
Verbal Submission to Parliament

Diamonds Amendment Bill (B27-2005)

James Allan

Independent Industry Consultant

11 October 2005

James Allan's CV

- ❖ Mining Engineer and industry consultant
- ❖ Top rated Diamond Analyst (Financial Mail) 2000 and 2001
- ❖ Diamond Sector no longer rated from 2001 after de-listing of De Beers
- ❖ Represented minority shareholders in the De Beers privatisation in 2001
- ❖ Achieved an extra \$2 per share for minorities.
- ❖ Currently advising the diamond and mining industry as an independent consultant

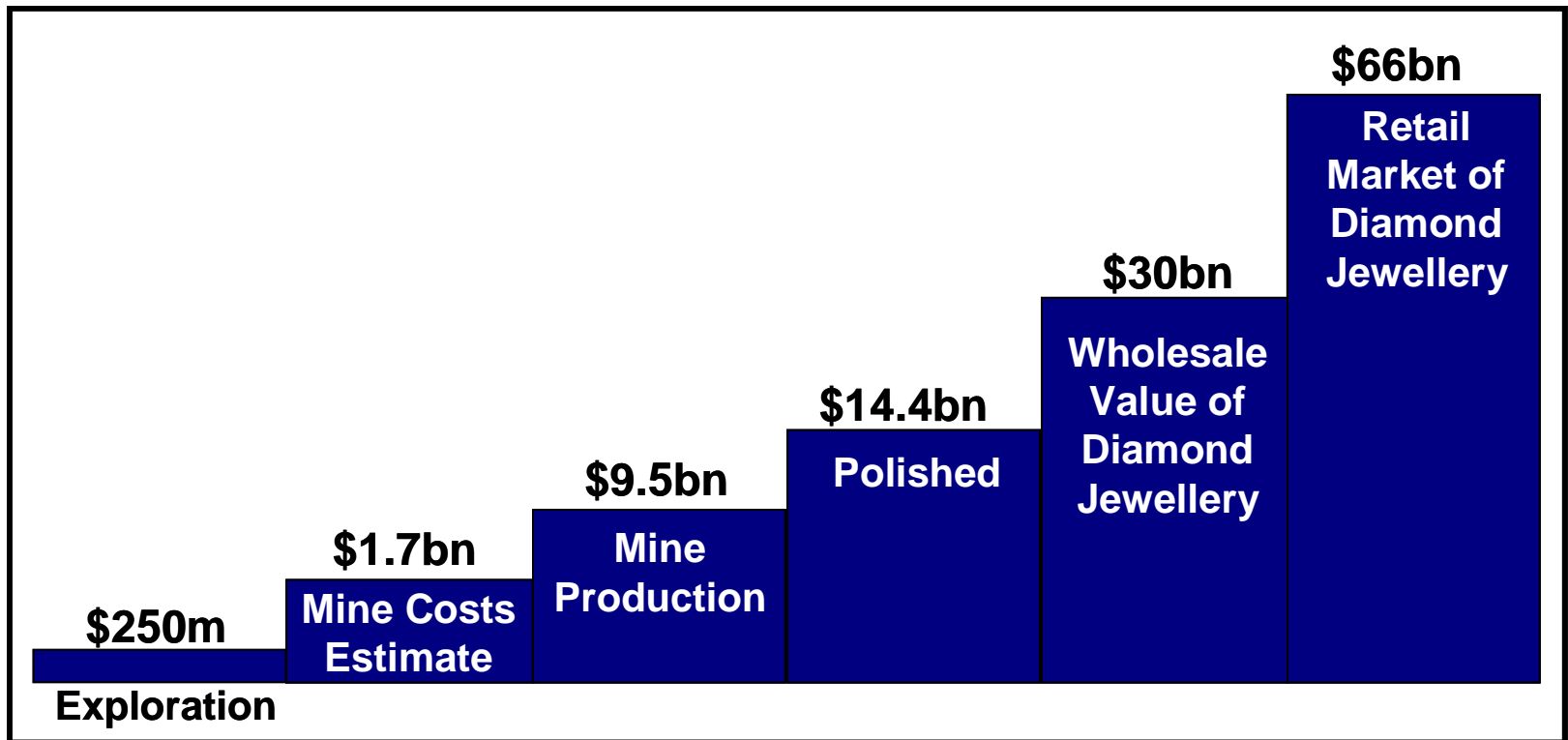
Outline

- ❖ **Objectives of the Diamonds Amendment Bill**
- ❖ **Global diamond overview**
 - Mining
 - Cutting and polishing
 - Retail markets
- ❖ **SA cutting and polishing**
 - Structure
 - Costs
 - Mine supply
- ❖ **Implications and recommendations**

Diamonds Amendment Bill Objectives

- ❖ **Increase access to rough diamonds for manufacturing in South Africa**
- ❖ **Grow beneficiation industry in South Africa to create jobs**
- ❖ **Increase participation through the value chain**
- ❖ **Make South Africa a major international diamond beneficiation centre**

Diamond Pipeline 2004



Mine Supply 1998-2004

Production (\$m)	1998	1999	2000	2001	2002	2003	2004
South Africa	877	916	1040	1107	919	1131	1471
Botswana	1891	1783	1996	2138	1871	2161	2567
Russia	1653	1653	1653	1653	1574	1610	1670
Angola	681	577	950	850	900	1000	1100
Canada	65	375	551	784	779	1271	1237
Namibia	402	435	444	447	322	391	569
DRC	459	459	459	459	439	430	433
Australia	326	360	350	365	372	440	322
Tanzania	10	25	34	20	13	16	31
Sierra Leone	75	75	75	75	62	55	58
Other	1 000	1000	261	261	214	236	271
Total Supply	7,439	7,657	7,813	8,160	7,465	8,742	9,729

Mine Supply 2005 – 2010

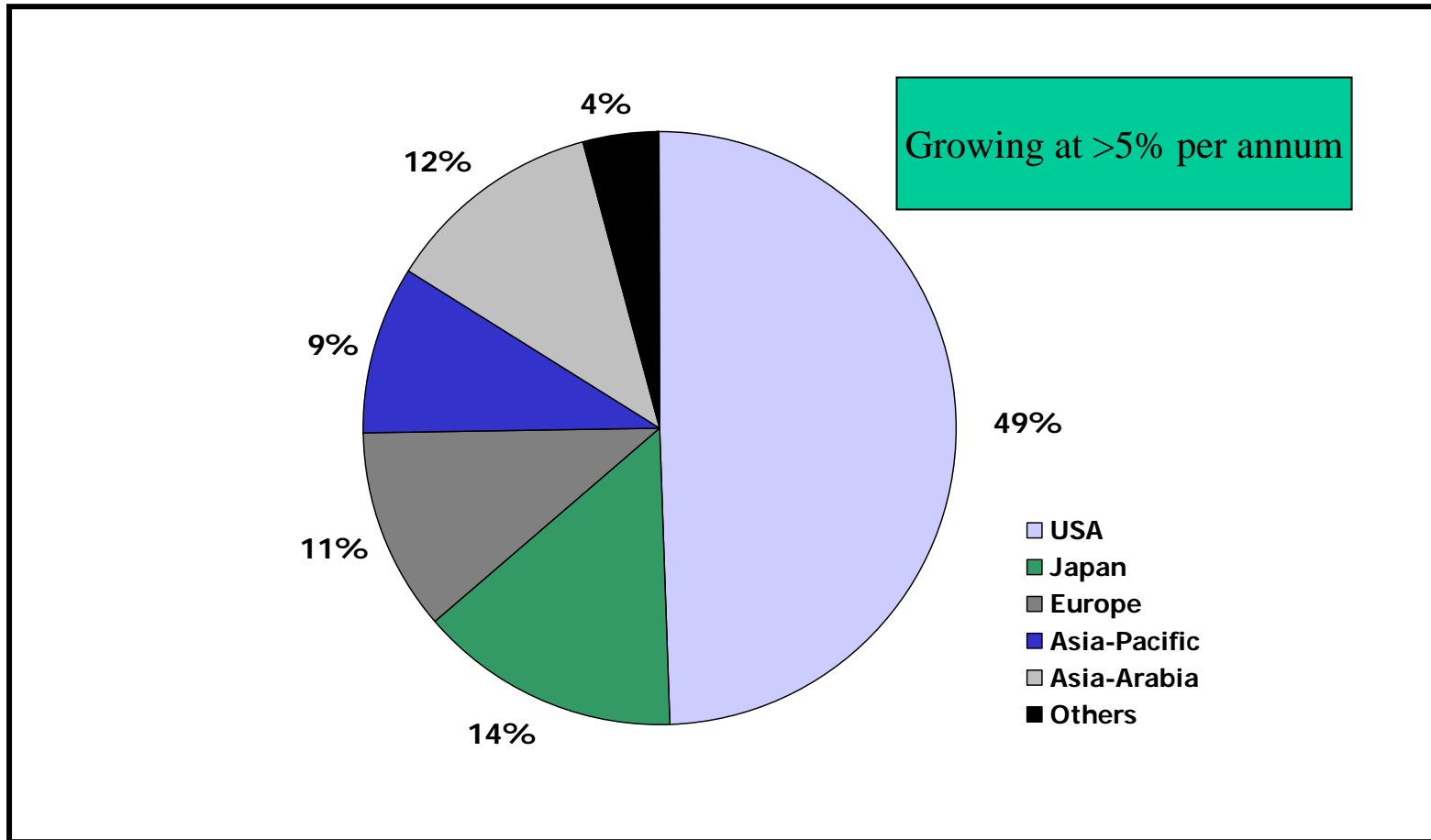
Production (\$m)	2005	2006	2007	2008	2009	2010
South Africa	1,560	1,600	1,614	1,631	1,636	1,642
Botswana	2,810	2,810	2,810	2,810	2,810	2,810
Canada	1,395	1,453	1,515	1,724	1,977	2,175
Russia	1,698	1,698	1,698	1,698	1,698	1,698
Angola	1,166	1,166	1,166	1,166	1,166	1,166
Namibia	616	616	616	616	616	616
DRC	442	451	461	472	484	498
Australia	596	536	434	434	248	281
Tanzania	29	35	41	58	87	87
Sierra Leone	76	97	111	122	135	148
Other	319	383	383	383	383	383
Total Supply	10,707	10,845	10,898	11,116	11,240	11,504

Global Diamond Production

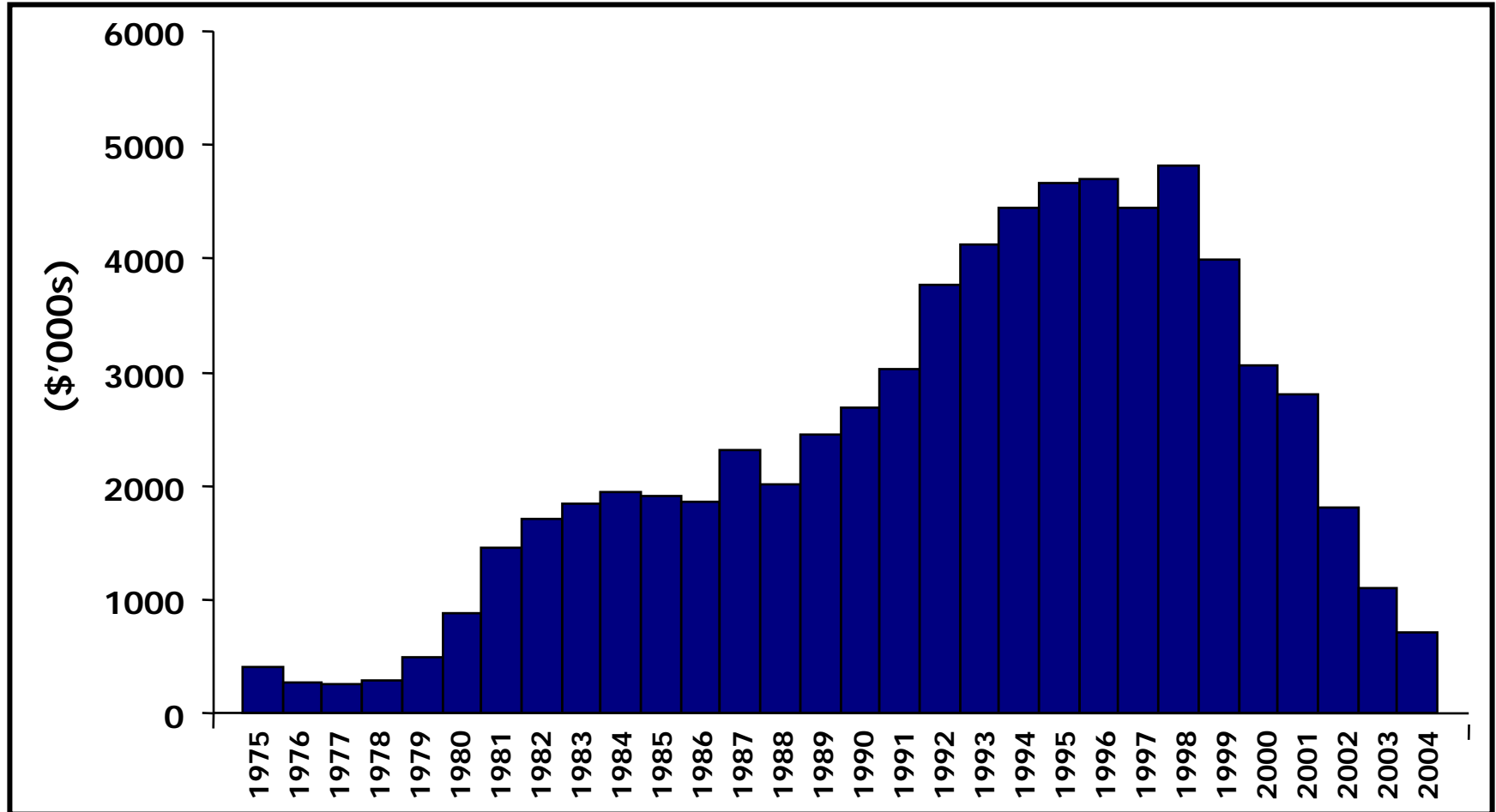
(\$: +1.5% per annum; Carats -2.5% p.a.)

	2005 (E)			2010 (F)		
	Carats (000's)	\$/carat	Value (\$m)	Carats (000's)	\$/carat	Value (\$m)
South Africa	13,952	112	1,559	14,643	112	1,642
Botswana	32,350	87	2,809	32,350	87	2,809
Canada	13,527	103	1,395	20,880	104	2,174
Russia	15,888	107	1,697	9,886	172	1,697
Angola	4,400	265	1,166	4,400	265	1,166
DRC	24,200	18	441	24,200	21	497
Namibia	1,990	310	616	1,990	310	616
Australia	36,000	17	595	17,000	17	281
Tanzania	250	117	29	750	117	87
Sierra Leone	370	206	76	455	325	147
Other	3,263	98	319	3,263	118	383
Total	146,188	73	10,707	129,816	88	11,504

Retail Sales of Diamond Jewellery 2004 (\$66bn)



Supply and Demand Reflected in De Beers Stocks

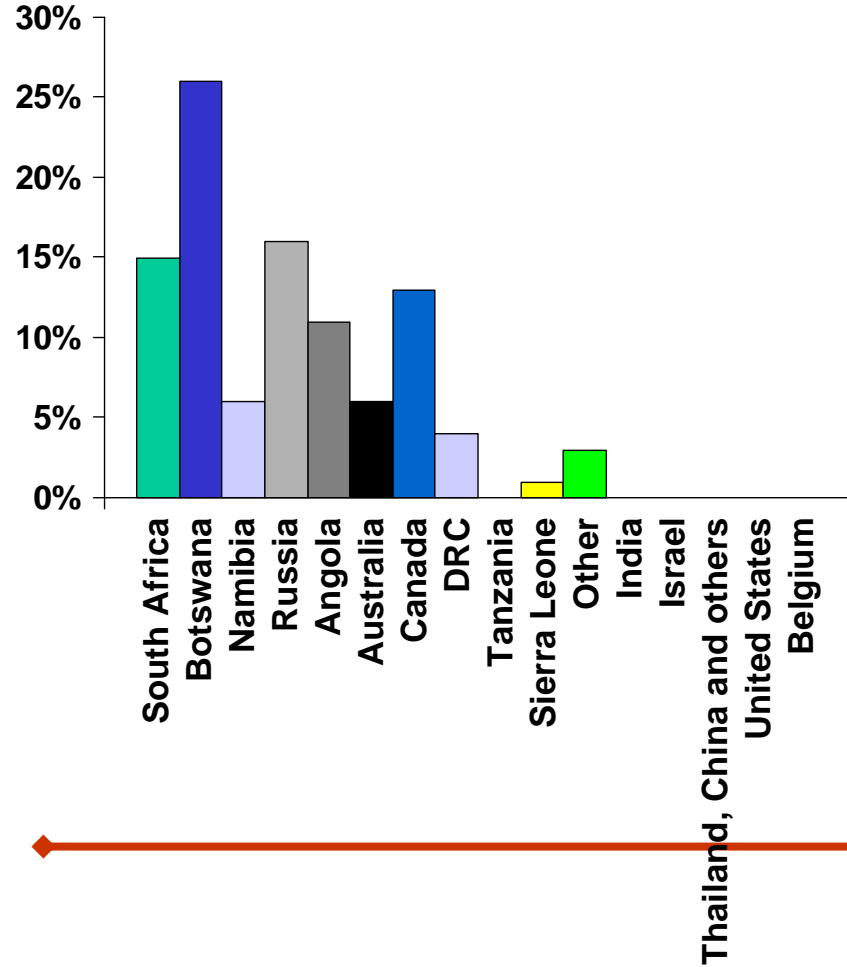


Global Overview

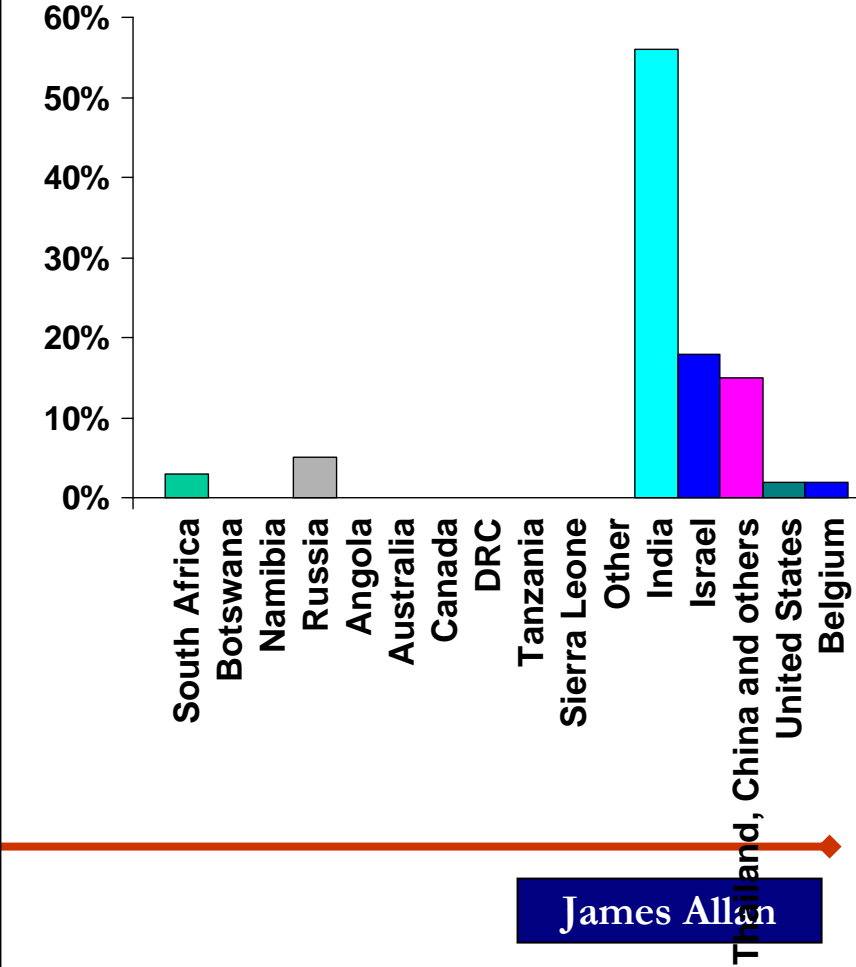
- ❖ **Rough Diamond Prices up 35% since 2002**
- ❖ **Production decline of 2.5% (carats) per annum to 2010**
- ❖ **Argyle production to halve by 2010**
- ❖ **Growth in value of 1.5% per annum to 2010**
- ❖ **Demand growth 5-6% per annum**
- ❖ **Upward pressure on rough prices**
- ❖ **Less carats to cut and polish!**

Global Share of the Diamond Industry

Rough – 2005



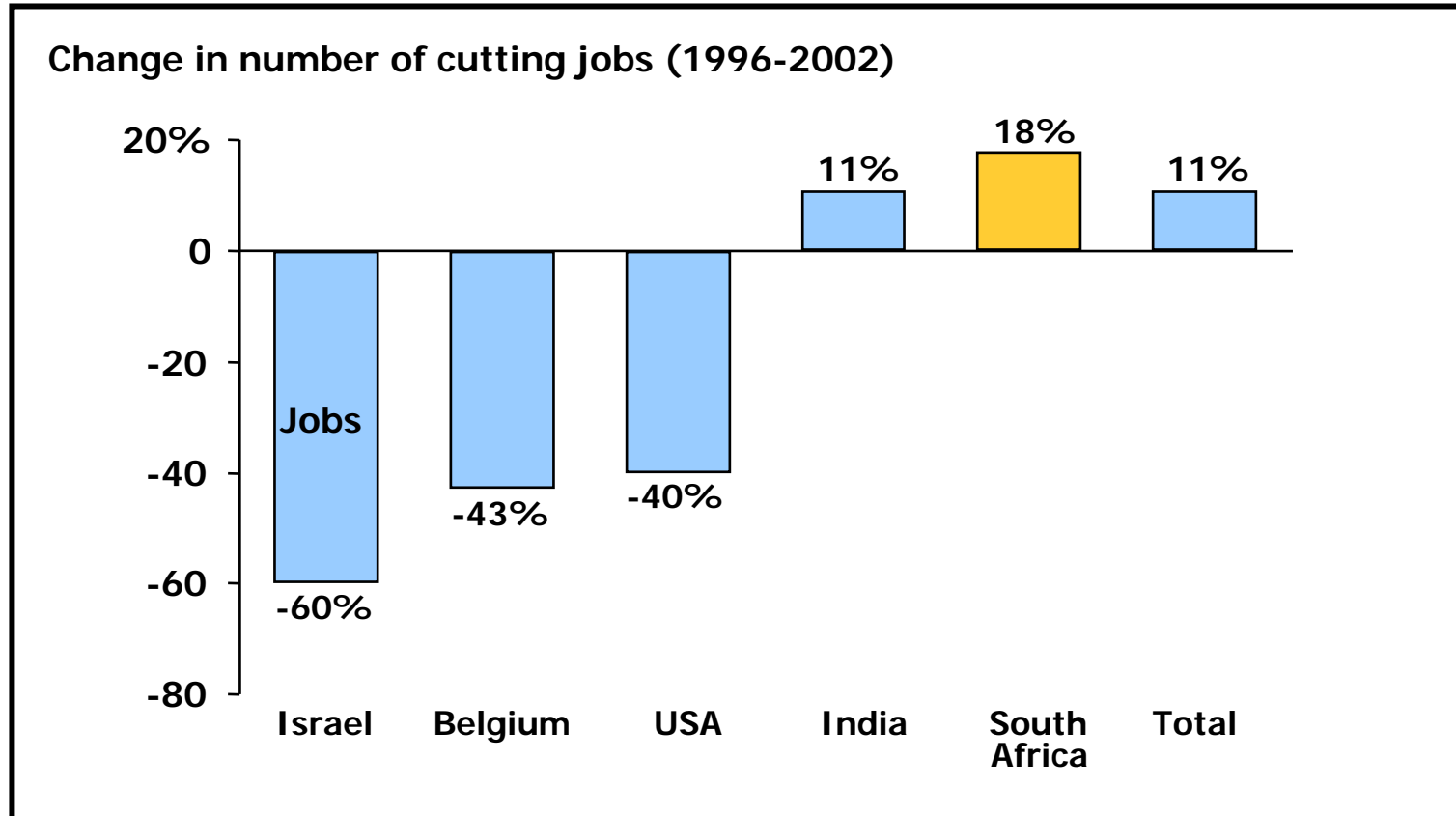
Polished – 2005



SA Cutting Industry

- ❖ **370 licensed Cutters**
- ❖ **Not all of them are active > 120-180
in any one year**
- ❖ **+ -2 000 employees**
- ❖ **Output of around \$500m**

In contrast to South Africa, Israel and Belgium have seen falling job numbers since 1996



Note: China has grown from a low base over the last six years – estimated 100% increase in jobs over this period

SA Cutting Industry Exports(+ 13%per annum)

	1999	2000	2001	2002	2003
Carats	180,987	253,457	243,366	321,046	353,305
Dollar value	295,883,809	474,447,826	476,447,826	510,641,022	550,323,720
Per carat (\$)	1,635	1,872	1,872	1,591	1,558

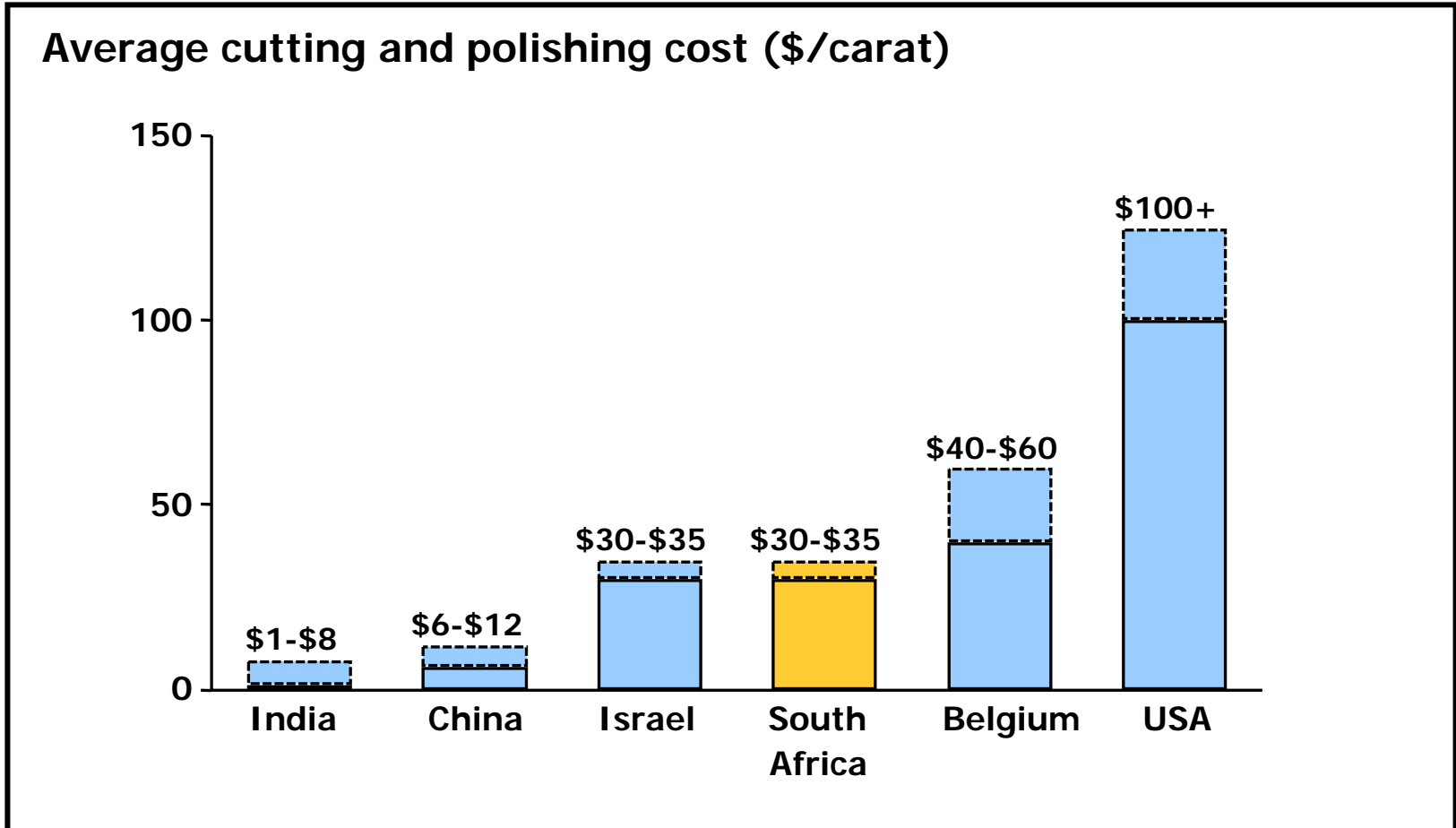
Average Value of Polished by Cutting Centres

Region	Average Price of Polished (\$/ct) in 2001
New York	1600
Antwerp	1100 – 1200
Tel Aviv	1000
India	250 – 300
South Africa	1600

SA Cutting Industry Compared

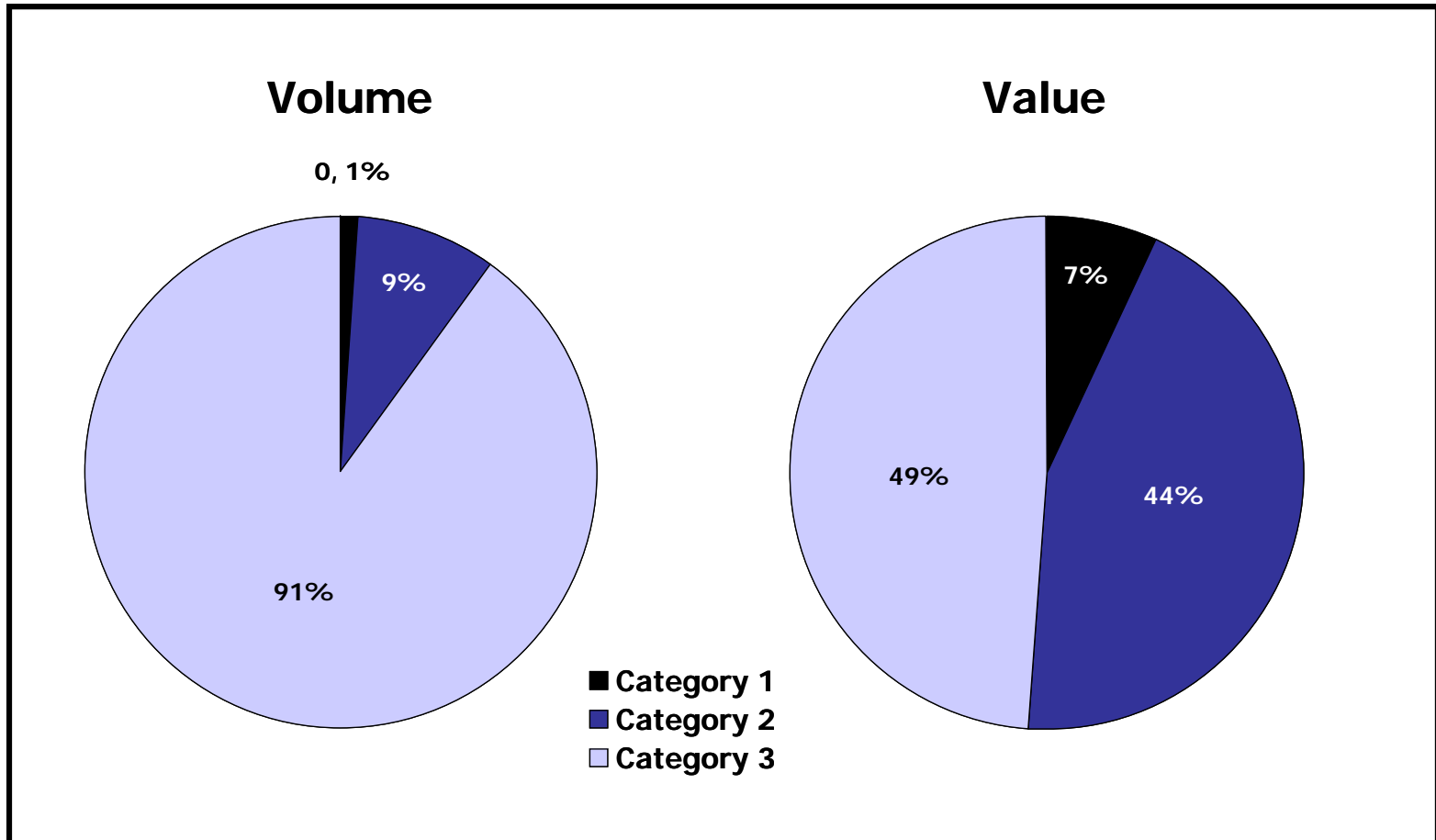
	New York	Belgium	Israel	South Africa	Thailand	China	India
Manufacturing cost \$/ct	100	40 – 60	30 – 35	30 – 100	15	6 – 12	1 – 8
Salary: \$/month	4500	2500	1500 – 2000	1300	120 – 135	50 – 120	80 – 140
Range rough size	2ct to +10.8ct	1ct to +10.8ct	0.75ct to +10.8ct	0.75ct to +10.8ct	2ct to 10ct	0.5ct to 20ct	0.01ct to 10.8ct

The South African Cutting Industry is Significantly Higher Cost than in India and China

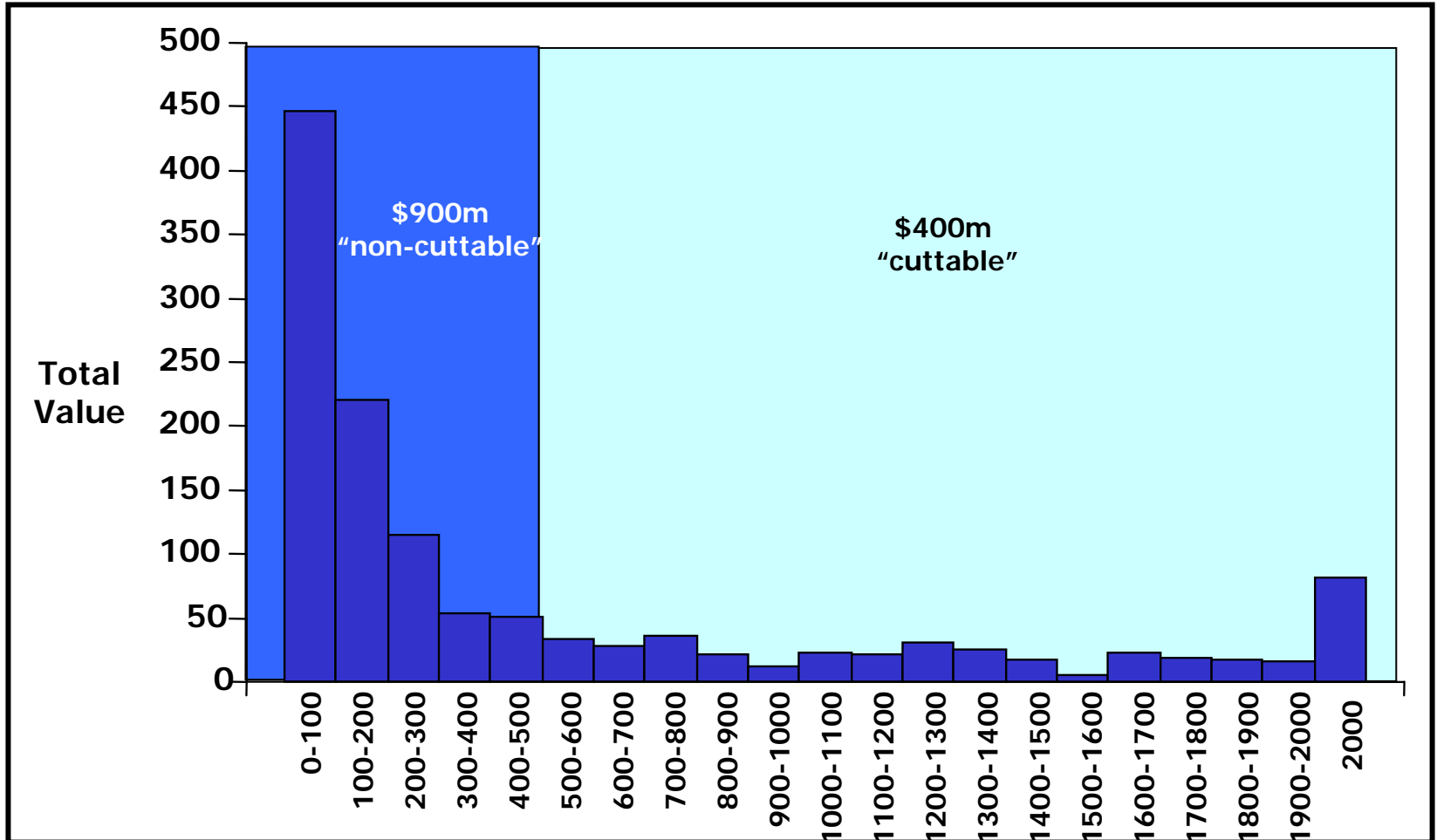


De Beers'

South African Production 2002



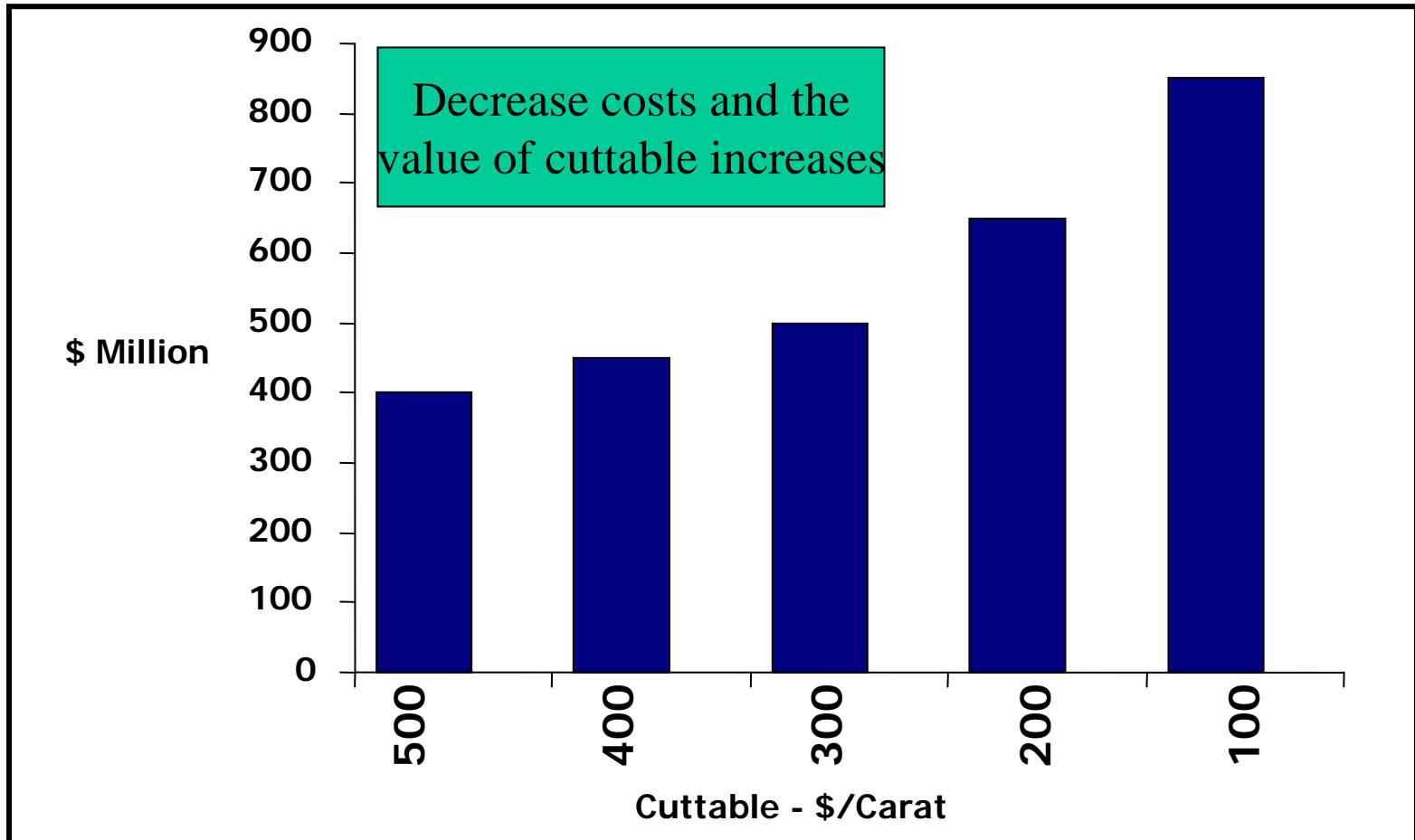
De Beers South African Mines Production Split (2004)



\$/carat

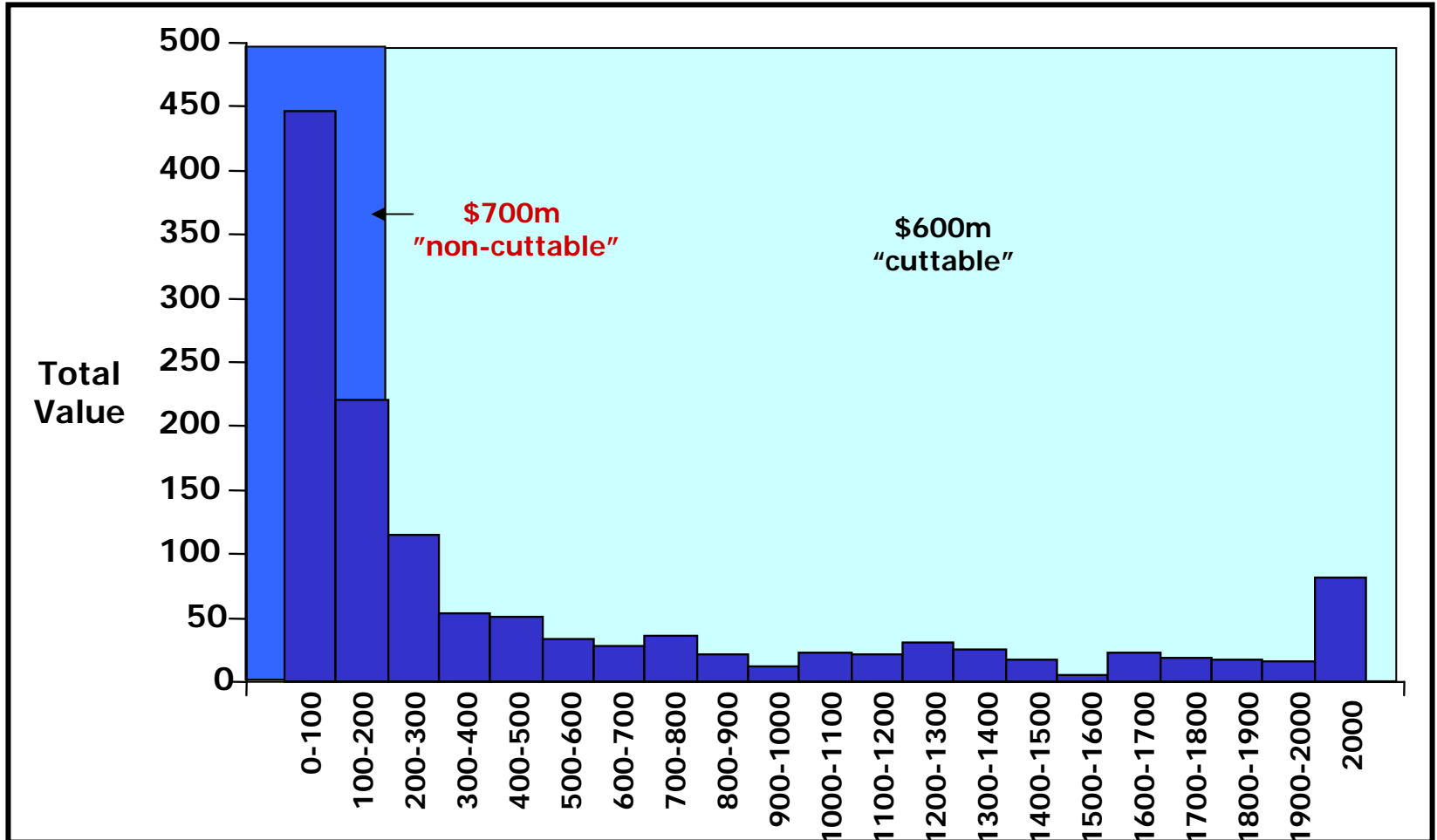
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South African Production Cuttable Value Versus Cuttable Value Per Carat



Production Split

Prices are reduced 15%



\$/carat

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South African Production Continued

- ❖ De Beers produces less cuttable goods in South Africa (\$400m) than are cut and polished locally (\$500m)
- ❖ De Beers *imports* diamonds to be cut and polished locally
- ❖ Reducing the cost of rough by 15% increases SA cuttable production by 50% from \$400m to \$600m *but*
- ❖ This is only \$100m (25%) more than is currently cut and polished
- ❖ Cutting centre employment +500 jobs

SA Cutting Industry Compared

- ❖ The chances of competing with India are slim (SA labour costs ten times India)
- ❖ SA labour (\$1300) is cheaper than Israel (>\$1500)
 - Quantity of cuttable goods is governed by costs of production
 - Israel cuts smaller diamonds (\$1000 polished vs \$1600)
 - Israel employs 50% more people but polishes 6 times more
- ❖ SA should set a target of competing with Israel

Diamonds Amendment Bill

15% Export Tax

- ❖ **Applies to all diamonds**
- ❖ **\$135m on non-cuttable diamonds**
- ❖ **SA diamond prices will be 15% less than international prices**
- ❖ **Arbitrage will lead to “round-tripping” (as in the finrand days)**
- ❖ **Kimberley process will be difficult to enforce**
- ❖ **Mine closures**
- ❖ **Investor unfriendly place for diamond miners**

Diamonds Amendment Bill State Diamond Trader (SDT)

- ❖ **Can buy a percentage of rough but..**
- ❖ **10% by carats could equal 90% by value**
- ❖ **SDT can pick the eyes out of the production**
- ❖ **How will a fair value be achieved?**
- ❖ **No incentive for buyers to attend tenders**
- ❖ **How does a SDT provide “cheap” rough to the industry and not pay lower prices to the miners?**
- ❖ **Why would neighbouring countries sell rough to us at a cheaper price than they can achieve in Antwerp?**

If Diamond Amendment Bill is Passed

Mines likely to close:

	2005		
	Cts ('000s)	\$m	Jobs
Cullinan	1300	120	1300
Namaqualand	900	250	2500
Koffiefontein	50	8	550
	2250	378	4350

- ❖ SA to lose 30% of production
- ❖ >30% of cuttable production will be lost
- ❖ >50% of large mining jobs may be lost

Approving the Bill Will Achieve the Following

- ❖ Reduce the prices for rough diamonds in South Africa leading to
- ❖ Increased employment in the cutting industry +500 jobs
- ❖ Closure of mines, decrease investment into the mining sector
- ❖ Lose >5 000 jobs in the mining sector
- ❖ Decrease the availability of rough by >30%
- ❖ Create false jobs as unscrupulous dealers “round-trip”
- ❖ Increase statistics on polished exports and create a false sense of achievement
- ❖ Make South Africa a major international diamond smuggling centre

Conclusion

- ❖ The South African diamond industry competes in a global market for capital and job creation
- ❖ Growth in the cutting industry requires lower costs to make more rough cuttable
- ❖ But this should not happen at the expense of the mining industry
- ❖ Compete with Israel > Productivity > labour and technology
- ❖ Then SA can become a major diamond beneficiation centre
- ❖ If the Bill is passed it will lead to “unintended consequences and result in NET JOB LOSSES”