments when the country had still not fully recovered from World War II, De Beers tried two other tricks.

The first was for “John Blaize,” a self-proclaimed undercover agent for the International Diamond Security Organization, the De Beers private policing affiliate, to approach a former Naval Intelligence officer. Ian Fleming had already published *Diamonds Are Forever* in which the dashing decadent James Bond foils international smugglers working on behalf of Terror International. Who better to write the “true story” (entitled *The Diamond Smugglers*) of the underground diamond trade than someone with the right political credentials and a proven capacity to concoct fantasies with the desired political spin?

The problem De Beers faced was that existing methods to control trafficking in West Africa were failing. Within its own mining concessions, it had traditionally relied on X-rays to stop miners from stealing stones. But, as John Blaize explained to Fleming, “You can’t go on X-raying men, even if they’re black.” Another technique consisted of planting irradiated stones, then trying to pick them up with Geiger counters as miners passed the  turnstiles or to trace them to buyers. That, by definition, caught only the irradiated stones—of little use if large numbers of miners lifted large numbers of gems. Nor could the company irradiate en masse—stones had to be found before they could be so treated. And presumably there might be fears of a skin-cancer epidemic among the blushing brides who were its primary clientele. In the alluvial fields outside direct company control, the problem was worse. Here the company’s most important technique was to plant its own agents to outbid the illicit buyers. While that permitted the company to control the output, it drove up the price and encouraged more illegal production. For a time the company combined that strategy with a buy-and-bust approach. But judges kept throwing out the cases—most of those entrapped were amateurs, with no previous history, who were lured into the traffic, then arrested in a blaze of publicity to try to scare away others. So John Blaize appealed to Fleming’s patriotic, literary, and, undoubtedly, financial sentiments to help them publicize “the biggest racket being operated anywhere in the world.”

According to the story, the Evil Empire (at that time Atheistic Communism rather than Islamic Terrorism) ran the traffic for two purposes. One was to obtain industrial diamonds (in the face of a NATO embargo) to aid the Soviet nuclear weapons program. John Blaize assured Fleming that “our man in East Berlin” reported that the diamonds were distributed thus: the USSR and China each taking 25 percent, the rest going to various places in Eastern Europe, “all presumably for the various armaments industries.” This was some accomplishment given that stones from Sierra Leone were so commonly gem quality, and that the USSR was already producing so many diamonds of its own that De Beers had entered a secret agreement to sneak them onto Western markets in violation of anti-Soviet sanctions then in force.

The second purpose, so the account went, was to use gemstones to finance Arab “terrorist” activity in Syria (recently free of France), Iraq (which was shaking off the British), and Algeria (where the first shots of an insurrection against French rule had been fired). Reports of the Soviet-WMD/Arab-Terrorist plot sent a shudder through the British spook agencies, who endorsed a covert program, jointly with De Beers, to use British secret intelligence funds to infiltrate Lebanese smuggling rings, snare traders, and, where necessary, assassinate ringleaders.

Therefore, apart from alerting the public to these early conflict diamonds, De Beers arranged for Sir Percy Sillitoe, former head of Britain's MI-5, where he had made a reputation as a Commie-hunter, to be hauled from a pleasant retirement selling chocolates to spearhead the counterinsurgency. He soon realized that the real point was to permit De Beers to consolidate its monopoly with the British taxpayer picking up the tab. Not only had the Soviet Union already discovered enormous supplies of natural diamonds, but it was at the forefront of world synthetic-diamond research. The notion that it would buy black-market diamonds to fund guerrilla groups made no financial sense. The only traceable flow of smuggled diamonds into Arab hands ran from Christian traders of West Africa to Lebanon, then across the ceasefire line into Israel in defiance of the Arab League embargo against the Zionist state. Nonetheless De Beers hired a Lebanese storekeeper who put together a gang of thugs and petty criminals to ambush convoys of smugglers, steal their diamonds, and collect a reward of one third their value.

Despite this, rising nationalism and more smuggling made the company's position increasingly difficult. Eventually its holdings were opened to state-licensed miners and buyers. After the outbreak of civil war in Lebanon in 1975, the established Lebanese traders in Sierra Leone were joined by more Shi'a and by an influx of Israeli smugglers, eager to find a way, independent of De Beers, to feed Israel's enormous diamond-cutting business. For a time Sierra Leone became a scene of coup and counter coup in which Israel, South Africa, Iran, and the US manipulated clients. For De Beers the problems were complicated by developments in other alluvial producers whose rising output threatened the system by which it had long controlled the market.

Historically De Beers acted as buyer of last resort. With cooperation from the major producers, it took off the market surplus rough stones, including (by keeping its own buyers in black-market centres) smuggled material, then resold to selective cutters when particular subsets of the market began to heat up. (Any broker or manufacturer not on the De Beers "sight" list had to obtain their stones off the secondary market in Antwerp or create direct links to producers, legal or illegal.) The key to control was the company's ability to carry a stockpile of several billion dollars "worth" – which also enabled it to dump selected types at strategic times to undermine any producer who tried to strike out on its own. Most major cutters were content to participate: the arrangement offered the security of steadily rising prices; and they could profit indirectly from the De Beers effort to convince the buying public that diamonds were "forever." But throughout the 1980s and into the 1990s, this strategy became harder to implement.

For a long time the diamond market had been a duopoly. De Beers purchased Soviet stones to come in line with others in a market-rigging ploy from which both sides profited. But in 1991 the Soviet Union disappeared, replaced by a Russia chronically short of foreign exchange and eager to establish itself as a major gemstone cutting and polishing centre. New producing frontiers opened in Australia and then Canada, in neither of which De Beers held significant direct ownership interest. Alluvial mining spread farther in Central and West Africa, much of it in areas controlled by rebel movements and regional warlords who were harder to deal with than corrupt or thuggish governments. Meanwhile the world economy shifted from a generally inflationary post-World War II to a low- or zero-inflationary post-Cold War environment. In that context the De Beers stockpile ceased to be a good investment and became a drag on the company's share price. Just when things looked blackest, along came the uproar over conflict diamonds.

In 1998 the UN imposed sanctions on purchase of diamonds from the UNITA guerrilla

movement in Angola. Hitherto all diamonds from Angola were to be accompanied by government-issued certificates of origin. This had the happy effect of creating work for skilled forgers and an opportunity for corrupt functionaries to comingle UNITA's with official stones. Citing difficulties of separating real from fake certificates, De Beers shut down all its buying in Angola. A short time later the UN imposed sanctions on Sierra Leone's gemstones, too. Zaire, wracked by civil war, was next. Ambitious NGOs kept up the pressure while the diamond trade scrambled to placate consumer countries.

The campaign had an important public sponsor. When the Canadian government heard the word "diamonds," its eyes began to sparkle, thanks to the conviction that Canada might soon account for 15-25 percent of the world's supply of gem-quality diamonds, all, of course, certifiable as "conflict free." In some ways it was a replay of the Apartheid era, when Canadian (and Australian) gold-mining firms led demands to embargo South African gold, while the Canadian government, whose Maple Leaf gold coin was the main international competitor to South Africa's Krugerrand, heartily seconded the motion.

The last pockets of resistance to controls on conflict diamonds crumbled when, in 2002, the world learned that behind the traffic in "the world's most precious gemstone" stood the intensely ascetic Usama bin Laden. Apparently al-Qaeda had not simply been profiting from the traffic, but had rushed, after 9/11, to convert its assets into more easily hidden forms, including rough diamonds. Soon the UN demanded the ban not just of "conflict diamonds" but of all "illicit" stones. Member states and the diamond industry began negotiating conventions to shut out of the market not the 3 percent of the world's gemstones that came from conflict-ridden areas of Africa but the 15-30 percent (depending on the definition) that bypassed official marketing agencies. Smiling broadly in the wings was De Beers.

To the extent that the bans actually worked, their immediate impact was to open space for De Beers to unload onto the market identical stones from its own stockpile. That stockpile, long a drag on its finances, shot up in value, the shares of the company along with it. The drive to eliminate stones that had bypassed formal government monopolies (which almost always marketed through De Beers) enhanced the company's power. The changes in international rules came, quite conveniently, while De Beers was drastically revising its marketing strategy.. Instead of just specializing in the control of rough stones to the wholesale market, it decided to sell cut and polished ones to the retail trade. Instead of spending money to advertise diamonds for the market as a whole, it decided to promote its own brand name. It began to microprint diamonds for retail with its own logo and ID numbers as a supposed guarantee that the stones were "conflict free." The claim was bogus – once cut, there is no way to confirm a stone's origin. But it gave De Beers an edge over competitors, few of whom would ever handle a "conflict diamond" but even fewer of whom would be able to convey the same assurance. The logo also soothed a market spooked by the spread of sophisticated fakes, synthetics, or simulates. Not least, by downplaying the market stockpile business, De Beers hoped to ease its long-difficult relations with the United States, whose antitrust laws were a constant threat. These changes in commercial strategy were firmly cemented into place once the "al-Qaeda"-meets-conflict-diamonds tale grabbed the spotlight.

This is not to suggest there was no "evidence." For one thing there was the discovery by the BBC that a twenty-eight-year-old al-Qaeda "member" named Mohammed Khalfan, arrested in Africa for involvement in the 1998 embassy bombings, was a leading shareholder of a Congolese diamond mine. The actual shareholder turned out to be Kamal Khalfan, a man in his sixties—the BBC publicly apologized and paid £500,000 in damages to his company. But

that was not the end of such evidence. There were also abundant stories about a couple of Lebanese Shi'a diamond dealers "linked to" and "connected with" al-Qaeda-somehow they had missed the fact that at the time they were financially supporting bin Laden, his Taliban allies in Afghanistan were engaged, allegedly with the help of Arab auxiliaries, in massacring that country's Shia population.

The Lebanese dealers later claimed (probably correctly) that rumors of their bin Laden association were spread by business rivals seeking to discredit them. Just who those rivals might be can perhaps be inferred from the fact that the UN found a group of ex-Israeli Air Force pilots moving smuggled diamonds from Angola, Sierra Leone, and Liberia and that one of the first acts of a post-conflict government of Sierra Leone was to arrest Israeli Reserve-Colonel Yair Klein. Klein, who had won undying fame in the late 1980s for training narco-militias on behalf of Colombian drug lords, had arrived in Sierra Leone to sell "security services" to Israeli diamond traders trying to recover territory lost to the Lebanese Shiah in an earlier round of diamond wars.

There were a few other problems with the Usama-sells-conflict-diamonds story. For one thing, how did an organization supposedly spearheaded by a Saudi "Wahhabi fundamentalist" make a breakthrough into an area where most of the population in the trade was Shi'a Muslim from Southern Lebanon? True, those intent on the tale of al-Qaeda peddling conflict diamonds could resurrect the fatuous but widely believed "link" between al-Qaeda and Hizbullah. But even that begged a few questions. It was never clear from any of the sensationalist stories if Hizbullah was supposed to be actually running "cells" of diamond dealers or just getting contributions from time to time from members of the Lebanese Diaspora who made money in diamonds, or real estate, or selling powdered milk and cans of tuna. Furthermore Hizbullah was never a serious presence in West Africa. To the extent Lebanese Shi'a in the region have any consistent political preferences, it would be not for the radical Hizbullah but the far more mainstream and rival AMAL movement, whose leader, senior Lebanese politician Nabih Berri, was born in Sierra Leone.

In any case, participation would be interspersed in a matrix of undercover activity that would be almost impossible to unscramble. The diamond begins its commercial life in mines rife with theft; crosses borders in smugglers' pouches or, what is often the same thing, diplomatic luggage; comes briefly into daylight again in cutting and polishing centres whose practitioners, more often than not, grant themselves a general tax exemption; re-enters underground freight channels via informal bourses where deals have traditionally been done in cash and sealed with a handshake; sneaks again across borders to dodge import duties or excise taxes; then finally arrives in a retail marketing network replete with commercial fraud. En route the diamond might pass through the hands of impoverished diggers and backwoods traders, career criminals and corrupt functionaries, spies and insurgents, counterfeiters and money-launderers, and investment sharks and telemarketing scam artists before coming to rest around an especially elegant neck or a languorously beckoning finger – at least until some enterprising jewel thief thinks differently.

In addition, only cut and polished diamonds are really effective as capital flight vehicles. Even the most adroit trader in rough finds it difficult to guess a stone's ultimate value – amateurs usually lose their shirts. If, just before 9/11, al-Qaeda had really shifted its supposed assets from traceable forms into things like diamonds that were nicely anonymous and easy to move, its supposed financial managers made a dumb move. During the latter part of 2001, a glut drove down prices of some leading categories by 30 percent. In that case, the involvement of al-Qaeda in conflict diamonds is presumably something the world's

anti-terror experts ought to welcome, for it would work faster than investments in Sudanese agribusiness to deplete Usama's fabled fortune.

Not least, the entire "conflict diamonds funding terrorism" tale misses a key point about the structure of the underground diamond business. Rarely do insurgent groups actually control diamond mining. As with virtually all other forms of contraband, they control the areas in which production occurs or across which traffic runs. Their major gain comes not from direct participation, though particular individuals might do so on their own account, but from taxation. Rebel groups manage through military power (which neither al-Qaeda nor Hizbullah could possibly muster in sub-Saharan Africa) to impose import and export duties, license fees, transportation surcharges, and, in some cases direct bribes for particular officers. In other words, the insurgents form the quasi-public infrastructure within which the diamond trade is run by experts and industry insiders much as before any guerrilla group takes over. In the case of diamonds, some wandering mujahideen type is not likely to be in a position to cut much ice, so to speak.

Nonetheless the campaign was a great success. The NGOs, peddling a mishmash of half-truths, unsubstantiated rumors, and spook disinformation, got their certification schemes, which gave officials of corrupt and repressive governments a pretext to knock out independent miners and turn concessions over to kin and cronies. De Beers had its market power confirmed. National security types got to reinforce their bin Laden myth. And the US took advantage of the tale to assign a Treasury official to work with banks in the Sahel region of Africa to disrupt terrorist operations in diamonds and in gold. On the other side, innocent people were smeared with association with terrorism and anti-Arab stereotypes further entrenched. But that was just more unfortunate collateral damage of the sort that any war, including one on terrorism, inevitably produces.

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