

# Results of the Government Diamond Office Consultation on the Kimberley Process Certificate Fees

## Introduction

1. The consultation on the Kimberley Process Certificate Fees ran from 13<sup>th</sup> March to 27<sup>th</sup> March 2014. This document is the post-consultation report by the Government Diamond Office (GDO). It covers:
  - a. the background to the consultation
  - b. the response to the policy options
  - c. conclusion and policy decision

## Consultation approach

2. The consultation was advertised on Gov.uk. It was sent electronically to the GDO's contacts inviting them to participate. Paper copies were sent to diamond trading companies known to the GDO without an email address. The consultation questionnaire contained four open questions with space for free text for an answer.
3. We would like to thank all those who took the time to respond to the consultation document. You can download the consultation document and a copy of this report from our website.

## Characteristics of Respondents

4. It is not possible to determine the exact number of people who viewed the consultation documents. The GDO received thirteen responses. Those that responded represented companies and organisations across both the public and private sectors, with the largest group represented by the rough diamond industry.

*Table 1. Response to the consultation by organisation type*

<b>Organisation type</b>	<b>Number of respondents</b>
Consultancy firms	1
Diamond companies dealing with gem quality and industrial diamonds	11
Educational establishments	1

## Background

5. In light of the UK's largest diamond company, De Beers, moving its operations to Botswana in October 2013, and the reduced number of certificates that will be issued as a result, the GDO will be unable to recover the full cost of issuing certificates

under its current fee structure. The GDO needs to address this shortfall, in order to continue to maintain an effective service for the rest of the UK rough diamond industry and to manage public money in line with Government's best practice on fee charging. The GDO has therefore carried out a review of its charging structure.

6. The consultation document was published on the 13<sup>th</sup> March 2014 and invited comment on three policy options.

7. At present, the GDO currently charges exporters a fee for issuing Kimberley certificate by shipment value, within one of three ranges:

£10 per certificate	Value of Shipment between \$0-\$10,000;
£15 per certificate	Value of Shipment between \$10,000-\$100,000;
£25 per certificate	Value of Shipment above \$100,001.

8. The consultation period closed on 27<sup>th</sup> March 2014. This report summarises the responses received.

### **Response to the Policy Options 1-3.**

**Option 1:** Replace the current charging structure with one flat fee per certificate.

#### Consultation responses

9. Eight respondents agreed with this option. Two of these saw merit, but argued that it would not be workable for low value shipments under \$5,000 or for organisations who occasionally export rough diamonds.

Five respondents disagreed with this option:

- Two of these suggested that the GDO develop a new pricing structure which sets a wider range of tiered fees according to the shipment value.
- One respondent felt that the proposed flat fee was too high compared to other countries.
- One respondent felt that the cost of the certificate was more than their profit margin for certain shipments and argued that the fee would have negative consequences and goes against the KPCS. They further commented that the cost per certificate would be high for companies dealing with lower grade diamonds and that the impact would be felt more by these companies.

**Option 2:** Maintain the current fee structure.

#### Consultation responses

10. Five respondents agreed with this option:

- Two of the five respondents recommend a wider graduated scale for fees for shipments.

- One respondent commented that that the Government should provide the additional funding in support of the UK diamond industry.

**Option 3:** Withdraw the GDO's service altogether.

Consultation responses

11. All the respondents disagreed with this option:

- Many felt this option would increase costs, i.e. security, insurance and the transportation of the diamonds from the UK to one of the other five CAs in the EU for inspection.
- Some respondents expressed doubts about whether the other five CAs could resolve problematic shipments quickly, including correcting certificates with errors. They further commented that shipments were time sensitive, therefore inspecting goods for importing and exporting outside the EU would cause delays and that customers may seek to purchase their diamonds from another country as a result.
- Others felt that this option would make it extremely difficult to expand their business outside the EU and compete with competitors overseas.
- One respondent argued that the increased cost in administration and delivery time would significantly reduce the competitiveness of the UK and jeopardise its economic contribution to the UK economy.

**Are there any alternative solutions, or do you have any other comments?**

12. Four respondents offered alternative solutions. These are set out below, with our response:

a. Proposal One: To extend the shipment per values to the following:

£10 per certificate	Value of Shipment between \$0-\$5,000;
£25 per certificate	Value of Shipment between \$5,001-\$20,000;
£40 per certificate	Value of Shipment above \$20,001 - \$50,000;
£75 per certificate	Value of Shipment above \$50,001.

Our response

The GDO tested this option against the number of certificates issued at each proposed shipment value in 2013, which produced a total annual income of £16,670.

Cost of certificate	Shipment Value	Number of certificates issued	Potential Income
£10	\$0-\$5,000	95	£950
£25	\$5,001- \$20,000	214	£5,350
£40	\$20,001 - \$50,000	113	£4,520
£75	\$50,001 plus	78	£5,850
		<b>500</b>	<b>£16,670</b>

The GDO requires an annual income of £18,400 to recover the costs of issuing certificates. The projected income of £16,670 from this proposal would only meet 90% of the shortfall in the GDO's income; this would require the Government to fund the additional cost from public funds. It currently costs the GDO £37 to issue one certificate, regardless of the shipment value. Charging the two proposed higher fees of £40 or £75 for this service would not be in line with the Government's best practice on Managing Public Money.

- b. Proposal Two: Merge the GDO's overheads with another government department to reduce overheads.

Our response

The cost of the certificates is based on the salaries and overheads attributed to issuing certificates and cannot be reduced. The FCO funds the overheads for GDO work for which we do not charge: inspections, UK representation within the KPCS and related policy work.

- c. Proposal Three: Increase the fees in steps, for example, £5 each year for each value of shipment.

Our response

The GDO tested this option by increasing the current shipment by value by £10. The figures used in this calculation are based on the number of certificate requests per shipment value in 2013 with the following results, which produced an annual income of £14,395:

Cost of certificate	Shipment Value	Number of certificates issued	Total Income
£20	\$0-\$10,000	207	£4,140
£35	\$10,0001-\$100,000	261	£9,135
£35	\$100,000 plus	32	£1,120
		<b>500</b>	<b>£14,395</b>

The GDO requires an annual income of £18,400 to recover the cost of issuing a certificate. The projected income in this option would meet 78% of the shortfall in the GDO's income; this would leave the FCO having to fund the additional cost from public funds. This would not be in line with Government's best practice on Managing Public Money.

- d. Proposal Four: "Charge non Bourse members a premium for the cost of certificates. The London Diamond Club self regulates the diamond industry and cost the GDO less to issue a KP certificate than a non bourse member".

Our response

Non Bourse members' requests for certificates takes more time to process as they are required to provide conclusive evidence of their shipments lawful import into the EU, before a KP certificate is issued. The evidence can be in the form of a purchase invoice, record of a bank transfer and a copy of the Kimberley Process certificate. Under the System of Warranties of the EU Regulation (EC) No 2368/2002, Bourse members benefit from a **fast-track scheme**, which enables them to obtain a KP

Certificate for export by relying on the warranty statement alone on invoices, without providing conclusive evidence of its lawful import into the EU. Their invoices must contain the following declaration:

*“The diamonds herein invoiced have been purchased from legitimate sources not involved in funding conflict and in compliance with United Nations resolutions. The seller hereby guarantees that these diamonds are conflict free, based on personal knowledge and/or written guarantees provided by the supplier of these diamonds.”*

This enables the GDO to process Bourse members’ requests more quickly.

### **Summary of responses**

- A total of thirteen responses were received.
- 62% of the respondents agreed with option 1.
- 38% of respondents disagreed with option 1.
- 38% of respondents agreed with option 2.
- All the respondents disagreed with option 3.
- Four respondents offered alternative solutions. These were tested by the GDO, but were not found to be suitable, as they did not address the shortfall of the GDO’s income and were not in line with the Government’s best practice on charging for services.

### **Conclusion and Policy Decision**

13. The responses we have received to this consultation have helped to inform the GDO in deciding how to address the shortfall in income. We have concluded the following:
  - We recognise that withdrawing the GDO service (option three) would have a negative impact on the rough diamond industry, in that it could lead to an increase in costs, and make it more difficult to do business.
  - We understand that some respondents consider that the proposed flat fee of £37 (option one) to be too high, especially for low value shipments and for organisations who only occasionally export rough diamonds.
  - We have tested alternative options proposed by respondents, to introduce a wider range of tiered fees according to the shipment value, but have concluded that the income generated would not meet the shortfall in the GDO’s income; this would leave the FCO having to fund the additional cost from public funds. Tiered fees would not be in line with the Government’s best practice on charging for services.
14. We have not increased our fees since 2004 and at the time, a commitment was made to move the GDO towards full cost recovery of issuing certificates. It is vital that we set our fees at a level which ensures that we have sufficient income to continue to provide this service. If we do not increase the fees, then the GDO will have to significantly reduce the activities funded by the FCO, i.e. inspections of imports and exports, audits of rough diamond companies, both obligations under EU Regulation, and UK representation at KP Plenary meetings, in order to subsidise the drop in income from issuing certificates for the UK diamond industry.
15. Given the overarching need to bring the GDO’s charging structure into line with the Government’s best practice on charging for services, we have therefore decided to implement option one – to charge a flat fee for a certificate, which will meet the full

cost of providing the service. On current calculations, our best estimate comes to £37 per certificate, in line with the proposal set out in the consultation document. The new fee will be introduced from June 2014. This fee will be reviewed annually, to ensure that full cost recovery of providing the service is still being achieved.

16. The GDO will continue to offer a high level of service to industry and the FCO will continue to fund the overheads for GDO work for which we do not charge: inspections, UK representation at KP Plenary meetings and related policy work.

Further copies of this report and the consultation paper can be obtained by contacting:

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