

Rockwell Positions for SA Diamond Law Changes

Allan Seccombe

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James Allan from
Allan Hochreiter

IT'S not often you get to hold \$3m or R21m in your hand. It's far less often that the items that cost so much fit neatly into the palm of your cupped hand and look like glassy pebbles and feel like chunks of ice.

These aren't pebbles, but high quality, large, rough diamonds -- surprisingly heavy and cold to the touch -- that will be sold by public auction at Flawless Diamond Trading House on behalf of Rockwell Ventures, a Canadian mining company planning to list on the JSE in September this year.

Rockwell produces on average 2,500 carats a month of rough diamonds from two alluvial mines near Prieska and Douglas in the Northern Cape a month. It plans to double output from these two mines within the next year. Three quarters of current production is two carats or larger.

"I've never seen a package of diamonds like that before," says James Allan from Allan Hochreiter, the company advising Rockwell. "That's something pretty special."

Jeff Brenner, Rockwell's marketing director and owner of Flawless, knows the dozen diamonds varying in size from 40 to 50 carats intimately and he talks about them as one would a good friend, knowing the mine they came from, their carats and grade measured in letters of the alphabet. A 'D' grade diamond, a colourless, icy, crystal-clear stone with no flaws is highly sought after. Flawless sorts Rockwell's monthly production into parcels, or plastic bags containing a collection of diamonds, to be seen by 50 to 60 potential buyers over a week. It's a cash only business. Payment must be made within 48 hours or the deal lapses.

"It's a business where you need very high integrity. We operate on a handshake," Brenner says. Changes are coming for the sector and diamond producers will be compelled from around August this year to sell 10% of their production by value to the newly formed State Diamond Trader (SDT), which will then sell those rough stones to small, mainly black owned businesses that struggle to compete in auctions with larger buyers.

The SDT will target the larger stones, but Brenner says there is an understanding it will not cherry pick the best diamonds, leaving companies with less favourable products in a very competitive business.

Rockwell, amongst other diamond companies, is looking at setting up a cutting and polishing factory to meet its obligations under new diamond laws. Companies must beneficiate, or add value, to 15% of the diamonds they have left after the SDT process.

Rockwell plans to develop a niche facility to handle diamonds in the five to ten carat category.

The government has introduced the changes to diamond sector to stimulate the growth of jobs in the downstream side of the business. The value of a diamond increases exponentially once it has been properly cut and set in jewellery.

About 2,000 people are currently employed in the domestic cutting and polishing business. There are many figures swirling through the market about how many jobs will be created, but Allan thinks it will be modest at best.

"There's a perception these new laws will create tens of thousands of jobs, but I think it will be a couple of thousand at the most," he says.

Brenner agrees, adding it will take years to develop and grow what is a highly specialised and skilled sector, and one that is competing with cheap and highly productive labour in India and China. It costs up to \$10 a carat to cut and polish a diamond in India and seven times that in South Africa, he says.

“We have to sharpen up a lot when competing against India, but South Africa has the knowledge and we should be able to compete.”

Some 800,000 carats were cut and polished in South Africa in 2005, producing 400,000 carats of polished diamonds, Allan says. South Africa produces around 15 million carats of diamonds a year, nearly all of them coming from De Beers.

Rockwell has a R100m agreement to buy the Saxendrift and Niewejaarskraal mines from Trans Hex as well as prospecting projects near Douglas and Prieska. No cash will swap hands until the Department of Minerals and Energy has transferred the licences to Rockwell.

Rockwell will reduce costs by more than a third at Saxendrift compared to when Trans Hex, with its higher cost structure, was operating the mine, Allan says.

Rockwell will upgrade its listing on the Toronto bourse to the main board from the Venture Exchange index and at the same time list on the JSE. The Johannesburg listing is aimed at acquiring another 23% in H C van Wyk Diamonds, of which it already owns 51%. The purchase will be made through the issue of Rockwell shares.