

September 17, 2004

Looking to Africa to Polish Its Diamonds

By Nicole Itano, The New York Times

GABORONE, Botswana, Sept. 16 - Eurostar Diamond Traders, the large diamond company based in Belgium, broke ground here this week in Botswana's capital city on what will eventually be the largest cutting and polishing factory in Africa.

Forty Botswana workers are already being taught the delicate skill, and by 2008, the three-story, \$6 million building will house 1,000 workers in an industry that has been slow to come to southern Africa despite the region's diamond wealth. Although five of the top seven diamond-producing countries are in Africa, most of the world's diamonds are polished elsewhere. India, the world leader, employs 800,000 to 1 million people in polishing.

But increasingly, African countries are asking why the jobs have gone elsewhere.

"There's a political point and an emotional point," said Martin Rapaport, the editor of *The Rapaport Diamond Review*. "They're saying, 'We have these resources as Africans, why are we not able to capitalize on the beneficiation on these resources in our possession?' But they're also saying, 'Why are Indians cutting African diamonds?'"

Although small diamond-cutting factories have been in southern Africa for decades, the industry has struggled. Most of the region's rough diamonds have been controlled by the privately owned De Beers Group, which routed most diamonds through London and gave no preference to cutters in diamond-producing countries.

But that may be changing. Analysts say that De Beers may have urged Eurostar to put a factory in Botswana as a way of maintaining its ties to the government and its diamonds.

"De Beers is interested to show that they too can create jobs," Mr. Rapaport said. "Eurostar is a big company relying on De Beers. De Beers is now biting the bullet and saying, 'We will support people who cut in Botswana.'"

De Beers, which has recently been readmitted into the United States after pleading guilty to price fixing and paying a \$10 million fine, has dominated global diamond mining and bought whatever supplies of the rough stone it could, wielding almost absolute control.

The company sold the uncut gems in packets to invited clients, known as sightholders, and buyers took what De Beers offered or risked losing all access to rough diamonds.

But changes in the industry have adjusted the playing field. Most important, although De Beers continues to dominate production in southern Africa, it no longer controls the

industry as a whole. In the last two decades, De Beers's control over the market has slipped as it lost control of valuable diamond fields in places like Russia and Angola.

Today the company controls about 55 percent of the world's rough stones.

That loss of market dominance has encouraged African governments to demand more from the mining giant and its rivals, like the Israeli dealer Lev Leviev, who recently opened a 550-worker cutting and polishing factory in Namibia.

In recent years, several major diamond-producing nations in Africa have changed or are in the process of reviewing their diamond laws to give some preference to local diamond polishers.

In 1999, Namibia - whose diamonds are considered among the highest quality in the world - inserted a clause in a new law allowing the government to force miners to sell a percentage of their diamonds to local polishers. That law has never been invoked, but several entrepreneurs have established factories in Namibia in hopes that it soon will be.

Mr. Leviev's factory gets diamonds from his mines, in Namibia and elsewhere. Mr. Leviev also has mining interests in Russia and Angola.

In South Africa, legislation under discussion would impose a 5 percent export tax on diamonds that are not cut locally.

And analysts say that Botswana wants more cutting as part of the package as it renegotiates its agreement with De Beers, with whom it owns Debswana, the world's largest diamond producer by value.

The opening of the Eurostar factory in Gaborone, Mr. Rapaport and other analysts say, is a sign that the battle for control of Botswana's rough diamonds is heating up. Most previous diamond-cutting factories in the region were small. Now, major diamond buyers like Eurostar are investing large amounts in southern Africa.

Mr. Leviev, a maverick in the industry, has promised to create tens of thousands of jobs in Botswana if he receives direct access to rough diamonds, which would end De Beer's monopoly over the country's diamonds. He has made similar promises to Namibia.

The opening of the Eurostar factory, whose owners are important De Beers clients and whose new factory is backed by De Beers itself, is seen as an attempt by the diamond producer to fight back and show that it, too, can provide polishing jobs.

Emma Muller, editor of PolishedPrices.com, a diamond information service, said, "It's a power game between De Beers and the South African government, the Botswana government and the Namibian government."

Increasingly, she said, cutting and polishing are "a political demand that every producer is going to have to listen to."

For its part, De Beers once argued that cutting and polishing in source countries was not feasible, but has evidently changed its opinion.

"De Beers increasingly realizes how important it is to respect the entirely reasonable and justified demands by the governments of Botswana and Namibia to create beneficiation jobs," said Gary Ralfe, De Beers managing director, at a news conference after the groundbreaking for Eurostar.

But Mr. Ralfe warned that the desire to create jobs should be balanced against the need to keep strong global demand and high prices for rough diamonds.

Building a successful diamond polishing industry in Africa will take more than political will, analysts warn. At least six diamond-polishing factories have been established in Namibia in recent years as well as several more in Botswana and South Africa. Although the privately held companies are not required to release financial data, analysts say many have struggled and several have closed.

Still, with global overcapacity in diamond-cutting and a shortage of rough diamonds, success in the polishing industry will increasingly depend on access to high-quality rough diamonds. Both De Beers allies and competitors are increasingly betting that diamond-producing countries like Botswana will exert increasing control over their natural resource.

"What Leviev is doing, which is very scary for the diamond establishment, is saying, 'You give me the diamonds and I'll give you jobs,' " Mr. Rapaport said. "Either De Beers will compete and also bring their sightholders in and create jobs, or they'll lose out. Either way, Indian cutters have a problem."

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