



THE ROLE OF  
DE BEERS AND  
SOUTH AFRICA  
IN THE  
DIAMOND INDUSTRY



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**T**HIS memorandum outlines the role of De Beers and its leading position in the international diamond industry. It is designed to give a brief overview of the “diamond pipeline” that leads from prospecting and mining of diamonds in remote parts of Africa and elsewhere to glamorous jewellers’ shops the world over. It looks particularly at the unique and important role South Africa plays in the diamond pipeline.

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**THE DIAMOND BUSINESS** is concerned with fulfilling a deep psychological need. Diamonds are a pure luxury, offered for the most part as a gift of love, and as a symbol of permanence in human relationships. In some parts of the world they also symbolise achievement and success. Many other luxury products such as cars, overseas holidays, and bigger and better houses compete vigorously for market share, but a diamond remains the ultimate gift, to a loved one, or to oneself!

### **THE SIZE OF THE DIAMOND JEWELLERY BUSINESS**

It is estimated that in 1994 more than 56 million pieces of diamond jewellery were sold around the world. Buyers spent some \$45 billion on diamond jewellery. The value of the diamonds in the jewellery was some \$9.5 billion. Americans and Japanese are the main buyers, while new consumer markets for diamond jewellery in the Pacific Rim countries, and in India, Turkey and the Middle East are fast developing. Although demand is currently sluggish in Europe, the great European capitals remain important centres for diamond jewellery design and for leading the way in fashions in diamond jewellery.



### **WHERE DO DIAMONDS COME FROM?**

Diamond is the crystallised form of pure carbon, one of the earth's basic elements. Diamonds were formed under conditions of great heat and pressure, deep inside the earth, some of them as much as 3.5 billion years ago. This means they were formed at the earliest stages of the development of our planet, which is estimated to be some 4.5 billion years old. They come from deep down, around 200 kilometres from the surface of the earth. Carried to the surface by volcanic eruptions millions of years ago, they are found mainly in a rock called kimberlite which forms carrot-shaped 'pipes' in the ground – the sites of the mines we know today. In some cases the pipes have been weathered and their diamonds dispersed by the action of rivers to far-lying areas, such as the coast of Namibia, and the west African alluvial deposits.

### **TYPES OF DIAMOND**

Broadly speaking, diamonds can be divided into two kinds: 'gem', used in jewellery; and 'industrial' diamonds, which because of their inferior quality or undesirable colour cannot be sold as gems.

Currently, there are only some 21 working diamond mines in the world; this is fewer than half of one per cent of all known kimberlite pipes so far discovered. Each mine produces its own particular range of qualities of diamonds. In South Africa, and in partnership with the governments of Botswana and Namibia, De Beers is invested in mines which produce around half

the world's gem diamonds by value, and over a quarter by weight. Gem diamonds can vary in colour from pure blue-white, the most desirable, through pale yellows and browns, to the rarest pink and blue diamonds.

## INDUSTRIAL DIAMONDS

Since diamonds are the hardest natural substance known, they are prized in industry for cutting, grinding, polishing, wire making, drilling and many other technical and scientific applications. The value of natural industrial diamonds can be less than one US dollar a carat, compared with many hundreds of dollars a carat for gem diamonds.

Most diamonds used in industry today however are not natural but produced by synthesis. De Beers leads the field in the manufacture of synthetic diamond products specially designed for different industrial needs, with factories in Gauteng, in Ireland and in Sweden.



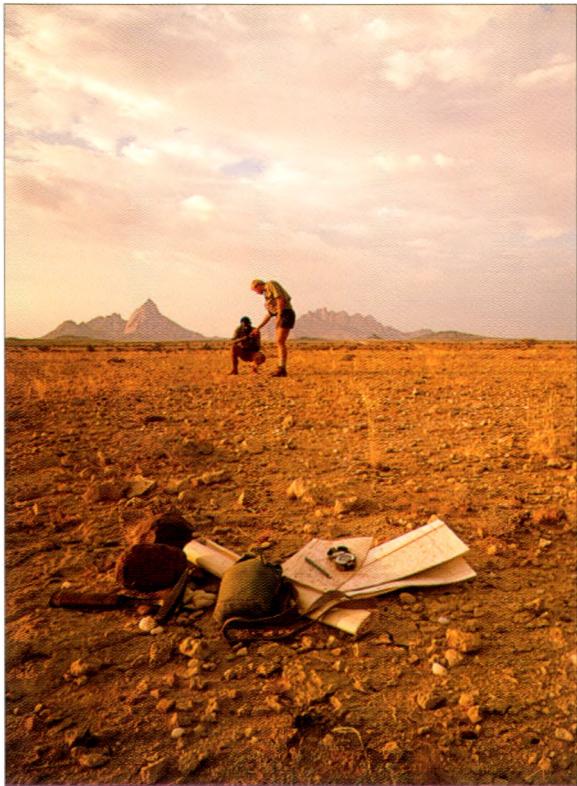
*A rough gem diamond in kimberlite*

## A WORD ABOUT CARATS

The carat is the universal unit of weight for diamonds. One metric carat equals one fifth of a gram. The word carat is derived from the carob tree, whose seeds, being unusually regular in weight, were used by merchants to weigh their diamonds in ancient times. The diamond industry today uses highly sensitive electronic scales to weigh diamonds. The custom of the diamond trade is to price diamonds in US dollars, so that for rough diamonds the common denomination is dollars per carat. The grade of a mine is expressed in carats per 100 tons (metric) and the value of a mining operation is rated in dollars per ton.

## PROSPECTING FOR NEW SOURCES

To maintain its leading position in what has become a highly competitive business and to be ready to meet increases as they occur in demand for diamonds, De Beers is continuously active in the search for new diamond deposits. Using the most advanced technology, De Beers prospects for diamonds on four continents, employing some 200 geologists in ten countries. Once identified, potential diamond sources are carefully assessed to determine their potential yield, and importantly, their economic viability. It would not be worth developing a mine if the value of the diamonds in it was less than the development and mining costs! De Beers geologists have identified thousands of kimberlite pipes in South Africa and elsewhere, as well as the technically challenging marine deposits on the sea bed off Namibia and South Africa's own west coast. Unfortunately, very few pipes contain diamonds in economic quantities and so are unlikely to be mined, but the details of them are all carefully recorded and reported to the responsible government authorities, which, in South Africa's case, is the Department of Mineral and Energy Affairs.



Prospectors at work in the desert in the search for indications of diamonds

The likelihood of a newly discovered diamond deposit proving to be a viable mine is remote. Worldwide, fewer than one in 200 of all known kimberlite pipes have developed into major mines, and there are only 21 working diamond mines in the world today.

Inevitably, some discoveries turn out to be on the margin of profitability, and these require considerably more careful evaluation than the rare discoveries, such as Jwaneng in the 1970s, that very quickly reveal they have the potential to become great mines, or those that are clearly uneconomic. The marginal discoveries often require re-evaluation over time, as diamond prices and mining methods and costs change. De Beers, therefore, wherever possible, prefers to retain the right of access to such discoveries in the hope of turning them to account at a later date. It can be a very painful and expensive process to develop and then have to close an uneconomic mine, leading to hardship among the workforce and considerable financial losses.

Anything between five and ten years is needed to develop a viable deposit into a world-class mining operation. As an example, De Beers' latest mine, Venetia, in the Northern Province, discovered in 1980, only came into full production in 1992 after a process that encompassed bulk sampling to establish a reliable data base, economic-appraisal studies and the updating of these as more cost-effective solutions were found. These were followed by a detailed feasibility study, the negotiation of tax and other matters with the authorities, and a tightly defined construction programme. De Beers incurred capital expenditure of nearly R1 billion to bring it into production.

## EARLY DISCOVERIES AND THE FORMATION OF DE BEERS

Diamonds were first mined in India over 4 000 years ago. In the eighteenth century, Brazil became the main producer, but it was not until the mid-nineteenth century, with the discovery of diamonds in 1866 near Hopetown, south of what became the city of Kimberley in South Africa, that the modern diamond industry was born.

The 1870s and 1880s in the Northern Cape saw an unprecedented rush to the newly discovered diamond fields. Diggers and prospectors came from all over the country, and from abroad. Soon the terrain was transformed into a landscape of pits which became deeper and deeper, as diggers dug their way into the rock which they knew contained diamonds. Eventually, claims literally collapsed into one another, and the holes grew larger. From this rush, only two companies emerged as dominant in the area: The Kimberley Central Mining Company and the De Beers Mining Company, which had been named after the De Beer brothers, on whose land the first diamond rush had taken place. The consolidation of the two companies in March 1888 resulted in the creation of De Beers Consolidated Mines Limited, the company which today, 108 years later, retains its head office in Stockdale Street, Kimberley.

The amalgamation of these two great diamond mining companies made it possible to design and conduct mining operations systematically and economically, and also to lay the foundation of the principle of single-channel marketing, which existed then through what was known as the 'London Syndicate'. London had been the world centre for the trade in uncut diamonds for over 250 years.

The opening up and development of the newly discovered Witwatersrand gold fields in 1896 was made possible by money and technical skills generated on the diamond fields in Kimberley. But it was the development of a thriving diamond mining industry in South Africa and associated developments in gold mining and resultant secondary industries that set the scene for the industrial development of South Africa.

## OTHER DISCOVERIES

In the decades which followed, other diamond discoveries were made in South Africa and beyond. It is of relevance to today's search for small-scale mining opportunities in South Africa that on the alluvial diamond fields of the Northern Cape and the Western Transvaal, (now the North West Province) a succession of rushes followed those at Hopetown and near Kimberley; notably in the 1920s and 1930s at Lichtenburg and Bakerville and near Mafikeng. Unfortunately for us today this means that the potential for new labour-intensive small diamond mines is very much reduced and the focus of the authorities needs to be on prolonging, wherever possible, the lives of existing mines that continue to provide employment. It is fortunate that some of the discoveries of the past century have been of rich diamond-bearing pipes capable of being mined at depth and, which, with careful management, will sustain economic activity for many years to come.

The Premier mine near Pretoria was discovered in 1902, and diamond deposits in the Belgian Congo (now Zaire) in 1906, the important alluvial deposits in Lüderitz in South West Africa (now Namibia) in 1908, followed by the Alexander Bay and Oranjemund deposits in 1930. These were followed by the Angolan deposits in 1912, deposits in the Gold Coast (now Ghana) in 1920, and Sierra Leone in 1930.

Dr John Williamson, a Canadian geologist, discovered the mine in Tanganyika (now Tanzania) which bears his name in 1940. Diamonds were found in Siberia in the mid-1950s. Finsch mine in the Northern Cape was discovered in 1961. The first Botswana (then known as Bechuanaland) discoveries, made by De Beers geologists, began at Orapa in 1967, followed by the richest mine of all, Jwaneng, in 1974. The Australians turned up the exceptionally high-grade Argyle pipe in 1979, and De Beers found the Venetia mine in the Northern Transvaal in 1980. De Beers has been at the forefront of developments in deep-sea mining off Namibia since 1991, and it is expected that Canada will join the ranks of diamond producers by the turn of the century.



*The "Big Hole", Kimberley, one of five mines in and around the city, three of which are still working today*



*De Beers' Venetia mine in the Northern Province is a R1 billion investment and a model of mining efficiency and modern technology*

## **THE SOUTH AFRICAN PRODUCERS**

De Beers operates several mines in South Africa – at Kimberley, Namaqualand, Finsch, Koffiefontein, Premier and Venetia. Production in 1994 from these sources was 10,2 million carats, putting South Africa fifth in the world league of producers by weight, after Australia, Zaire, Botswana and Russia.

## **DIAMONDS FROM OTHER SOUTH AFRICAN SOURCES**

Although it is the largest, De Beers today is only one of some 105 registered diamond mining companies in South Africa. In addition, there are some 1 820 private producers employing on average 5 to 10 people each. Around 625 000 carats of diamonds, some 6% of the country's production, come from sources other than De Beers. State-owned Alexkor at Alexander Bay in Namaqualand, formerly known as the State Alluvial Diggings, is an important producer, as is Trans Hex (part of the Rembrandt group). There are alluvial deposits being mined on the Vaal and Harts rivers, in Lichtenberg and Ventersdorp. A Producers' Committee meets quarterly under the chairmanship of the Director-General of Mineral and Energy Affairs to share information.

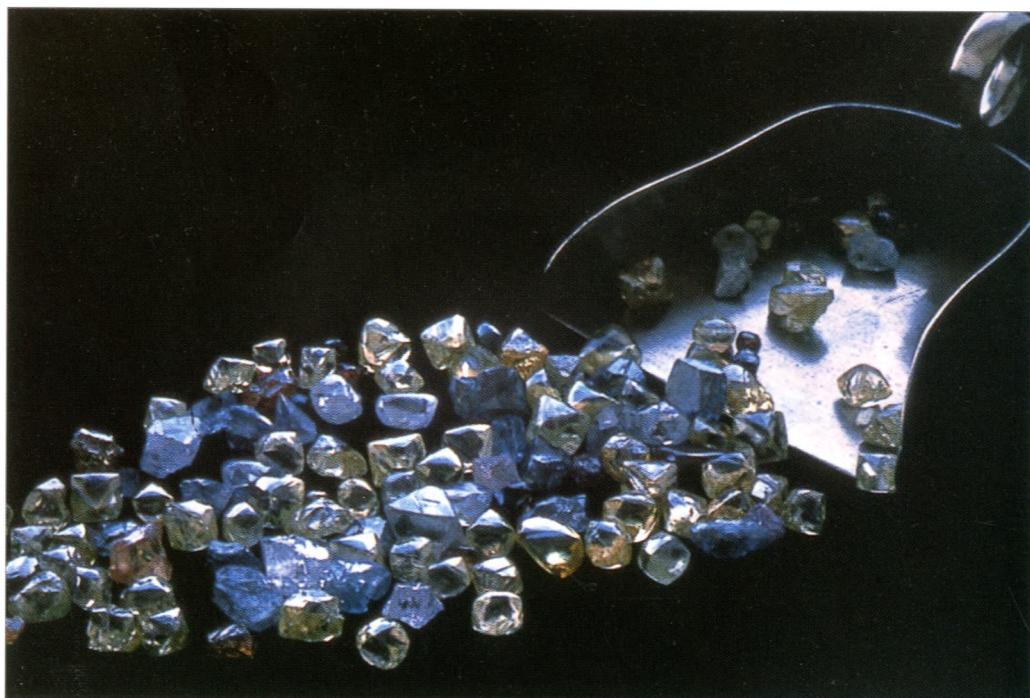


## Location of De Beers Group Diamond Mines

## SOUTH AFRICAN DIAMOND PRODUCTION BY TYPE OF DEPOSIT (IN CARATS)

Year	Kimberlite	%	Alluvial	%	Marine	%	Total
1980	6 703 479	78,7	1 771 847	20,8	45 002	0,5	8 520 328
1981	7 935 411	83,3	1 550 291	16,3	40 175	0,4	9 525 877
1982	7 781 231	85,0	1 339 535	14,6	32 120	0,4	9 152 886
1983	8 957 753	86,9	1 315 987	12,8	38 039	0,4	10 311 779
1984	8 740 847	86,4	1 332 370	13,2	47 496	0,5	10 120 713
1985	8 916 321	87,4	1 241 612	12,2	48 003	0,5	10 205 936
1986	8 995 626	88,0	1 193 699	11,7	37 638	0,4	10 226 963
1987	7 686 011	84,9	1 323 868	14,6	41 113	0,5	9 050 992
1988	7 217 812	84,9	1 216 178	14,3	70 026	0,8	8 504 016
1989	7 784 571	85,4	1 264 546	13,9	66 763	0,7	9 115 880
1990	7 380 112	84,7	1 198 055	13,8	130 064	1,5	8 708 231
1991	7 040 677	84,0	1 210 304	14,0	169 803	2,0	8 431 389
1992	8 759 236	86,0	1 274 413	13,0	143 634	1,0	10 177 283
1993	9 365 367	91,0	867 062	8,0	91 596	1,0	10 324 025
1994	9 816 957	90,4	946 919	8,7	89 777	0,9	10 853 653
1995 (1st half)	4 261 312	88,8	478 380	10,0	58 792	1,2	4 798 484

Source: Minerals Bureau of South Africa



# *The Marketing of Gem Diamonds*

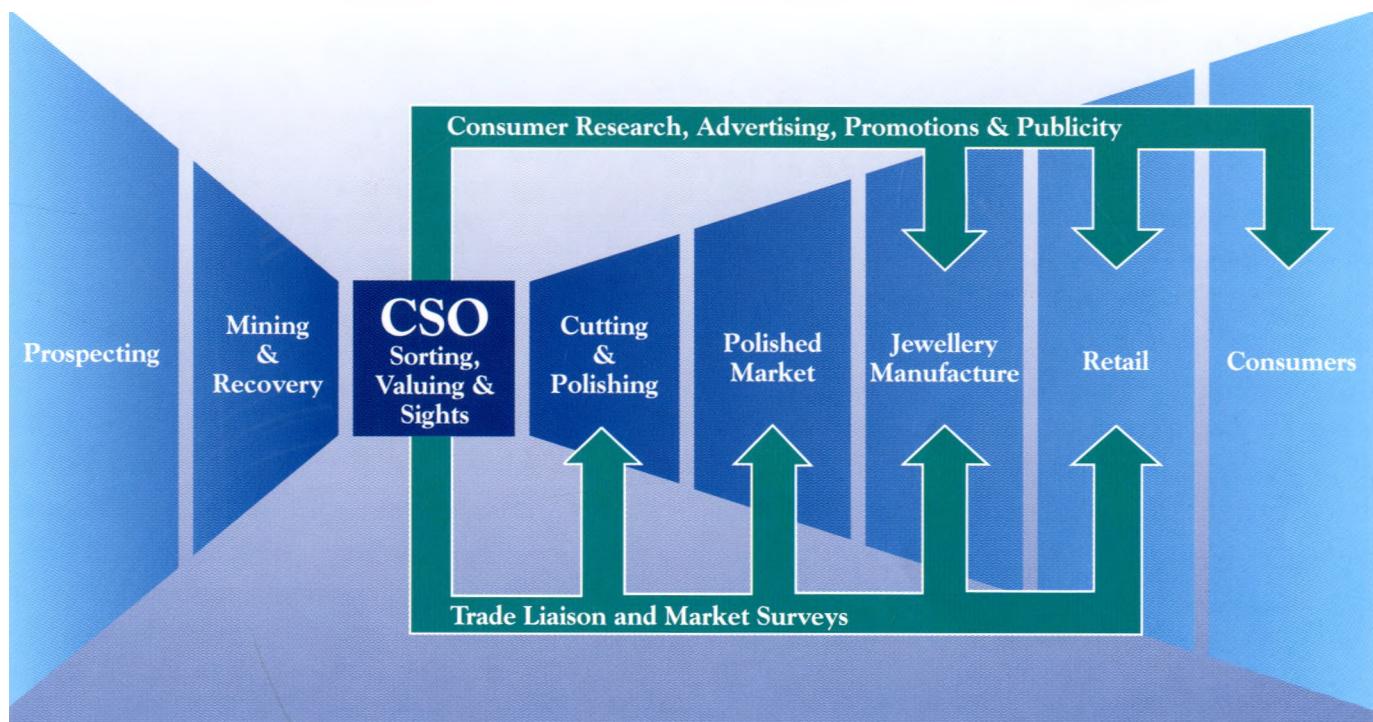
## **FORMATION OF THE CENTRAL SELLING ORGANISATION**

In the late 1920s, the diamond industry was in a catastrophic state with too many diamonds and too few buyers. Each new discovery caused fear of oversupply and falling prices. It was in these conditions that Sir Ernest Oppenheimer was appointed to the board of De Beers in 1926. Appointed Chairman in December 1929, he set about organising the diamond industry, particularly the marketing of uncut diamonds, into the shape and form we know today.

As a result of Sir Ernest's energy and genius, the diamond market since the 1930s has been characterised by exceptional stability relative to the markets for other minerals.

The reason for South Africa's continuing central role in the world diamond industry is De Beers' role, unique in a mining company, in providing the financial resources and technical skills for the marketing of most of the world's uncut gem diamonds. De Beers' marketing arm is known as the Central Selling Organisation (CSO). The CSO is based in London, long the historical centre for the distribution of rough diamonds, where it is easily accessible to its European, American, Indian and Israeli customers, and from where it can keep in touch with the major consumer markets for diamond jewellery.

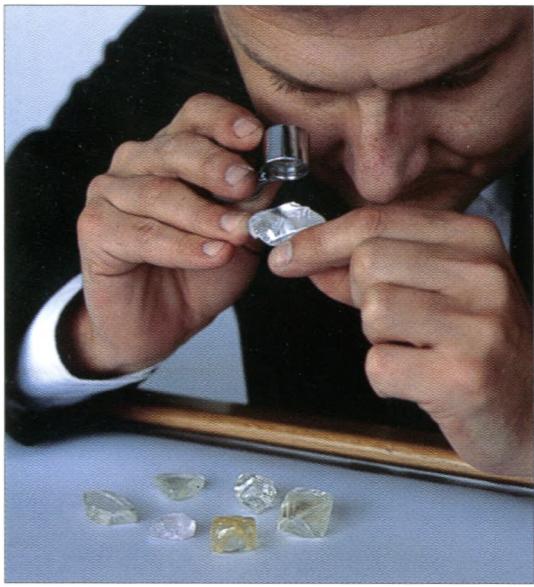
## **THE DIAMOND PIPELINE**



## **THE RÔLE OF THE CSO**

The CSO has three key functions:

- 1) to purchase rough diamonds from producers and to sell them to diamond cutters and dealers from the various cutting centres around the world;
- 2) to maintain the financial resources necessary to hold in inventory those diamonds which are temporarily surplus to the market's requirements; and
- 3) to advertise and promote diamond jewellery.



A large gem diamond being inspected at the CSO's offices in London

## A BRIEF HISTORY OF THE CSO

At a time when individual producers were fighting for market share in a volatile market, which had shrunk rapidly after the stock market crash of 1929 and the Great Depression which followed, the achievement of Sir Ernest Oppenheimer (chairman of De Beers 1929-57) was to recognise the need for a marketing structure to restore confidence. His idea was to unify the major producers of the day and the London syndicate into one organisation, and to use this body to buy up all the diamonds the mines could produce, and sell them at a rate the markets could absorb. Diamonds surplus to requirements would be kept in stock, until demand increased. This policy remains the guiding principle of the CSO today.

## HOW DOES THE CSO WORK?

In normal times, around 80% of all the world's diamonds pass through the CSO's single channel marketing system. The CSO buys diamond production from all the world's major producers: South Africa, Angola, Australia, Botswana, Namibia, Russia, and Zaire. Diamonds from these sources are sorted into some 5 000 categories based on combinations of size, shape, colour and quality. Each stone is valued according to its individual characteristics at the current CSO selling price for that category. The diamonds are then purchased by the CSO for cash at the selling price less 10%, which covers sorting and inventory costs, and the important functions of market research and consumer advertising. In recent years De Beers has developed mechanical aids to sorting, but the human eye remains the best evaluation tool, and some 600 highly skilled sorters are employed by the CSO in London, South Africa, Botswana, Namibia and elsewhere to ensure that sorting is consistent.

One of the most important benefits to a producer is that the CSO's contracts guarantee that it will buy from the producer at prices identified in a price book that covers all the categories in the assortment, even if it cannot sell all the diamonds in each category immediately. Since its inception, the CSO has paid prices which are the highest the market can bear. It regularly reviews prices, and if certain categories of polished diamond are in particular demand, and this demand looks to be sustainable, then it will increase the price it pays to the producer for the equivalent rough diamonds.

## THE NEED FOR BALANCE

Why is such a system necessary today? Simply because diamonds are not just a commodity, like oil, coal, gas or wheat. They are not essential to life, and both supply and demand can be erratic.

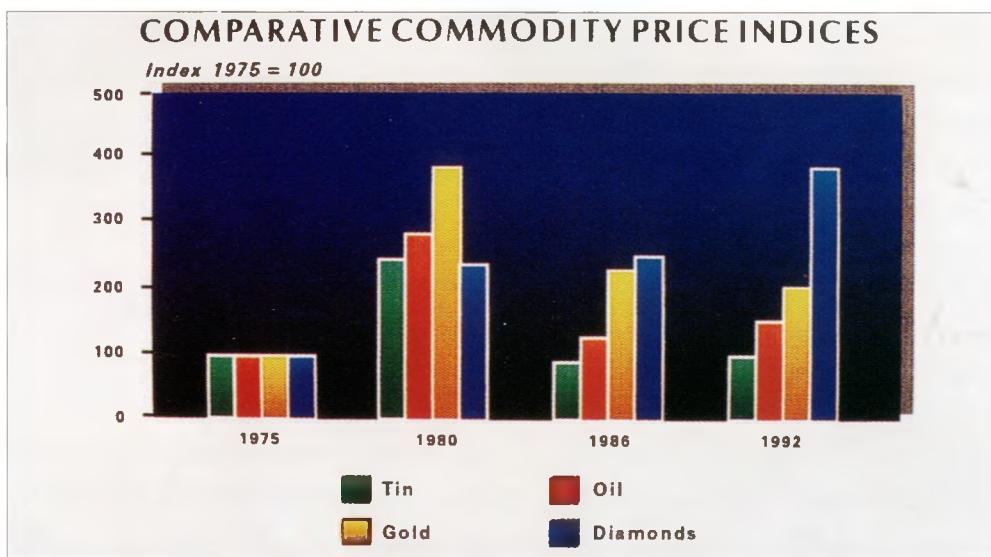
### CSO AVERAGE PRICE INCREASES 1986 - 1995

Date	Average Price Increase
April 1986	7,5%
November 1986	7,0%
September 1987	10,0%
May 1988	13,5%
March 1989	15,5%
March 1990	5,5%
February 1993	1,5%
November 1995	5,0% (on + 2 carat gem)

Source: CSO

Left unchecked, the price of diamonds could veer dramatically up when the world's economy is booming and demand for luxury products is high, or down as new mines open, or as new sources temporarily appear, such as the illicitly mined Angolan diamonds which flooded the market in 1992.

The reasons why the CSO has continued to survive as the only single-channel marketing organisation of its kind when Cipec (copper), Opec (oil) and the International Tin Council have fallen by the wayside are precisely because of its strong financial resources, backed by efficient private enterprise in the form of De Beers; the CSO's unique skills and experience acquired over 60 years in dealing with what is a pure luxury product; and because gems at the end of the day cannot be, and are not, traded like bulk commodities.



*Under the stewardship of De Beers, diamond prices have avoided the wide price fluctuations that have adversely affected other commodities*

## SORTING AND VALUING

Before being exported to London, all diamonds from De Beers' South African mines are sorted and valued in accordance with the CSO's assortment and price list in Kimberley. The important productions from Namibia and Botswana are likewise sorted and valued at the CSO's offices in Windhoek and Gaborone respectively.

Once the valuation of the production being sorted at any one time has been approved by independent government valuators in each national centre, the diamonds are shipped to London.

To ensure that standards of sorting and valuation are kept high and consistent, the CSO and producers jointly hold master 'samples' of diamonds for each of the world's productions. These are used by government-appointed valuators to ensure that dispute over valuations is kept to a minimum. Extra safeguards include the use of laser techniques to etch a reference number on to the surface of each stone in the master samples.

## DIAMOND 'SIGHTS'

Once sorted, the diamonds are blended category by category into a 'selling mixture' in preparation for sale at the ten annual sales or 'sights' which take place in the CSO's offices in London, Lucerne (Switzerland) and Johannesburg. The CSO has some 160 clients, all of whom are expected to be

financially sound leading major diamond cutters and polishers or dealers. During the early part of the sight 'cycle', the CSO's clients or 'sightholders' apply via their broker for the diamonds they require. The CSO's sales team does all it can to match these requirements with what is available from the mines, coupled with what is available from the CSO's stocks. In addition, the sales team regularly visits its clients' factories to keep itself closely informed of each factory's specialisation and needs.

Allocations also take into account diamonds already sold, polished diamond price trends, and general consumer demand. Each sight provides an opportunity for buyer and seller to exchange views on the market, and directors of the CSO and of De Beers are on hand to meet individual clients.

The CSO's clients come mainly from the four major cutting centres: New York, Antwerp, Tel Aviv and Bombay, with each centre, because of differing manufacturing costs, specialising in cutting and polishing different categories of diamond. The largest centre is India, which employs some 700 000 people in the processing of cheaper diamonds at a lower cost relative to other centres. Better qualities are traditionally manufactured in centres where more specialist skills are available. The manufacturing of diamonds is a highly skilled business, and is normally in the hands of family businesses, mainly Jewish and Indian, that pass their cutting and trading skills from one generation to the next.

### THE SOUTH AFRICAN DIAMOND CUTTING INDUSTRY

South Africa has had its own cutting industry for decades, founded originally by Jewish refugees from Europe in the 1920s. The original motive for the establishment of the South African cutting industry was the availability of regular supplies of diamonds of the qualities that could be cut locally at a profit. Not all diamonds can be cut and polished profitably in any one centre. Labour costs, and technical expertise and specialisation all contribute to the cost of cutting and polishing a diamond.

Since 1986, all South African producers have been obliged to offer *economically cuttable* diamonds for sale to local cutters or face an export duty of 15%. The South African mines, however, are no longer major producers of these particular qualities, and so in 1993 it was agreed, in terms of a change to Section 59 of the 1986 Diamonds Act, that supplies to South African factories could be provided from the CSO's full range of diamonds in London, from sources worldwide. An elaborate system, monitored by government through the South African Diamond Board, is in place to ensure that this is what happens.



A 'sight' taking place in London

Under the stewardship of the South African Diamond Board, production from De Beers mines is split at Harry Oppenheimer House in Kimberley into three categories referred to as "South African", "Conditional" and "Unconditional". The bulk of Unconditional goods (about 85% by weight), are those which are deemed by the Diamond Board to be unsuitable for polishing locally. South African goods (less than 5% by weight), are those which the cutters say are suitable for polishing locally. The balance of Conditional diamonds (some 10% by weight) comprises goods which the local cutters may wish to cut and polish, subject to market conditions.

Wisely or not, all stones of South African origin which weigh over 10,8 carats are reserved exclusively for South African cutters, as are stones known as 'fancies', which are stones of unusual and rare colour.

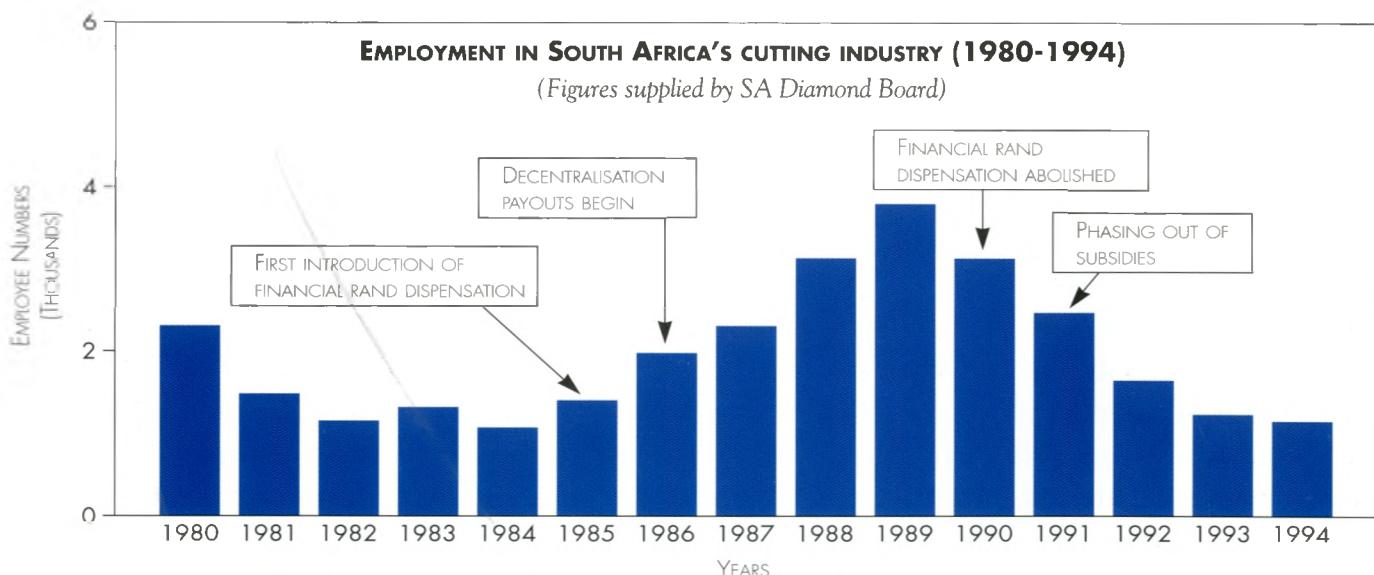
The advantages of the current system whereby diamonds are supplied from the CSO in London are:

- 1) the South African sightholders know they are being treated on a non-discriminatory basis, i.e. the same as other clients of the CSO;
- 2) supplies to the cutters are not limited by production from South African mines, and diamonds which South African mines do not produce are available to South African cutters;
- 3) conversely, the inclusion of the full range of South Africa's diamonds at the CSO gives increased stability and balance to the selling mixtures available to cutters in other centres; and,
- 4) although the CSO's pricing system cannot automatically guarantee profitability on every diamond sold, with the widest possible range of stones available to it, the South African industry is assured that given a sufficiently large range of sizes and qualities over a period of time, the whole is designed to be attractive, and profitable.

The significance of this is that in difficult market conditions, the South African cutters receive more of the diamonds they require than it would be possible to give them from South African production alone.

De Beers supports smaller South African cutting and polishing factories through a Johannesburg-based subsidiary, the Diamond Development Company (Diamdel). Diamdel is allocated a CSO sight on the same basis as other sightholders for this purpose, and supplements its sight by buying diamonds on the open market in South Africa. During 1995, Diamdel supplied diamonds to some 70 clients.

## EMPLOYMENT IN THE DIAMOND CUTTING INDUSTRY



Employment in the cutting industry has declined through 1993 and 1994 to about 1 500 today. There are a number of reasons for this:

- 1) the expansion of the cutting industry during the mid-1980s was an artificial by-product of government decentralisation grants, and widespread unofficial manipulation of exchange controls and the financial rand discount, the latter now having been abolished. This resulted in employment peaking temporarily in 1989 at around 3 800 workers;
- 2) the local industry has since retreated into cutting only larger sizes of diamonds, and therefore the number of cutters needed has decreased;
- 3) the falling level of activity has also been caused by a volume of rough diamonds being exported by sightholders without being processed;
- 4) the diamond industry, which is dependent ultimately on world economic conditions, has been suffering a recession; and
- 5) diamonds are easily transportable at low cost, so the viability of cutting them is dictated entirely by the productivity of the workforce, related to their rates of pay, as well as the factors mentioned above.



*Marking a large gem diamond prior to cutting*

### **ROUGH DIAMONDS FROM OUTSIDE SOUTH AFRICA**

Diamonds from outside the CSO's formal channels are also cut and polished in South Africa. Such diamonds provide the local industry with additional goods for processing locally.

### **GENERAL PRINCIPLES GUIDING THE CUTTING INDUSTRY**

De Beers supports diamond cutting in as many countries as can viably

sustain operations. Economic and commercial factors have evolved over the years influencing the guidelines for distribution of rough diamonds. The CSO endeavours to ensure that all sightholders are treated fairly in terms of these guidelines, taking into account:

- 1) availability of skills required among citizens willing to be employed at internationally competitive wage rates;
- 2) accessibility and physical proximity to international markets for trading of both uncut and polished diamonds;
- 3) presence of local commercial banks and other institutions experienced in the financing of the diamond industry;
- 4) the existence of private enterprise, generally family businesses, with sound capital bases, where profit motives dictate the efficiency and success of the cutting operation; and
- 5) a free regulatory and foreign exchange environment for manufacturing and trade.

These various factors have had an influence to a greater or lesser extent in three of the most important established cutting centres: Belgium (free economic environment), Israel (entrepreneurial flair) and India (low labour costs).

## MANUFACTURING COSTS

The cost of cutting and polishing diamonds in South Africa varies significantly between individual manufacturers, given the wide variations in wages, productivity and operating costs. In the range of smaller sizes, costs are estimated to be around US\$30 a carat, while larger sizes can cost US\$55 a carat to cut and polish. A major factor that is often underestimated is the capital-demanding nature of diamond manufacturing. Although initial costs, such as land, buildings and equipment can easily be estimated and allowed for, the financing of diamonds in process can push up capital requirements. As an example, the probable operating capital requirement of an operation employing 500 workers is estimated at up to US\$15 million, and rising, depending on the numbers employed and types of diamond worked.

## THE WORKFORCE

The increasing average age of skilled workers producing rough sizes of over two carats, the traditional size range of the South African cutting industry, is a matter of current concern. The Master Diamond Cutters' Association is however addressing the issue and will consider ways to increase employment in the industry. Given the widespread complaint of lack of profitability, some members of the South African industry have made an effort to increase productivity by reorganisation, either by introduction of new technology, increasing working hours or decreasing the number of staff.

## THE SOUTH AFRICAN DIAMOND BOURSE

Established in Johannesburg in 1987, the South African Diamond Bourse is empowered through the Diamonds Act of 1986. The bourse serves as a forum for the trading of uncut diamonds by authorised diamond producers, dealers and cutters. The bourse is financed by a levy charged on diamonds submitted for export; this is calculated on a sliding scale depending on the value of the diamonds. On average, this is around 0,5%. For a parcel of diamonds valued at over R1,5 million, the bourse charges a levy of 2%. However, to encourage these larger parcels to be split into smaller ones and sold in South Africa, and incidentally, not incur the 2% levy, the bourse makes no charge for parcels of diamonds sold in South Africa.

## POLISHED DIAMONDS

Polished diamonds are among the most sought-after of precious gems for use in jewellery. South Africa has a thriving jewellery manufacturing industry, and many of the diamonds produced, cut and polished in the country are used in magnificent jewellery and stay in South Africa. But the majority of diamonds polished in South Africa are exported. Exports are monitored through the Diamond Board, and in 1994, around R1 billion of polished diamonds were exported.

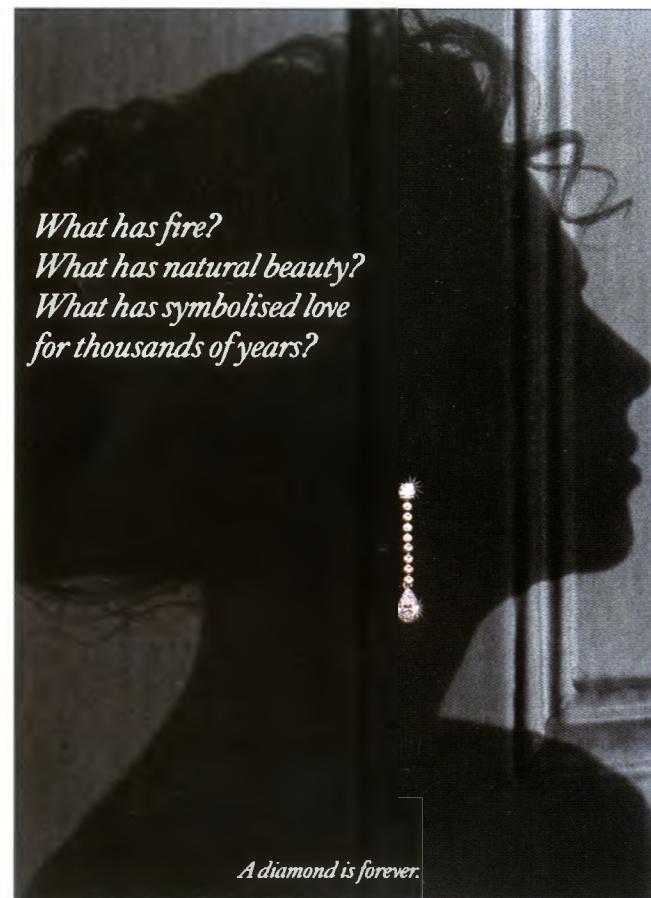
**RSA POLISHED DIAMOND EXPORT REVENUE, 1990 – 1994**

Year	Mass carats	Value R million
1990	556 244	1 199,6
1991	391 078	1 071,5
1992	262 949	890,0
1993	203 497	955,2
<b>1994</b>	<b>274 296</b>	<b>1 093,0</b>

Source: South African Diamond Board

## **“A DIAMOND IS FOREVER”**

In order to stimulate demand for diamond jewellery, De Beers conducts international marketing campaigns for diamond jewellery. De Beers began diamond advertising in 1939. Today, the slogan “A Diamond is Forever” is internationally known, and De Beers runs campaigns in more than 30 countries, and in over 20 languages. The campaigns, which promote diamonds as the ultimate gift of love, are based on research carried out by De Beers’ own researchers and from specially commissioned consumer and retailer studies. Over the years, these market research studies have become increasingly focused so as to reach new consumers and develop new markets. Campaigns are run by the J Walter Thompson advertising agency worldwide, including South Africa.



# What does De Beers mean for South Africa?

## WEALTH GENERATION

It is estimated that some 80% of shares in De Beers are held by South African institutions, companies or individuals. The flow of income to South African shareholders in the form of dividends was around R1 000 million in 1994. By virtue of De Beers' shares being linked to those of De Beers Centenary AG, the twin sister company established in Lucerne in 1990, shareholders also participate in that company's investments in the mines operated by Debswana in Botswana, by Namdeb in Namibia, and in Minorco, the Luxembourg-based international mining and industrial company in which it holds some 22,6%. De Beers' stock is heavily traded; some 40 million of its 380 million shares in issue were traded on the Johannesburg Stock Exchange alone during 1994, and it is also heavily traded in London and New York. De Beers is arguably South Africa's bluest blue chip stock, and it is considered by many foreign investors as a leading indicator for South Africa.

## A MAJOR INVESTOR IN OTHER SOUTH AFRICAN COMPANIES

De Beers' income from investments outside the diamond industry is fundamental to the company's ability to finance stocks of diamonds at the CSO, and to intervene to buy diamonds on the open market when this becomes necessary. In addition to its 38,5% holding in Anglo American Corporation, South Africa's biggest company, and its 24,8% holding in Anglo American Industrial Corporation (Amic), one of South Africa's biggest industrial holding companies, De Beers also invests directly in new non-diamond industrial and mining enterprises through syndication arrangements with Anglo American Corporation. A recent example is the R165 million invested directly in Anglo's Namakwa Sands operation on the Cape west coast.

## FOREIGN EXCHANGE EARNINGS

It is estimated that rough diamonds contributed some 5% of total mineral exports during 1993. After gold, platinum and coal, rough diamonds are South Africa's fourth largest mineral export.

## TAX REVENUE

In terms of taxation, diamond producers contribute to the Exchequer through mining company income tax, mining leases and employees' income tax.

**ACTUAL COLLECTIONS BY INLAND REVENUE**  
IN RANDS

Year	Diamond mines' income tax	Diamond mining leases	Diamond export duty
1987/1988	98 216 000	34 320 000	19 069 629
1988/1989	458 000	42 040 000	15 601
1989/1990	10 715 000	29 379 000	2 658
1990/1991	24 211 000	69 823 000	1 160
1991/1992	21 008 000	75 660 000	399
1992/1993	55 077 000	31 297 000	84
1993/1994	13 270 000	29 918 000	1 266

Source: SA Department of Finance : 1995 Budget Review, Table 3.  
These figures represent actual collections, during the above fiscal years in the Exchequer account.

## EMPLOYMENT

Directly employing some 9 000 people, De Beers' diamond mines in South Africa are relatively small employers when compared with the gold mines; but for decades, De Beers has led the mining industry in terms of union recognition, and an integrated and negotiated wage scale. Indirectly, several medium-sized towns and communities are wholly dependent on De Beers. Today, labour costs account for around half of total working costs, or around R500 million in 1994. Taking into account service increments, bonuses and fringe benefits, the average unskilled worker earns about R2 000 a month at entry level.



*The Louis G. Murray removes diamond bearing-gravel from the seabed off the Namibian coast*

## UNRIVALLED MINING EXPERTISE

De Beers leads the world in diamond mining and recovery technology. In southern Africa, the company is currently involved in some 18 diamond mining operations covering every category of mine – open pit, underground, alluvial, coastal and undersea. The list includes the world's most important diamond mines: Debswana's huge Jwaneng mine in Botswana; Namdeb's coastal operations – one of the largest earth-moving operations anywhere; De Beers Marine's undersea operation which incorporates revolutionary mining technology; Finsch mine in the Cape, the most modern underground diamond mine in the world; together with Premier and the new Venetia mine in the Northern Province, the first mine to open in South Africa for more than two decades.

## COMMUNITY INVESTMENT

De Beers has provided substantial support to education, health, social and cultural projects aimed at improving the living conditions and opportunities of underprivileged people in South Africa. During 1994 alone, De Beers invested some R28,9 million on community projects in South Africa.

## SMALL BUSINESS DEVELOPMENT

De Beers has an established policy of encouraging local people in small business development, mainly through the utilisation of mine resources and by encouraging people to supply goods and services to the mines. Opening and operating a mine, usually in remote areas, inevitably results in

development of infrastructure and of employment: shops, hospitals, schools and houses. Substantial numbers of small companies are active in the Kimberley area, Namaqualand, Gauteng, the Northern Province and for De Beers Marine in Cape Town. Since its inception, this initiative has helped create or sustain more than 2 400 jobs.

### **CONTRIBUTION TO THE ENVIRONMENT AND NATURE CONSERVATION**

The De Beers group is aware of the urgent need to prevent deterioration of, and if possible, improve the quality of the environment in South Africa and beyond. The company's interest in conservation can be traced to its acquisition of substantial areas of land around Kimberley 100 years ago. An exciting recent example of mine planning and conservation is to be found in the Northern Province, where a major conservation area, named the Venetia Limpopo Nature Reserve (VLNR) was developed at the same time as the new Venetia mine. Since then, the VLNR has had an important catalytic effect in the proposed creation, by the National Parks Board, of a much larger conservation area, known as the Vhembe/Dongola National Park.

In Namaqualand on the Cape west coast, De Beers is involved in similar negotiations with the National Parks Board to establish a National Park at the mouth of the Groenrivier.

### **TOURISM**

De Beers continues to encourage tourism in the areas where it has mines, and where these are easily accessible. The Premier mine near Pretoria is a popular destination for foreign and local visitors, and the Kimberley Mine Museum is world renowned for its unique insight into the birth of an industry and of a city. Safari operations are conducted west of Kimberley at De Beers' Rooipoort Nature Reserve; these provide an additional source of foreign exchange revenue to the region.



THE diamond business is like no other. Not only is the product unique (no two diamonds are ever identical), but the industry comprises a chain of independent activities which spans the globe – exploration, mining, marketing, cutting and polishing, manufacturing and retailing. In all these areas, the industry uses advanced skills, often developed over generations, to draw out the beauty and value of the earth's most lasting creation to the benefit of consumers and everyone involved in this fascinating business.

For over a century, a South African company has stood at the heart of what is truly the most international of all industries; there are not many companies in the world whose name has become synonymous with its product.

The slogan 'A Diamond is Forever', created in 1948, has been reproduced countless times since in many languages. In the new South Africa, we are proud to offer a few more:

