INTERNATIONAL
Herald Tribune

Seeing Africa as full-service diamond center

By Otto Pohl International Herald Tribune
WEDNESDAY, AUGUST 24, 2005

WINDHOEK, Namibia Most gem-quality diamonds come from southern Africa, but very few of them are cut and polished in the region. Lev Leviev, an Israeli diamond tycoon, wants to change that.

With his new factory here in Windhoek, and another being built in Angola, Leviev has launched a broadside at the way the industry works, championing the processing of diamonds in the country of production.

His efforts to promote local "beneficiation," as it is called in the industry, while still small, are already causing some nervousness in traditional diamond centers like Antwerp, Belgium. Yet the move strikes a chord with some African politicians, who see a chance for more returns and economic development from their natural resources.

Using Namibia simply as a source of raw material without capturing the value-added downstream manufacturing squanders the potential of the country's most valuable resource, said Kombadayedu Kapwanga, Namibia's former minister of mines who is now managing director at Leviev's factory.

"As a patriot, I can't allow that," he said in an interview.

By promoting local beneficiation, Leviev, owner of the Lev Leviev Group and Africa-Israel Investments, also hopes to strengthen his No. 2 position in the diamond industry, of which the market for uncut stones alone is worth about $12 billion a year. The De Beers corporation has famously dominated the diamond business for over a century, but its control has slipped in recent years under growing competition from new, non-De Beers mines in countries like Canada.

Leviev, who has been described as the South African company's closest rival, has polishing plants in Russia, India, China, South Africa, Ukraine and Armenia.

De Beers said last month it expects record sales this year of at least $6.4 billion. By comparison, Leviev's group has annual sales of more than $2.5 billion. His new factory in Namibia, which opened last year and began official production in June, is cutting and polishing 25,000 carats of diamonds a month. While that is a small percentage of Namibia's annual output of 2 million carats, it has helped prove the concept to a steady stream of visiting politicians.

In a speech to industry executives in April, Erkki Nghimtina, Namibia's minister of mines and energy, suggested he would press De Beers to allow more rough diamonds to be processed locally.

"I am prepared to go to extra lengths to ensure that beneficiation becomes a necessary condition for the granting of any mineral rights," he said.

Under longstanding contracts, De Beers currently exports almost all of the diamonds it mines in the region to London for resale through the De Beers marketing arm, the

Diamond Trading Corp. The DTC, which sells about half of all diamonds in the world, is the primary way that De Beers exerts control over the market.

Nghimtina's demands for local beneficiation may influence talks on renewing the agreement between De Beers and Namibia, which currently obligates Namibia to sell almost all its diamonds to the Diamond Trading Corp. The existing contract expires in November.

A significant shift to local beneficiation could weaken the DTC's control by allowing competitors like Leviev greater direct access to rough diamonds. But other industry players are watching closely as well.

Stephane Fischler, president of the European Council of Diamond Manufacturers and secretary general of the International Diamond Manufacturers Association, warned of a potentially "serious effect" on the traditional diamond polishing centers, including Antwerp, New York and Tel Aviv.

Since Namibia's diamonds tend to be very large, gem-quality stones, any shift to local beneficiation would have a disproportionate effect on centers, like Antwerp, that mostly polish expensive stones.

"The stakes are very high indeed," Fischler said.

Namibia is not alone in its desire to squeeze more money, and jobs, out of its raw materials. Last week, Lindiwe Hendriks, the newly appointed minister of minerals and energy of South Africa, said that she expects the country's two diamond beneficiation bills to be passed by Parliament before year's end. Botswana, the world's largest source of diamonds, is also rumored to be considering a local beneficiation requirement.

Analysts say rising diamond prices, in part due to De Beers' own efforts, are encouraging competitors like Leviev to take up the cause of African governments.

A De Beers initiative called Supplier of Choice has cut to 84 the number of dealers to whom De Beers sells diamonds. In the 18 months that the initiative has been in place, the price of rough diamonds has risen 30 percent.

"It was De Beers's own squeeze that created the imbalance which encourages companies to raid their turf," said Martin Rapaport, chairman of Rapaport Research, which provides analysis of the diamond industry.

Leviev's factory under construction in Angola will have up to 3,000 employees. Other companies are getting in on the act as well, like Lazare Kaplan and DD Manufacturing, which are opening cutting and polishing plants in South Africa.

Leviev's factory here in Windhoek is the first large-scale diamond factory on the continent. The factory currently provides 550 jobs, and Kapwanga, the managing director, hopes to add another shift soon.

In one room, a few dozen workers oversee hundreds of diamond saws as they slowly slice through rough diamonds.

Since diamond is the hardest natural substance known, diamonds must be used to cut diamonds, and it can take hours to cut a large specimen. Most come from the sea floor off Namibia's coast, where Leviev uses four ships to vacuum diamond-bearing silt off the sea floor.

The new factory hums with work. In one room, workers monitor diamond saws as they slowly cut through the rough stone. In two adjacent rooms, hundreds of workers grind the rough-cut diamonds into gems by pressing the stones onto spinning diamond-dust-covered platters.

Other rooms are used for analyzing, sorting and storing the stones.

Experts from Leviev's factories across the former Soviet Union oversaw a recent shift as they finished their yearlong training period of the local staff.

Employees are excited to have the work in a county where unemployment is endemic. "There is a future here," said Jordan Kazohya, 26, a diamond polisher at the factory who supports his mother and seven sisters on his salary of $540, a month. "Namibia will use this company as an example of how to do better."

But some analysts question the amount of profit that can be gained through beneficiation. It is a business that has become increasingly competitive and low profit in recent years. About 90 percent of diamond cutting and polishing is done by about 900,000 workers in India, and a growing number of Chinese polishing companies are adding to the price pressure. That reduces the economic incentive of forcing the cutting industry to move to Africa, analysts say.

"You can contract diamond cutting like you can rent a car," Rapaport said. The advent of laser-cutting technology further threatens to reduce the number of man-hours required to cut diamonds.

Critics contend that forcing cutting jobs to move to Africa even when they cannot compete against lower cost Asian factories will ultimately require government subsidies to keep them afloat.

But Kapwanga, the managing director of Leviev's Namibian polishing factory, is not worried about competition. "We will deny them their diamonds," he said of India and China. "Let them find their own."