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Getting the Most Out of Our Diamonds: Namibia, De Beers and the Arrival of Lev Leviev

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Although Namibia's once rich on-shore diamond deposits will probably soon be exhausted, it looks as if equally rich deposits lie under the ocean. The challenge for Government is to maximise the benefits Namibia can derive from this resource over the coming decades. Rather than nationalise the industry, Government's strategy so far has been to form a much closer partnership with De Beers through the creation of Namdeb whilst at the same time encourage new companies to come and mine in Namibia. The strategy also aims to create an economically viable cutting and polishing industry in Namibia despite widespread acknowledgement that Namibia cannot hope to compete head-on with existing low-cost cutting and polishing centres in India and China. Notwithstanding individual setbacks, Government's strategy appears to be paying off, although so far mainly on the mining side. Value added, export earnings, and tax revenues have risen significantly whilst skills are being transferred and the employment of Namibians is growing in offshore mining as well as in cutting and polishing. The irony of Namibia's nascent cutting and polishing industry, however, is that it is not based on processing Namibian diamonds. The big question now is whether the arrival on the Namibian scene of Israeli diamond tycoon Lev Leviev will make any appreciable difference to the existing strategy. Could Leviev finally persuade Government to bypass the De Beers marketing channel and release Namibian diamonds directly to independent cutters and polishers in Namibia?

The diamond industry makes up about one tenth of the entire Namibian economy yet relatively few people – even at the highest levels – know much about it. A single company Namdeb is the dominant producer yet the agreement between its joint shareholders De Beers and the Government of Namibia is shrouded in secrecy. The company is relatively transparent – especially in comparison to its peer group – but the absence of a comprehensive annual company report available to outsiders who want to know more about its operations only adds to the sense of mystery. Namdeb has recently been joined by another company, Samicor, about which much less is known. Few of the seven cutting and polishing factories which exist in Namibia even make their production figures available. Diamonds may be exceptionally clear stones but the industry that produces them is opaque to say the least. The Institute for Public Policy Research (IPPR) therefore decided to produce this briefing paper on Namibia's diamond industry with the aim of shedding light on its main actors, their activities and issues affecting the industry as a whole with the objective of promoting greater understanding of a major part of the economy. The paper

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proceeds by telling the history of diamonds in Namibia, describes the major players in the mining and polishing industries, explains relevant legislation, the role of the Government and the impact of the industry on the national economy. This research seeks to provide a “state of play” that describes the industry and identifies issues that need to be explored in future research.

The research for this report is based on public documents made available by the Government of the Republic of Namibia (GRN), diamond mining and polishing companies and the Chamber of Mines of Namibia. The research was supplemented by a number of interviews with key public officials and industry experts. Whenever third party research is used it is identified as such.

1. Diamonds discovered in 1908, De Beers sews up industry within 20 years

The history of diamonds in Namibia dates back nearly a century. In 1908 railway worker Zacharias Lewala, who had earlier worked on the Kimberley diamond fields, found rocks while shovelling ground south of Lüderitz that he knew to be diamonds. His find ignited a "diamond rush". Within a short time there were prospectors all along the southern coast. In 1908 the government created the Sperrgebiet, a private area that stretches 360 km along the coast and runs 100 km inland. Even today, visiting the area without a permit can result in fines and possibly jail sentences.

South African mining tycoon Ernest Oppenheimer visited Namibia on behalf of mining company Anglo American and by 1920 had acquired all the diamond companies. He merged them into the Consolidated Diamond Mines of South West Africa (CDM), which from then on had a virtual lock on Namibian diamonds until the mid 1990s. CDM gained this advantage through the 1923 Halbscheid Agreement whereby the Colonial South West Africa Administration gave CDM the exclusive rights to the Sperrgebiet (also known as Diamond Area No. 1) for 50 years which was later extended to December 2020. Since then, Namdeb has relinquished 63% of the area, which is now being used for other activities, like nature conservation and zinc mining.

In 1928, the focus of mining gradually shifted southward after diamonds were discovered north of the Orange River. De Beers, which was controlled by the Oppenheimer family, bought CDM from Anglo American in 1931. The private company town of Oranjemund was founded in 1936, also in Area No. 1, and CDM moved its headquarters there in 1943. The town has remained private and entry requires permission from the Government. The company built houses, a hospital, schools and a public library and assumes full responsibility for municipal services such as power, water and sewage disposal. In July 2003 the Namibian Cabinet gave approval to Oranjemund becoming a public town at some unspecified time in the future.

Diamond mining has proven that the quality of Namibian stones is some of the finest in the world with more than 95% being of "gem" quality. De Beers has capitalised on Namibia's natural wealth, mining tens of millions of carats of rough diamonds over the last century. CDM said in its 1991 Annual Review "it is currently estimated that only about 2% of the diamonds originally in the ground will remain unmined when operations on land come to an end."²

2. Post-Independence, Government strikes deal with De Beers

In 1990 Namibia won its independence and the SWAPO party swept to power. After good faith negotiations between De Beers and the Government, CDM was reconstituted in 1994 into Namdeb Diamond Corporation Ltd (Namdeb), an equal private partnership between the two

² CDM. 1991. Pg. 5.



parties. Namdeb currently produces more than 80% of Namibia's diamonds and continues to expand. The Government has pledged to open the Sperrgebiet to general prospecting and some companies have already explored the area. Currently, Namdeb and two groups it has contracted are the only companies mining for diamonds on Namibian soil.

The diamond mining industry employed some 3,315 people in 2002, a number that continues to decrease due to improvements in technology, increases in productivity and an increase in capital intensity. But the presence of this thriving industry also acts as a catalyst for auxiliary employment across other industries, making a much wider contribution to employment and the national economy.

Through Namdeb the Government gets a direct stake in what has proven to be a wealth of natural resources. In 2002 the diamond industry produced 1,549,599 carats of rough diamonds. That year the industry exported a preliminary N\$5.6 billion, or US\$538 million, of rough diamonds.³

According to the London-based Mineral Resource Intelligence Unit, Namibia produced US\$472 million, or N\$4.54 billion of diamonds in 2002. This makes Namibia the world's sixth-largest producer of diamonds by value after Botswana, Russia, Angola, South Africa and Canada.⁴ Although Namibia produced a relatively small amount of rough diamonds in 2002, Table 1 shows that their value per carat is the highest in the world at US\$278 per carat produced. Value estimates can differ because of exchange rates. The Bank of Namibia, for example, estimates that in 2002 Namibia exported N\$5.6 billion, or US\$538 million, of rough diamonds, raising their value per carat to US\$316, almost double that of second-place Angola.

Table 1: Estimated rough diamond production by country in 2002

<i>Rank</i>	<i>Country</i>	<i>Carats ('000)</i>	<i>Value (US\$ Million)</i>	<i>Value Per Carat (US\$)</i>
1	Botswana	28,400	1,799	63.34
2	Russia	19,400	1,523	78.50
3	Angola	5,700	918	161.05
4	South Africa	11,100	805	72.52
5	Canada	5,000	508	101.60
6	Namibia	1,700	472	277.64
7	Australia	34,700	384	11.06
8	D. R. Congo	23,400	362	15.47
9	Other Africa	2,100	214	101.90
10	South America	1,100	119	108.18

Source: Mineral Resource Intelligence Unit (London, U.K.)

Namibia is one of the leading producers of diamonds but such a distinction is clearly not sustainable indefinitely. Assuming that global demand for these precious gems continues and that artificial substitutes are not invented, at some point in the future there will be no more diamonds and the diamond mining industry will cease to exist. No one knows when this will happen. It is remarkable that there is so little public information and discussion about the magnitude of Namibia's diamond deposits. Namdeb claims to have a 10-year business plan but this is a confidential company document not available to the general public.

³ When converting between Namibia Dollars from US Dollars the following exchange rates were used N\$1=US\$0.133 (2003), N\$1=US\$0.104 (2002) and N\$1=US\$0.099 (2001).

⁴ Namibia is often deemed fifth largest due to the political instability and difficult business conditions inherent in present-day Angola.



With diamond mining making up such a large proportion of the economy, it would be in the interest of both the public and private sectors to create a public feasibility study and begin planning for the day that the diamonds disappear. The Government's Namibia Vision 2030 report, which has not yet been released, may take a first slice at such an effort. Although no one knows for sure, industry insiders suggest that if land-based operations are anything to go by, there may be some 50 years more worth of diamonds offshore at the current rate of extraction.

3. The future is marine diamond mining

The area with the richest future is marine diamond production, composed of "inshore mining" and "offshore mining". The former focuses on beach and shallow waters, primarily along the banks of the Orange River and beach deposits along the coast. Offshore production takes place in deeper waters. After exploring for 23 years, De Beers began its marine operations in 1990 and produced some 29,000 carats of rough diamonds in the first year.

Namdeb currently dominates marine diamond mining but the industry counts four other players: Samicor, the Trans Hex Group, Diamond Fields International and Diaz Point Exploration. These companies have international backing and are introducing new players to the burgeoning area of marine mining, which will continue to grow in importance as the amount of onshore diamonds dwindles. As far as anyone knows, Namibia has the richest marine diamond deposits in the world but exact estimates are very difficult to come by because so little of the ocean floor has so far been explored. De Beers Marine Namibia, for example, works on a Namdeb concession of 6,000 km² of which only 130 km² has been sampled in detail and only 20 km² has been mined.

4. The diamond miners: De Beers leads the pack

De Beers: The De Beers Group is a privately held multinational corporation that leads the world in diamond exploration, mining, recovery, sorting, valuation and marketing. Its Diamond Trading Company (DTC) sorts, values and currently sells about two-thirds of the world's annual supply of rough diamonds. De Beers uses its dominant size to influence world market prices of rough diamonds.

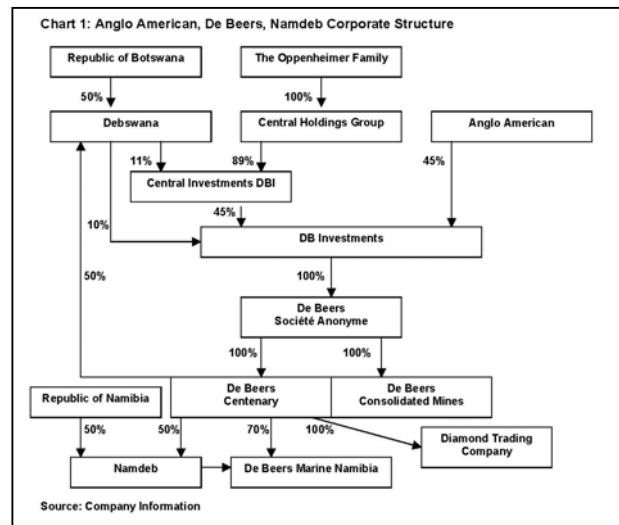
The group is presently mining in South Africa, Namibia, Botswana and Tanzania, and exploring in Canada and Russia. It is also trying to renegotiate entry into Angola and the DRC. De Beers employs 24,000 people in 19 countries. In 2002, De Beers had annual sales of US\$5.2 billion (N\$50.0 billion), this compares with Namibia's preliminary 2002 GDP of N\$30.6 billion, or US\$2.94 billion.

De Beers posted headline earnings of US\$570 million in 2002 and produced 40.2 million carats of rough diamonds. Cash flow rose to US\$1.6 billion due to a US\$1.0 billion decrease in their diamond stocks. The group said in July 2003 that full-year earnings should come in above 2002.

The De Beers group traces its roots back to 1880 when British colonialist Cecil John Rhodes founded De Beers in Kimberley, South Africa. In 1929 the Oppenheimer family took control. Shares in De Beers were listed on the Johannesburg Stock Exchange until 2001 when the group was delisted and restructured into a complex web of companies spreading across Southern Africa, the United Kingdom, Luxembourg and Switzerland.



De Beers is now 45% owned by Anglo American PLC, an international mining and natural resources company headquartered in London with listings on the London, Johannesburg and Namibian stock exchanges. The Oppenheimer family of South Africa controlled both De Beers and Anglo American for most of the last century. The family currently controls 41% of De Beers through Central Investments DBI, itself 89% owned by the family's Central Holdings Group. Nicholas F Oppenheimer is Chairman of De Beers. Debswana, a joint venture between De Beers and the Government of the Republic of Botswana, owns the remaining 10% of De Beers and 11% of Central Investments DBI.



Nicholas Frank Oppenheimer, known as “Nicky”, is by way of inheritance the richest man in Africa. He took over the helm of De Beers in 1998 from his father, the late Harry F Oppenheimer, and took the company private in 2001. The Oppenheimer family owns 41% of De Beers and 3% of Anglo American PLC. *Forbes Magazine* in their most recent “World’s Richest People” edition ranked Oppenheimer 112th with a net worth of US\$3.2 billion.

Oppenheimer was born in 1945 in South Africa. He married Orcillia Lasch in 1968 and has a son, Jonathan. After attending Harrow College, one of England’s premier public schools, he followed his father to Christ Church College, Oxford where he graduated with a degree in Philosophy, Politics and Economics. His interests include fencing, cricket, golf and squash.

Oppenheimer joined Anglo American Corporation in 1968 as personal assistant to the chairman and has worked in various parts of Anglo American and De Beers ever since. He was named a director of Anglo American in 1974 and of De Beers in 1978. He was Deputy Chairman of Anglo American from 1983 to 2001 and became chairman of the De Beers Group on 1 January 1998.

Sources: De Beers, Forbes Magazine

The management arm of the company is De Beers Société Anonyme (De Beers sa), based in Luxembourg and wholly owned by DBI Investments. De Beers sa, in turn, controls the two main operating companies: De Beers Consolidated Mines in Kimberley, South Africa, and De Beers Centenary AG in Lucerne, Switzerland.

De Beers controls the global supply of diamonds by stockpiling rough stones and then limiting the amount that can be sold. The group also buys up new diamond mines when they are first discovered. Once sorted the DTC blends diamonds into “selling mixtures” that are then sold to its 120 or so clients, also known as “sightholders” at ten “sights” per year held in London and Johannesburg. The clients are the leading diamond polishers and sellers in the world and are based primarily in Antwerp, Tel Aviv, Mumbai, New York and Johannesburg.



The prices for diamonds sold outside of the DTC are still largely influenced by De Beers and the organisation is therefore widely regarded as a cartel. In 1945, the US Justice Department opened an anti-trust investigation against De Beers and the company has not done direct business there since. In 1994, the Justice department again indicted De Beers along with General Electric (GE), one of the largest producers of industrial diamonds, for conspiring to fix prices on the industrial diamond market. De Beers refused to come to the US to answer the charges, arguing it did no business in the US and was therefore not subject to its laws. The case was dismissed and GE was acquitted but the 1994 decision resulted in an outstanding indictment waiting to be served on any De Beers official who enters the US. In a rare interview Jonathan Oppenheimer told *The New York Times* that he has avoided travel to the US since he became a De Beers officer because of the outstanding indictment. His wife's US citizenship has presented difficulties.

Jonathan Maximillian Ernest Oppenheimer, the only son of Nicholas F Oppenheimer, was born in 1969 in Johannesburg. Oppenheimer joined De Beers in 1994 and is being groomed to succeed his father at the helm of the company. He is married to Jennifer Oppenheimer, a Harvard-educated American, with whom he has three children. Oppenheimer followed his father to Harrow College and to Christ Church, Oxford, where he also studied Philosophy, Politics and Economics and won a coveted place on the University's cricket team. He has also made news by bungee jumping at the Victoria Falls while wearing a collar and tie.

Following a two-year posting with the South African Air Force, Oppenheimer joined NM Rothschild in 1993 as an analyst. He joined De Beers in 1994 and Anglo American in 1995. He is currently Head of Producer Relations at De Beers dealing with all African diamond producers and government stakeholders. Oppenheimer is an alternate director of Namdeb Diamond Corporation, and was appointed a director of De Beers Consolidated Mines and of Debswana in 2002.

Sources: De Beers, The New York Times

On the demand side, De Beers has invested heavily in creating an image of luxury, scarcity and eternity around diamonds. The group created an advertising jingle in the 1940s "diamonds are forever" that has convinced men the world over, especially in the wealthier countries, to buy diamond engagement rings. In January 2001, De Beers and LVMH Moët Hennessy Louis Vuitton entered into an agreement that would let the world's leading luxury product group independently develop the De Beers brand.

Namdeb, a partnership between the Government and De Beers

Namdeb: The vast majority of diamond mining in Namibia is done by Namdeb Diamond Corporation (Pty) Ltd, a 50-50 joint venture between De Beers and the Government of Namibia. Namdeb was founded in 1994 and took over all of CDM's operations. Namdeb is the largest taxpayer in Namibia and with a staff of 2,890 is also one of the largest private sector employers. The Namdeb board of directors consists of four De Beers and four Government representatives with Managing Director Inge Zaamwani holding the ring. Nicholas F Oppenheimer is Chairman. Joseph Silita, Permanent Secretary of the Ministry of Mines and Energy is Deputy Chairman.

In 2002, Namdeb produced 1.28 million carats of rough diamonds, 82% of the 1.55 million carats produced in Namibia. Namdeb diamonds are sold exclusively to the London-based DTC. There is a confidential sales agreement between De Beers and the Government as to the share of profits that each receives. Negotiations for a new five-year agreement will commence in 2004 before the



current agreement expires in 2005. In 2002, Namdeb paid the Government N\$1.2 billion in income and diamond royalty taxes. In line with its sales agreement, the Government began collecting dividends in 1994 and is budgeted to receive a dividend of N\$32.7 million in 2003/04.

The Namdeb group currently mines onshore in five licensed areas: the Orange River, Mining Area No. 1, Bogenfels, Elizabeth Bay and Douglas Bay. The Elizabeth Bay mine is being extended so that it can operate through 2013. Namdeb estimates the plant to cost about N\$379 million and says it saves 165 mining jobs and creates 500 temporary construction jobs.

But production is increasingly offshore based. After 23 years of exploration, De Beers began marine operations in 1990 and by 2002 offshore mining was responsible for 45% of the total output.

De Beers Marine SA, headquartered in Cape Town, led offshore operations until 2000. De Beers Marine Namibia Ltd (DBMN) was founded in 2000 and 70% owned by De Beers Centenary AG and 30% by Namdeb. The Government's stake is smaller than it is in Namdeb because De Beers brought all the vessels and other capital to the partnership. As part of the agreement, DBMN transferred operations and vessel registrations to Namibia. All mined diamonds are sold exclusively to the DTC.

DBMN is headquartered in Windhoek and headed by Managing Director Hennie Bredenhann. The group mines on a Namdeb concession in Atlantic 1, north of Oranjemund. So far DBMN has sampled 130 km² and mined 20 km² of the 6,000 km² concession. The 25-year concession runs out in 2020. The group currently owns five mining vessels, each of which produces about 150,000 carats a year.

DBMN expects to mine 573,000 carats of rough diamonds in 2003, up from 500,000 in 2002. Management aims to produce 750,000 carats a year from 2004 until 2010, when it may add another vessel to the fleet, raising output to between 900,000 and 1 million carats. The group expects to have 740 employees by 2004 up from 433 in July 2003. Over time, Namibians are expected to replace most of the expatriate staff.

The relationship between De Beers and the Government of Namibia is in many ways a role model for public and private sector partnerships. The Government holds a 50% stake, collects dividends on top of a corporate tax and a royalty tax. Namdeb's management is well balanced and headed by a Namibian woman. Namdeb and De Beers are often described as "family companies" and say they are in Namibia for the long haul.

That said, the Government must constantly ask the question whether the present arrangement with De Beers is the best it can do for the country. It is very difficult to determine whether Namdeb, and therefore Namibia is getting a fair price for its rough diamonds from the DTC because the sales agreement is confidential. Would selling the rough diamonds outside of the DTC raise more money? The Government has oversight in that it has its own valuers and the terms of their joint venture are renegotiated every five years. But with the Government in such a close partnership with one firm there is the fear of "regulatory capture", whereby a government agency loses sight of the common good in favour of private interest. So far there is no evidence to suggest that the Government is any easier on Namdeb than on other industry players.

The new guys in town, Leviev's Samicor swallows up Namco

The Leviev Group/Samicor: Since 1997, the second biggest diamond producer in Namibia has been the Namibian Minerals Corporation (Namco) and for a few years the company threatened to rival Namdeb. Since 2001, Namco has been controlled by The Leviev Group of Israel, headed by Lev Leviev. In July 2003, a new Leviev company Sakawe Mining Corporation (Samicor) took over many of Namco's key assets when Namco entered provisional liquidation due to financial and operational difficulties. Samicor now holds several key offshore concessions and, with the advantage of a single ambitious shareholder, may quickly recover its position in Namibia.

Lev Leviev is an Israeli industrialist involved in international trade, diamonds, real estate, infrastructure development, metals, chemicals, high-tech development and hotels. He heads the Leviev Group and is an archrival of the De Beers group.

Leviev was born into a rabbi's family in Tashkent, Uzbekistan, what was then part of the Soviet Union. His family immigrated to Israel in 1956 and there he studied at a yeshiva until the age of 16. Leviev apprenticed at a diamond polishing plant, served in the military, and then created his own polishing plant. Within a number of years, his export volume reached US\$250 million. The Leviev Group's annual turnover has reached more than US\$2.0 billion. Leviev is married to Olga Leviev, with whom he has four daughters.

In 2000, Leviev beat De Beers in winning a concession to market Angola's rough diamonds throughout the world. This represented an annual volume of close to US\$1 billion but was ended by the Angolan government in August 2003. Leviev heads the Angola Selling Corporation (Ascorp), which had 49% of the joint venture he established with the Angolan government.

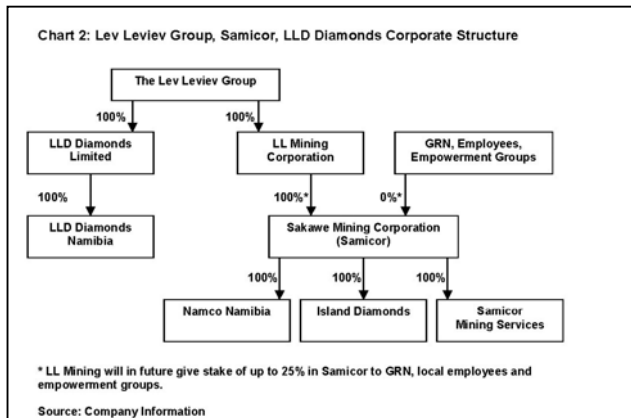
The Leviev Group entered Namibia, a De Beers stronghold, in May 2001 when it became the controlling shareholder of Namco. Leviev is well connected internationally and said to have close relations with Namibian President Sam Nujoma, Russian President Vladimir Putin and Israeli Prime Minister Ariel Sharon.

In 1997, Leviev acquired control over Africa Israel Investments Ltd, one of Israel's largest companies, with holdings and assets valued above US\$1 billion. He is also chairman of the Israel-Russia and CIS Chamber of Commerce and Industry. Leviev is a prominent philanthropist who funds many educational institutions through the Ohr Avner Foundation, which he founded in his father's memory. He is also President of the Federation of Jewish Communities of the CIS, which is active all across the former Soviet Union and he is also President of the Bukharan Jewish Congress.

Sources: Bukharan Jewish Congress, The Financial Times

The Leviev Group is headquartered in Ramat-Gan, Israel. The Leviev Group is a privately held company about which there is little public information. Up until recently the group had the exclusive right to market Angolan diamonds, worth an annual US\$1 billion in sales, and has diamond polishing plants in Russia, India, China, South Africa, Ukraine, and Armenia, as well as eight marketing agencies around the world.





The Leviev Group controls Samicor through its subsidiary LL Mining Corporation, registered in Rotterdam, the Netherlands. LL Mining plans on granting up to 25% of Samicor to the Government of Namibia, local employees and empowerment groups. The Government previously owned 8% of Namco. A consortium of creditors, mainly international banks, declined an offer by Samicor to restructure Namco's loans and instead was bought out with the money raised through the sale of several subsidiaries.

Leviev helped Namco through tough times

Namco was headquartered in Windhoek and Cape Town and bought out rival Ocean Diamond Mining in 1999. The group specialized in marine diamond mining and within a few years was rivalled globally only by De Beers Marine SA before an accident destroyed one of its seabed crawlers in early 2001. Despite operational difficulties in 2002, Namco had 300 employees and produced 235,616 carats, 15% of all diamonds produced in Namibia. Until recently, its shares were listed on the Namibian Stock Exchange, the NASDAQ and the Toronto Stock Exchange. The local listing created goodwill and allowed Namibians to invest in the company directly. The company was also extremely well connected. Loine Geingos, married to former Prime Minister Hage Geingob, was a company director.

In May 2001, the Leviev Group became the controlling shareholder and spent close to US\$30 million to rescue Namco from operational and financial difficulties linked to the accident. The Leviev Group had a 36.6% stake and acquired an exclusive 15-year marketing right to Namco's production, generating competition for Namdeb and De Beers. However, ultimately the difficulties proved too much for Namco and it was placed under provisional liquidation. When Leviev and the creditors went separate ways, Samicor was created and bought Namco units Island Diamonds and Namco Namibia in July 2003. These two companies hold the exclusive mining and prospecting licenses for five marine concessions, totalling 1,500 km² and the Leviev Group is estimated to have bought these valuable units by buying out the creditors for a cent on the dollar. The Government ended up receiving nothing for its 8% stake in Namco.

The director of Samicor is Kombadayedu Kapwanga. The group says it is "starting from scratch" and is building headquarters in the Northern Industrial Area of Windhoek where a sister company is also building a cutting and polishing factory. Samicor currently owns two of Namco's former vessels and is looking to acquire two more. The group has two employees in Windhoek and another seven in Cape Town. Its two vessels, currently being refurbished, will employ more than 100 people. The group says it has already invested US\$140 million in Namibia.

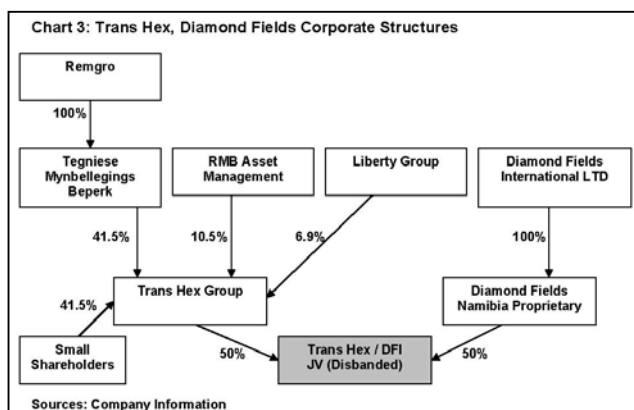
Samicor will focus on exploration in its first year but hopes to begin mining as soon as March 2004. Like DBMN, Samicor says it is extremely difficult to estimate how many carats may lie within its concessions. Despite the difficulties that Namco previously faced in Namibia, a team of Russian experts conducted due diligence in July 2003 and determined that the Namibian concessions contained enough diamonds to push ahead with the necessary investment to commence exploration and mining. Namco had estimated there to be 12 million carats of diamonds in the

concession but Arye Barboy, Chief Executive of LL Mining, said in August 2003 that this estimate “merely scratched the surface.”

The Leviev Group is one of the largest cutting and polishing companies in the world but its diamond mining activities are limited to Namibia. There may be several reasons for this newfound interest in mining. Namdeb has proven that offshore mining can be a profitable business. Maybe the Leviev Group is seeking to diversify. Another possibility is that the company wants to expand vertically so as to have its own pipeline from production to cutting to marketing. Establishing itself in the middle of a De Beers stronghold could be an additional incentive. The group itself says its mining presence will complement its ambitions to build a formidable cutting and polishing business in Namibia. Whatever the reasons, Samicor has taken over a company that failed to stay in business. Samicor is ambitious and backed by a seriously wealthy and well-connected company. But whether it will be able to turn a profit remains to be seen.

Trans Hex: The Trans Hex Group, headquartered in Cape Town and publicly listed in Johannesburg and Namibia, says it is trying to become a major player in the African diamond market. The group is active in Namibia and Angola and has been in talks with the DRC and Liberia. In 2002, the company had 58 employees working in Namibia. The majority shareholder (41.5%) of Trans Hex is Remgro Ltd, a South African company active in tobacco, financial services, mining, industry, telecommunication and technology. The remaining shares are held by RMB Asset Management (10.5%), the Liberty Group (6.9%) and small shareholders (41.5%). Trans Hex entered the Namibian offshore market in 2001 through a now defunct joint venture with Diamond Fields. That year, the joint venture produced 16,500 carats. In the first half of 2002, the group produced a total of 25,401 carats before the agreement was terminated on 30 June over differences in the interpretation of their joint venture contract. Management of both Trans Hex and Diamond Fields have said that cooperation between them may again be possible in the future. Trans Hex also has three shallow marine licenses in the Cape Fria area, four in the Toscannini, both north of Walvis Bay, and two south of Hollandsbird Island, north of Lüderitz. In August 2002, Trans Hex Marine (Namibia) entered into an agreement to do contract sampling work for De Beers Marine Namibia.

Diamond Fields International: Canadian marine diamond operators Diamond Fields International Ltd has been active in Namibia since 1998 and its predecessor Diamond Fields Resources Inc. since 1993. The group is headquartered in Vancouver and listed on the Toronto Stock Exchange. Diamond Fields tried to list on the Namibian Stock Exchange in 1999 but failed due to unstable market conditions. Its marine concessions near the port of Lüderitz are its major asset. The company also has concessions off the South African coast.



In the wake of the fallout with Trans Hex, the board of directors of Diamond Fields was replaced in November 2002 at the annual general shareholders meeting. Diamond Fields recommenced its diamond operations in Namibia in December 2002 through a short-term contract with mining contractor Gemfarm Investments. In 2003, Diamond Fields has three employees in Namibia and another 70 to 80 people indirectly via its Gemfarm contract mining operation, most of which are Namibian.



Diaz Point Exploration: Diaz Point Exploration (Pty) Ltd has been active in both onshore and offshore mining since 1990. The group is currently subcontracted to Namdeb. Diaz Point is active on a Namdeb concession along the coast from Grosse Bucht down to Bogenfels Arch. In 2002, the group produced 12,683 carats. DPE is headquartered in Lüderitz and has 64 employees. Its current shareholders are Omina Investments, Otjua Minerals and Windvogel Diamonds.

Sonnberg Diamonds: Another Namdeb contractor is Sonnberg Diamonds, which is active in the Pomona 29 area and owned by London-based Tony Carlton.

Shallow Water Independents: There are a number of independent operators mining in shallow waters. The number of companies is said to be in the tens but it is difficult to find information about them. These companies are not registered with the Chamber of Mines of Namibia.

Recent years have seen a consolidation in diamond mining. In 1999, there were five different producers: Namdeb, Namco, Ocean Diamond Mining, Diamond Fields and Diaz Point. Trans Hex entered the market in 2001. Then Ocean Diamond Mining was taken over by Namco, which in turn was bought by Samicor. Trans Hex and Diaz Point are now contracting for Namdeb. Diamond Fields has three employees and Samicor has two. That just leaves Namdeb as the only thriving major diamond mining company at present.

This may all change, especially if Samicor's pledge to begin mining in 2004 bears fruit. But the overwhelming trend in offshore mining is that, just like it was on land in the 1920s, only the larger companies will remain standing. If Samicor fails like Namco before it then the Government's attempts to open the industry to more players will also have come to naught.

5. Diamond polishers are trying to bring value-added back to Africa

"Through the establishment of diamond cutting factories within our borders, we are now ensuring a higher profile for our goods and our citizens in downstream markets, which are the driving force behind industries and economies in today's consumer age."

President Sam Nujoma, 12 October 2001 at the official opening of NamCot Diamonds.

A separate and potentially important industry is the cutting and polishing of rough diamonds. Africa's raw materials have traditionally been shipped abroad where they are cut, polished and sold at many times the prices paid in Africa. Diamond polishing, which requires skilled labour, can boost employment and add value to the economy. At present, the leading diamond cutting centres are in Mumbai, China and Tel Aviv. Other major cutting centres include Antwerp, New York, Johannesburg, Thailand and Sri Lanka. Botswana has also been building a diamond processing industry for some time.

Namibia entered the market in 1998 when the first government license for diamond cutting and polishing was awarded to NamGem Diamond Manufacturing Company (NamGem), a wholly owned subsidiary of Namdeb. Six other companies have received licenses since. Between them, they now employ around 350 people. Because these are mostly private companies, employment, sales and profit figures are difficult to obtain.



Table 2: Diamond cutting and polishing factories active in Namibia

<i>Title</i>	<i>Location</i>	<i>Owner</i>	<i>Founded</i>	<i>Staff</i>	<i>Turnover</i>
NamGem	Okahandja	Namdeb	August 1998	120	40,000 stones annually
NamCot Diamonds	Windhoek	B Steinmetz	May 2001	100	4,000 stones per month
Tornado Enterprises	Windhoek	A Kurashkin A Slatkov	March 2000	n/a	n/a
Mars Investment	Walvis Bay	Mars	May 2002	50*	n/a
NamDiamonds	Windhoek	A Ciocanas G Edwards	July 2002	40	1,000-1,500 stones per month
Hard Stone Processing	Windhoek	Seber NV	July 2002	39	500 stones capacity
LLD Diamonds Namibia	Windhoek	Leviev Group	Oct 2001	2	n/a

Sources: *Company sources, The Namibian*

*at May 2002 launch

There are several obstacles facing the cutting and polishing industry. The first is that Namdeb, by far the largest domestic diamond producer, supplies its rough diamonds directly to the DTC in London. NamGem and NamCot are both DTC sightholders, meaning that they receive parcels of De Beers diamonds from the DTC. These parcels contain a mixture of rough stones from a variety of sources which may or may not include Namibia. Because they are not sightholders the other polishers are unable to access Namibia's main source of rough diamonds.

Some of the independent producers, outside of the Namdeb/De Beers/DTC loop, argue that more rough diamonds need to be made available by the Government for the cutting and polishing industry to blossom. This in turn would boost growth and employment. However, the cutting centres in Namibia are all Export Processing Zones (EPZs) that receive waivers on taxes and duties. Government is faced with the difficult trade-off between promoting cutting and polishing and maximising tax revenues since exports of cut and polished stones are not obliged to pay the 10% diamond royalty. So the Government would obviously earn more in tax revenues if Namdeb continued to sell most of its rough diamonds directly to the DTC.

Another factor is that the wages paid in Namibia are relatively high compared to other centres. The South African Institute of International Affairs at the University of the Witwatersrand estimates diamond beautification to cost US\$10 per carat in India and China, compared to about US\$30 in Southern Africa.⁵ Local polishers argue that the foreign exchange rate may have pushed local costs to as high as US\$40 per carat. In response to these obstacles, Namibian polishers are focusing on larger, higher-value stones. The managers of factories in Namibia say the quality of the workmanship in Namibia is very high and above expectations.

When asked how this industry can withstand the low-wage, high-productivity pressures from abroad, industry experts pinpoint several advantages in doing business in Namibia: political and economic stability, a sound legal and judicial system, close proximity to high-quality rough diamond supply, favourable conditions for foreign investment, a proactive government and the attractive terms of EPZ status.

NamGem is formed as part of the deal between De Beers and the Namibian Government

NamGem: The NamGem Diamond Manufacturing Company (NamGem) opened the first cutting and polishing factory in Namibia in August 1998 in Okahandja, about 70 km north of Windhoek. De Beers does not usually enter into cutting and polishing because it would be competing with its customers although it is active in this industry in Botswana. But the idea of such a factory came

⁵ Kajee and Gruzd. 2003. Pg. 5.



about in the negotiations between the Namibian Government and De Beers when Namdeb was founded in 1994. The company received its cutting and polishing license in September 2000.

The company is wholly owned by Namdeb and is a DTC sight holder. The General Manager is Martin Pearson. Almost all of the DTC-source diamonds are polished for export abroad. NamGem aims to polish some 40,000 stones annually. NamGem initially aimed for a turnover of N\$100 million but says exchange rate fluctuations make such a goal difficult. In August 2003 NamGem employed 120 people, only three of them expatriates. NamGem purposefully placed its N\$17 million plant in a high unemployment area and trains locals as cutters.

NamCot Diamonds: Based in the Northern Industrial Area of Windhoek, NamCot Diamonds is the only other DTC sight holder in Namibia besides NamGem. NamCot Diamonds was founded in May 2001, in part to serve as a “benchmark” against NamGem. The majority shareholder of the company is the Steinmetz Group, headed by Israeli diamond magnate Benjamin Steinmetz. NamCot also has two Namibian partners, Mathews Hamutenya and Mwahafa Ndilula. The General Manager is Eyal Laybel.

Over the last two years NamCot has grown from 13 employees to 100, only two of whom are non-Namibians. The company focuses on the higher end of the diamond market. Although Namibian wages are much higher than in China and India, NamCot says Namibian skills and work standards are very high and the group is able to remain profitable despite the high exchange rate. The company does not divulge sales and profit figures but says that it polishes some 4,000 stones per month and that this figure continues to rise.

More factories are ready to polish but where should they get their diamonds from?

Tornado Enterprises: Tornado Enterprises was founded in March 2000 by the Slavic Group International Investment Corporation, a group of Russian and Ukrainian businessmen living in Windhoek with experience in South Africa. Alex Kurashki and Andrei Slotkov manage Tornado Enterprises.

Mars Investment Holding: Mars Investment Holding was founded in Walvis Bay in May 2002 as a result of President Sam Nujoma’s 1998 visit to Russia. The group had 50 employees at its launch and hoped to grow to 200. Mars sources its rough diamonds from all over the world. The General Manager is Alexander Popovitz.

NamDiamonds: NamDiamonds, financed by Americans, opened an N\$18.3 million factory in Windhoek in July 2002. NamDiamonds is 51% held by Americans Andrew Clocanas of Ann Arbor, Michigan and Gerald Edwards, chief executive officer of Engineered Plastic Products, one of the top-100 minority-owned firms in the US. Namibians own 4% of the company. Unlike the others, this factory focuses on a range of gems and minerals for export as jewellery to the US market. Diamonds make up about 20% of their business and are sourced both domestically and from abroad. The factory currently employs 40 people. Clocanas is Managing Director and says NamDiamonds is considering opening up additional gem-cutting plants in Keetmanshoop and Karibib.

Hard Stone Processing: Based in the Northern Industrial Area, Hard Stone Processing (HSP) opened a diamond-cutting factory in April 2003. HSP is a joint venture between majority owner Antwerp-based company Seber NV and Namibian partners. The group employs 39 people. The



factory has the capacity to cut and polish 500 stones per month but is currently having difficulties sourcing rough diamonds. Michael Thavanagam manages the factory.

LLD Diamonds Namibia: LLD Diamonds Namibia is based in the Northern Industrial Area where it bought a factory in September 2001 and obtained its license the following month. The group is owned by LLD Diamonds, based in Ramat-Gan, near Tel Aviv, and is part of The Leviev Group. LLD Diamonds describes itself as the global leader in cutting, polishing and marketing diamonds for fine jewellery.

Lev Leviev has said he wants to build a factory that can polish rough stones supplied by Namco. Now that Samicor owns Namco's main assets, Leviev's factory is ready to commence operations. LLD Diamonds Namibia estimates that the factory will begin beautifying rough diamonds in April 2004. The group will start with 100 employees and rise to 150 in the second year and 200 in the third year, eventually rising to 500 employees.

The group claims it is poised to quickly become the largest cutter and polisher in Namibia. The group has had access to rough diamonds through its partnership with the Angolan Government, and may continue to do so there in future, but does not exclude lobbying the Namibian Government to polish Namibian supply above and beyond what Samicor mines.

There seem to be several factors driving the existence of the cutting and polishing industry in Namibia. The first is that the Government agreed with De Beers to create a factory despite the fact that the company has rarely ventured into this area before. Government provided EPZ status making the financial conditions more attractive. This also attracted NamCot, which is linked to De Beers and the DTC. The Government issued five more licenses to the previously mentioned investors from Russia, Belgium, the United States and Israel. But the issue of inputs, the rough diamonds needed to cut and polish, was never agreed upon.

LLD Diamonds has access to the group's own pipeline but the four other polishers do not enjoy such access. This begs the question why are these companies here? Why is LLD Diamonds here when they can cut and polish more cheaply in other parts of the world? EPZ status alone is unlikely to make these companies profitable.

One of the answers to this dilemma is surely Section 58 of the Diamond Act of 1999, which gives the Ministry of Mines and Energy the right to secure a regular supply of unpolished diamonds for diamond processing. This means that the Government could decide at some future point to force Namdeb to sell up to 10% of their rough stones to local polishers rather than to the DTC. Some polishers are already complaining about a lack of inputs and the Government may at some point find itself having to balance its need for short-term revenues, earned on Namdeb's sales to DTC, with the long-term benefits of creating a vibrant cutting and polishing sector. By keeping the diamonds in Namibia the Government would lose out on the 10% diamond royalty tax it currently places on the export of unpolished diamonds. Antwerp-based Diamdel, which sells DTC diamonds to non-sightholders, visited Namibia to pitch its wares and was apparently met with no interest from local factories.

An inherent problem is that resource-rich countries tend to have overvalued currencies that make it difficult for manufacturers to export competitively. The recent appreciation of the Namibia dollar since some of these factories were built combined with the fact that the diamond industry is largely denominated in US dollars has meant that the profit margins of Namibian polishers are being squeezed. At the same time, globally cutting and polishing is seeing a move towards low-



wage China from established centres such as India. Whether Namibia can compete at all in this very competitive sector is unclear.

6. The Namibian Government: regulating Namibia's natural resources

The Ministry of Mines and Energy: The diamond industry is regulated by the Ministry of Mines and Energy (MME). Diamond trade was regulated by the South African Diamond Proclamation of 1939 until Namibia implemented its own Diamond Act in 1999 which, among other things, created the position of Diamond Commissioner. This post is held by Kennedy Hamutenya, who sits on the boards of Namdeb, NamGem, De Beers Marine Namibia and the DTC Namibia.

Since Independence the Government has actively become involved in a diamond industry that was largely self-regulated by CDM. Without going to the other extreme of nationalising the industry, the Government first formed an equal partnership with De Beers that created Namdeb. The Government then opened the industry to more players and took an 8% stake in rival group Namco. The Government has so far also granted seven licenses for cutting and polishing. Pressure is also placed on firms to Namibianise their staff.

The Minerals (Prospecting and Mining) Act of 1992: This act was implemented in April 1994 and vests the ownership of minerals in the Namibian state. It also provides for the issuing of mineral licenses, the rights and obligations of license holders, the powers of the Mining Commissioner and the MME. The Act lays out the negotiation of mineral agreements, royalties payable on unprocessed minerals and license fees. It also sets out the monitoring and enforcement mechanism. The Act stipulates conditions for mining claims, primarily for small-scale miners and prospectors, so that they may not carry out any prospecting or mining without a license issued by the MME.

The Diamond Act of 1999: A new Diamond Act was signed into law on 30 September 1999 and became effective in 2000. The Act creates a Diamond Board and details its objectives, powers, duties and functions. A Diamond Board Fund was created to help pay for expenses incurred by the Board. The Act creates the position of Diamond Commissioner and explains the powers, duties and functions of the position. The Act places strict controls on the possession, purchase and sale, processing and the import and export of unpolished diamonds. Any person or company who attempts to sell - or even possesses - unpolished diamonds without permission of the MME faces a fine of up to N\$1 million and imprisonment of up to twenty years. The Act provides a framework for Namibia to guard against illicit trade such as "blood diamonds" or "conflict diamonds." The Diamond Act also empowers diamond inspectors, a special unit of the Namibian Police, to enforce regulations. The Ministry also serves as a valuator of polished and rough diamonds. The Ministry determines the value of diamonds before they are imported or exported.

The Act also gives preference to Namibian citizens, products and services. Companies are encouraged to carry out training programmes and to hire Namibian workers, especially those who have previously been socially, economically or educationally disadvantaged. One potentially important part of the Act is the aforementioned Section 58, which gives the MME the right to secure a regular supply of rough diamonds for diamond processing. This section allows the Minister to order a diamond producer to make its unpolished diamonds available for sale to cutters, toolmakers and researchers. Section 62 of the Act also imposes an additional 10% diamond duty, the so-called royalty tax, on the export of unpolished diamonds.



The Government has tried to open the mining industry to more players and has done so with mixed results. The Namdeb partnership seems to be working well whilst the Namco stake was unsuccessful. Now that the mining industry is consolidating it makes sense to ask if the Government is too close to the one dominant company. The cutting and polishing industry receives EPZ status but has largely failed to live up to expectations. This is mainly because of global conditions that make it difficult to compete from Namibia. The supply of rough diamonds is an important issue. At some stage the Government will have to decide whether it wants to invoke Section 58 at the cost of alienating its main partner and seeing its tax and non-tax revenues decrease.

7. The economy: diamonds' contribution continues to grow

Table 3: The diamond mining industry in Namibia

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Carats Mined (millions)	0.75	1.19	1.55	1.14	1.30	1.34	1.36	1.42	1.44	1.64	1.55	1.50	1.55
% Onshore	96%	86%	83%	73%	69%	66%	65%	62%	49%	44%	43%	50%	45%
% Offshore	4%	14%	17%	27%	31%	34%	35%	38%	51%	56%	57%	50%	55%
Employees	6,731	6,283	5,708	4,673	4,645	4,448	3,933	3,758	3,414	3,569	3,335	3,246	3,295
Contrib to Gov Revenues (N\$m)	123	114	209	296	272	216	294	704	361	412	680	1,051	1,493
% of Total Revenues	5.3%	3.9%	5.9%	6.9%	5.7%	3.7%	3.6%	12.4%	5.8%	5.7%	8.2%	11.5%	14.5%
Value Added, Current (N\$m)	554	722	775	598	872	763	1,169	1,251	1,358	1,697	1,934	2,854	2,989
% of GDP	10.1%	11.6%	10.7%	7.9%	7.5%	6.0%	7.8%	7.5%	7.2%	8.2%	8.2%	10.5%	9.8%
Value Added, Constant (N\$m)	554	852	1045	762	708	763	783	782	793	908	847	803	838
% of GDP	-16.3%	53.9%	22.6%	-27.1%	9.2%	7.8%	2.6%	-0.1%	1.3%	14.5%	-6.7%	-5.1%	4.4%
Diamond Exports (N\$m)	849	1,222	1,350	1,522	1,489	1,767	2,318	2,495	2,161	3,022	4,245	4,507	5,604
% of Merchandise Exports	30%	38%	36%	36%	32%	34%	37%	40%	32%	41%	46%	46%	50%

Sources: Auditor General Reports, Budget Documents, Central Bureau of Statistics, and the Chamber of Mines of Namibia

The contribution of diamond mining to the Gross Domestic Product in 2002 was N\$2.99 billion, or 9.8%, according to the preliminary national accounts calculated by the Central Bureau of Statistics. In 2001, the diamond industry contributed N\$2.85 billion, or 10.5% of GDP. The importance of diamond mining to GDP stands as high in 2002 as it did in 1990 when it represented 10% of the economy. The contribution has fallen to as low as 6.0% in 1995 but diamonds continue to account for a large share of the post-Independence economy. The growth of offshore mining and diamond polishing will most likely boost the contributions of diamonds in coming years.

Chart 4: Diamond mining contribution to GDP
Diamond value added as % of total value added in current prices

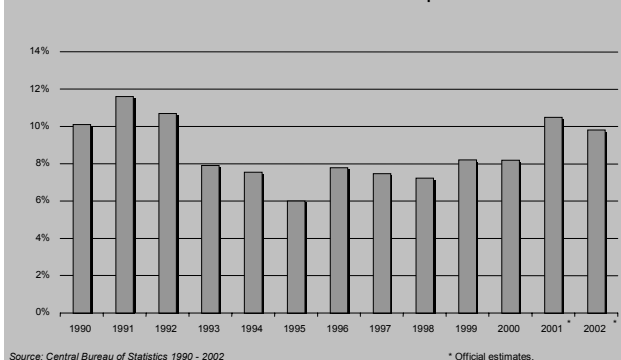
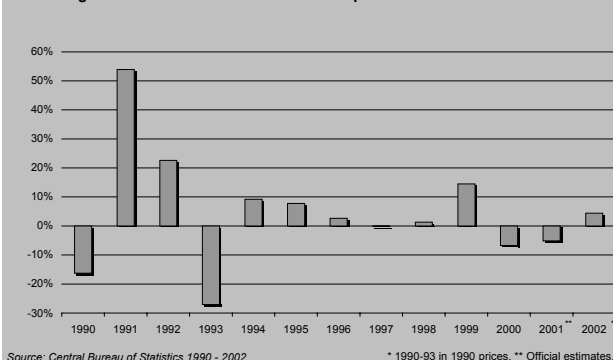


Chart 5: Growth in diamond value added
Annual % growth in value added - constant 1995 prices*



Another indicator of the importance of the industry can be found in its contribution to government tax and non-tax revenues. Diamond mining companies pay a tax of 55% of taxable income. In 2003/04, this is expected to amount to N\$1.16 billion, up from N\$1.01 billion in the previous year. There is also a Diamond Royalty Tax of 10%, which replaced the Diamond Profit Tax in 1994/95. This is expected to bring in N\$450 million in both 2002/03 and 2003/04 budget years. Up until 1996 there were also diamond export duties.

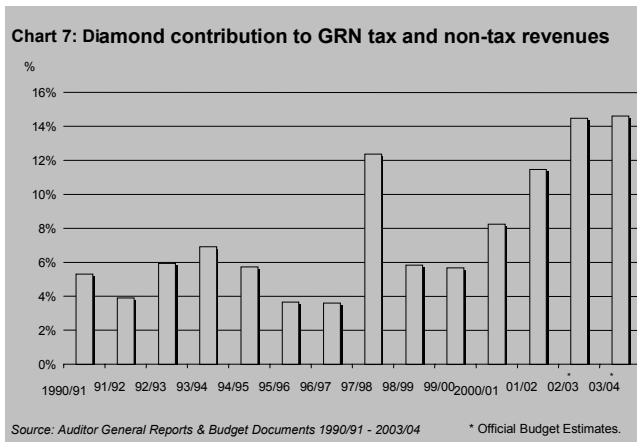
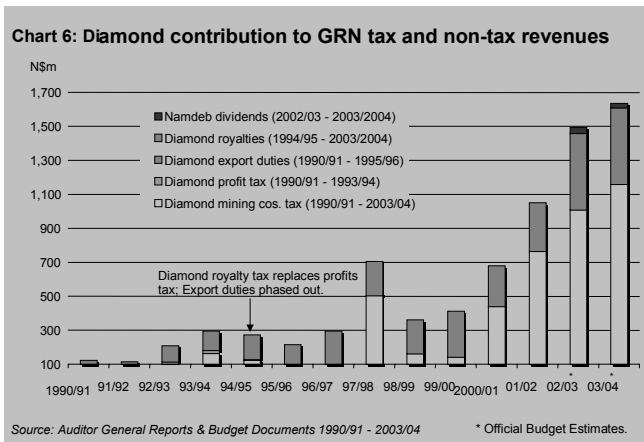
The Government began collecting dividends on its 50% Namdeb stake in 1994, in line with its agreement with De Beers. In 2003/04 the Government estimates it will receive a N\$32.7 million dividend compared to N\$25.0 million in the previous budget year. A 10% Non-Residents Shareholders Tax is also placed on Namdeb's dividend to De Beers because it is not a Namibian company. Because Namdeb's financial year runs from January to December it does not exactly correlate with the Government's budget year, which starts on 1 April

Table 4: Distribution of Namdeb pre-tax profits to GRN and De Beers

N\$m	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Pre-Tax Profits	75	270	225	361	347	321	565	621	366	669	1,120	1,516	1,780
Payable to GRN	70	180	225	249	254	230	398	435	263	532	834	1,065	1,246
of which, Royalty	61	87	95	114	120	143	185	201	166	237	308	339	408
of which, Mining tax	7	79	130	124	118	70	200	216	88	281	498	645	762
of which, Non Resident	3	14	0	11	9	9	17	19	10	14	29	45	53
of which, Dividend	0	0	0	0	6	7	-3	0	-1	-1	-1	36	23
Dividends to De Beers	5	90	0	112	94	91	167	186	104	137	287	451	534

Source: Namdeb

Altogether, the diamond industry contributed N\$1.05 billion, or 11.5% of Government tax and non-tax revenues in 2001/02. This contribution is expected to rise to N\$1.49 billion or 14.5% in 2002/03 and to N\$1.64 billion or 14.6% in 2003/04. Since Independence, the contribution of the diamond industry to tax and non-tax revenues has almost tripled to 14.7% in 2003.04 from 5.7% in 1990/91.



It is in the Balance of Payments that the industry really shows its importance to the national economy. Preliminary estimates show diamonds contributing N\$5.60 billion in 2002 and comprise 50.0% of all merchandise exports. In the previous year they contributed N\$4.51 billion, or 46.0%. As the main driver of exports, the diamond industry is also the principal generator of foreign exchange.



Another important area is diamond-mining employment. Since Independence, jobs in diamond mining have halved to 3,295 employees in 2002 from 6,731 in 1990. This is mainly due to consolidation and to offshore mining. There is almost a direct negative correlation between employment and the percentage of carats produced offshore, as marine mining is much more capital-intensive. These trends are decreasing employment in this relatively high-paying sector.

Diamond mining obviously plays a huge role in the economy and increasingly so despite Government's attempts at economic diversification. This makes the public finances increasingly dependent on the fortunes of a single industry. At the same time there may be a good case for treating revenues from what is a finite resource as a windfall rather than current revenue as is presently the case.

8. Conclusion: Namibia's strategy seems to have been successful

As far as outsiders can tell, the above analysis suggests Namibia has done well by its partnership with De Beers. However it is not possible for us to fully assess whether the Government receives the optimal prices for its diamonds because the shareholder agreement is private. On the other hand, Government is a joint shareholder and has independent valuers, thereby minimising the chances of being short-changed.

The fact that the Government is tied in so closely to one dominant player has the potential to lead to problems and conflicts of interest. Compared to most of the other companies Namibia has allowed into its diamond industry, Namdeb is relatively transparent but the financial details contained within its otherwise informative "Annual Review" are still a far cry from the Annual Reports released by major listed companies around the world.

The Leviev Group is a major competitor to De Beers internationally and potentially also in Namibia. However, it will have to offer significant and proven advantages over the present arrangement with Namdeb for it to tempt Government away from its existing partnership in any serious way. The plain fact is that Namdeb and De Beers have done a good job in cementing their position in Namibia. In truth so little is known about Leviev's businesses and what his longer-term aims are in Namibia that it is difficult to speculate about future developments. Being specialists in cutting and polishing, it remains to be seen whether Samcor will be more successful than Namco was at offshore mining. If its mining operations fail to deliver the diamonds required for a profitable cutting and polishing operation Leviev may try to invoke Section 58 and put the Government into a tough corner. However, it is equally possible that two large companies live side by side with the Government taking a significant stake in the second as well.

The main puzzle at the moment is why there are so many cutting and polishing enterprises in Namibia. This country enjoys no particular advantage in labour costs and there is also no special access to the gem quality diamonds being mined by Namdeb. One can only surmise that these companies hold out the hope that one day access to Namibian diamonds can be secured, perhaps through Samcor rather than the so far impregnable Namdeb. Presumably these would be lower value diamonds that would not be worth processing in Namibia anyway.



Namibia's strategy of direct involvement in the industry combined with the encouragement of new players appears to have been generally successful. However, other models exist in other parts of the world. Future IPPR research will compare and contrast the models adopted by other diamond-rich countries such as Angola, Australia, Botswana, Canada, Russia and South Africa to make a broader assessment of whether Namibia is getting the best deal possible from the current arrangement.

Whatever the case, Namibia has to hope that people in rich countries continue to believe diamonds are forever and worth spending large amounts of money on. It is only on this basis that the question of whether Namibia is maximising the benefits it derives from this opaque industry makes any sense at all.

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